

Shared Appreciation Mortgages

Progressive Thinking In Housing Affordability



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Common Elements With Shared Equity

Responsibilities, rights, risks and control are essentially the same with shared equity/appreciation homeowners as traditional homeowners

- Owner Occupancy of Residential Properties
- Initial Affordability
- Sharing of Equity/Appreciation



Subsidy Retention vs. Shared Appreciation

Resale restrictions can require homes to be re-sold for an affordable price to qualifying homebuyers

Subsidizing the buyer allows for more choice in housing and location



- Subsidy Retention
 - Initial subsidy that lowers home price to level affordable to target population
 - Subsidy is “retained” in home over time through resale restrictions
 - Revitalization tool as it preserves affordability of specific residential units
- Shared Appreciation
 - Loan or other form of equity extraction provided to the buyer in exchange for some portion of appreciation upon re-sell
 - Subsidy stays with the buyer

Shared Appreciation - Public Models

- Not motivated by profit
- Willing to accept lower share of appreciation
- Employs loss protection
 - Reduce losses to homeowner in down markets with depressed home values
- Exclusively uses public funding sources
 - Can be difficult to obtain
 - Scarce
- Generally structured as “silent” second mortgages



Shared Appreciation - Private Models

- Two Types of Private Models
 - Shared Appreciation Mortgages (SAM)
 - Home Equity Alternatives
- Private capital investments
- Require greater percentage of appreciation to generate viable and profitable returns



Home Equity
Alternative
Programs:

- *EquityKey*
- *REX Agreement*
- *Affordable Home Account*

Affordable Home Account program provides monthly payment to homeowner without lump sum loan or need for equity collateral. Requires share of future appreciation.



Shared Appreciation - Private Models

- SAM
 - Similar to public models
 - “Silent” second mortgage from private lender paid in full upon termination of the loan along with predetermined portion of home’s appreciation
- Home Equity Alternatives
 - Structured as home equity financing without interest charges or monthly payments
 - Provide monthly payments to homeowners in exchange for portion of future appreciation

Hybrid Shared Appreciation Programs

- PPI
 - Public –Private Initiative
- May be only method to bring scalability to shared appreciation programs
- Increase ability to leverage private investment
- Lower administrative burdens and associated costs



Share Appreciation Mortgage

Typical Shared Appreciation Mortgage Transaction

Homeowner
receives
\$46,670.96 in
equity

Equity Investor
receives \$50,000
initial investment
and \$11,667.74 for
20% appreciation
agreement



Variables

Home Price	\$250,000.00
Conventional Loan Qualification	\$200,000.00
Shared Appreciation Loan	\$50,000.00
Market Appreciation Rate	3.00%
Years Held by Homeowner	7
Shared Appreciation Ratio	20.00%

Market Sale

Market Price of Home	\$308,338.70
Payback: Conventional Loan	\$200,000.00
Payback: Shared Appreciation Loan	\$50,000.00
Home Appreciation Value	\$58,338.70
Shared Appreciation Agreement Ratio	(\$11,667.74)
Equity to Homeowner after Sale	\$46,670.96

**Equity to Homeowner after Sale does not
include principle payments made prior to sale*

Total Return	23.34%
Annualized Rate of Return	2.23%

Shared Appreciation Mortgage Design

- Ignores TVM
- Institute pricing mechanism to provide stable investor returns
- Predictable and transparent cost of capital



Shared Appreciation Mortgage

Shared Appreciation Mortgage Transaction

Homeowner
receives
\$42,984.75 in
equity

Equity Investor
receives \$50,000
initial investment
and \$15,353.95 for
shared appreciation
rate at sale



Variables

Home Price	\$250,000.00
Conventional Loan Qualification	\$200,000.00
Shared Appreciation Loan	\$50,000.00
Market Appreciation Rate	3.00%
Years Held by Homeowner	7
Shared Appreciation Ratio	20.00%
Shared Appreciation Rate Per Annum	4.00%
Shared Appreciation Rate At Sale	26.32%

Market Sale

Market Price of Home	\$308,338.70
Original Home Price	\$250,000.00
Payback: Conventional Loan	\$200,000.00
Payback: Shared Appreciation Loan	\$50,000.00
Home Appreciation Value	\$58,338.70
Shared Appreciation Agreement Ratio	(\$15,353.95)
Equity to Homeowner after Sale	\$42,984.75

**Equity to Homeowner after Sale does not
include principle payments made prior to sale*

Total Return	30.71%
Annualized Rate or Return	3.90%

Resources

- Center for Housing Policy
 - <http://www.nhc.org/>
- Fannie Mae Foundation
 - <http://www.fanniemae.com/kb/index?page=home>

