

Giving borrowers more financing options

The homebuyers served by nonprofits can face some of the greatest hurdles to homeownership, from imperfect credit to challenges finding the necessary funds to purchase a home. Working with a lender to offer conventional financing for homebuyers participating in one of your affordable housing programs can ensure borrowers have more options and the best chance to find a mortgage that fits their needs. Fannie Mae's HomeReady® allows for a number of flexibilities designed to support low- to moderate-income homebuyers, including allowing for the use of sweat equity to supplement a borrower's down payment.

Learning the lingo

When you meet with a lender to discuss conventional lending for a project, you'll want to make sure you're speaking the same language. Here are some tips to guide the conversation:

- As the organization accruing the costs of building the home and selling it to your client, the **lender** will recognize you as the **seller**, while your client may be referred to as a **borrower** who will borrow money in the form of a mortgage to purchase a home from your organization.
- In addition to the funds from a mortgage loan, your borrower may qualify for other forms of **down payment assistance**, which can be used as part of a package to pay for the home and its building costs.
- **Mortgage insurance** is an additional monthly expense homebuyers pay in addition to their mortgage if they have less than 20% equity in their homes. It helps offset the risk of a borrower not being able to make mortgage payments for any reason.



Converting volunteerism to value

Sweat equity allows lenders to apply the value of a borrower's labor into down payment funds for the purchase of a home, but there are some things to keep in mind when combining sweat equity with a conventional mortgage:

- Sweat equity is only able to be used with certain loan products.
- While the homebuyer's labor is included in the valuation of sweat equity, so is the value of other volunteer labor and workforce development programs.
- Sweat equity can be accrued by a homebuyer in a number of ways, including working on projects that aren't related to the home they will purchase.
- Utilizing sweat equity may remove the need for the borrower to pay mortgage insurance if the value of the sweat equity is equal to or greater than 20% equity in the home.

See an example of how the value of sweat equity may fit into a mortgage transaction in [Sweat Equity: Crunching the Numbers](#).

Keeping homes affordable with shared equity and resale restrictions

Shared equity or resale restriction programs preserve affordable homeownership opportunities by allowing borrowers to purchase homes at below-market prices. In exchange, borrowers agree to sell the property only to other income-qualified buyers and/or share the home's appreciation with the organization that subsidized the purchase. Shared equity programs can take a number of forms, but the two most common are deed restrictions and community land trusts.

COMMUNITY LAND TRUSTS (CLTS)	DEED RESTRICTIONS
In a CLT, a low- to moderate-income borrower can purchase a home on land leased through a municipality or nonprofit at affordable ground rent rates. The ground lease will typically require that the home can only be purchased by a low- to moderate-income family when resold.	Similar to other shared equity programs, a deed restriction on the property limits the resale price of the home and may also provide income restrictions for resale of the property.

Whether you decide to implement a shared equity program yourself or partner with an experienced shared equity program practitioner, these agreements can ensure that the investment you make in affordable housing lasts beyond the initial homeowner.

If you're considering incorporating shared equity into your own operations, Grounded Solutions Network has worked with industry stakeholders to produce model documents that align with common standards and best practices:

- [Model Deed Restriction](#)
- [Model Ground Lease](#)