



## DOWN THE RABBIT HOLE

*From the Mind of Frank J. Dobrucki*

The shortage of affordable housing is one of the most critical issues facing the world today. Absent innovation, housing is unlikely to suddenly become affordable on its own. Technology is making homes “smarter,” but the cost of these upgrades, along with rising cost of materials and other factors mean the price of housing is only going to increase. The need for affordable housing is extreme for a variety of reasons, not the least of which is that as a society we must show that we value people more than profits.

The first thing that we need to understand is that houses are a commodity; human beings and quality of life are not. We need to understand what we value most. Commodities can be structured in many ways to make them accessible to those who need them.

The next thing that we need to accept is that we need good quality homes. Cheap construction does not improve over time. A well-built home needs to be built with a proper energy envelope, which includes quality construction, proper insulation, dual-paned windows, energy efficient components and appliances. These items naturally bring the cost up, but there is no substitute for quality. It is very unfortunate that the lowest end of the housing market usually ends up spending much more for utilities because they live in drafty and poorly built homes. A well-built home will last much longer and will end up costing the owner less in utility bills and maintenance costs.

There are only two ways to improve the economic quality of someone’s life. You can give them a big raise which is a very temporary fix because as soon as the reality sinks in that not only are they going to be paying more in taxes, but that prices will also have to rise to cover the costs of the big raise, they will really not be any better off. If you can lower someone’s expenses, let’s say by lowering the cost of housing by 50% — then they will have more money available each month to either spend or save. The additional

spending will cause economic factors to kick in providing additional employment opportunities and the additional savings will cause for improved economic stability.

If we use \$300,000 as the benchmark for affordable quality homes, there will not be a problem with builders being able to provide adequate homes. You need to understand that currently, the majority think that we need homes that only cost \$150,000 to provide housing for affordable housing. The reality check is that you cannot build a quality home below \$300,000. This benchmark also elevates those in need of affordable housing to an economic level that they could not reach on their own. Homeownership provides many advantages, the first being security and stress relief from having to live in uncontrollable circumstances, the second being improved quality of life and the ability to improve one's life through better education and employment opportunities. All of these things are connected to affordable housing.

So how do we make a \$300,000 house affordable?

The answer to the question is that we need to do something totally different to get the result that we need. If buyers who need affordable housing cannot afford a \$300,000 house, then we need to sell them what they can afford.

To accomplish this, we enter into a joint purchase agreement where the buyer is buying a 50% equity share in a \$300,000 affordable housing product. The mortgage will be structured over a 30-year amortization schedule and as the buyer is getting 100% of the enjoyment of the real estate, they will have the financial responsibility to pay the property taxes and insurance costs.

A trust will hold the remaining 50% of the equity in each property. The trust will grow with equity growth and receive tax benefits that exist for providing affordable housing. Most importantly, the trust will not be at risk because we are safeguarding the equity in all of houses.

Unlike most material assets like automobiles, boats and planes that quickly depreciate, single family homes do not depreciate quickly. Houses usually appreciate over decades of time. This gives us an opportunity to make well-built quality homes available to the market that truly needs affordable housing. When it comes to assets, debt and equity are opposing forces that work together to provide for economic harmony. It's just math!

A typical monthly payment for the buyers (50%) interest in a home with a \$140,000 (including \$10,000 down payment) mortgage at 4% interest per annum is \$693 per month. This is exactly what affordable housing needs to offer to qualified buyers. In a recent study, the National Low Income Housing Coalition has calculated low income rents for a family of four with poverty level income at \$655 per month. The difference is \$38 per month to transition from renting to actually purchasing a home of their own.

The buyer is buying a 50% interest (or less in certain markets) in the house. The buyer gives up the right to “ride-the-real-estate-market” and sell or further encumber the property with additional equity loans. The “Trust” controls the equity in the home, which is guaranteed to increase by 2% per year. Regardless of where the real estate market is going, the buyer will be able to safeguard their down-payment as future equity, along with 50% of the 2% equity growth.

Each month, the homeowner will receive a statement that will indicate the amount of the current monthly payment and will also show the current “Equity-Stake” in the property. When the buyer wants to sell their home, the buyer will always be the trust and the amount paid to the buyer will be the total “Equity-Stake” in the property.

In addition to providing affordable housing, the homeowners are actually creating wealth because they are saving for their future. Imagine how many disadvantaged home buyers actually had a savings account prior to purchasing a home? Here is what happens when they become homeowners.

To calculate the amount of total equity that a homeowner has established in their home, you need to add the following: Down Payment, Equity Increase (2% per annum) and Principal Payment Reduction. The following shows how much a homeowner would receive at the end of five, ten, fifteen and twenty years:

	\$300,000 Home With \$10,000 down payment	\$400,000 Home With \$15,000 down payment
Homeowner equity after 5 years:	\$38,372	\$52,673
Homeowner equity after 10 years:	\$69,504	\$94,251
Homeowner equity after 15 years:	\$105,157	\$140,597
Homeowner equity after 20 years:	\$144,339	\$192,765

If the property is being repurchased by the trust after five years, it will then be resold as a \$330,000 property to the next “Affordable-Housing” buyer, who will be buying a

\$165,000 interest in the property. If we do not safeguard both the inventory and the equity, we will not gain enough momentum to truly solve the problem of affordable housing. By maintaining a well-balanced inventory of affordable housing, we will also be causing stability in the most volatile segment of the housing market. This stability will spill over to help protect the rest of the housing market from downturns in the future.

As the equity is now under control, there is no need for foreclosures. The buyer will grant to the Trust, an open "Option-to-Purchase" their interest in the event of a default or serious violation. The homes can only be Owner-Occupied and must be properly maintained. If the buyer proves to be a nuisance to the community or defaults on the mortgage obligation, then the Trust "may" exercise its option and will pay the buyer the "Equity-Stake" amount, less any unpaid payments, costs and or legal expenses, in the event that an eviction is required. The absence of a foreclosure will remove the ugly stigma associated with losing a home and the buyer can simply state that they decided to sell their home. This process also protects the home from having a lower valuation because it will not become a bank-owned foreclosure property.

There is no time limit as to how long the buyer can live in the house. As long as the payments, taxes and insurance are current, the asset value is safe in the trust. If a homeowner wants a relative to purchase the house, as long as the relative qualifies, the house can be transferred to the new buyer under the same terms. The buyer cannot purchase the Trust equity stake to sell the home on the open market for a higher price. This is what the buyer gives up to participate in the "Controlled-Equity-Housing" program.

Control Equity Housing will work with banks, non-profit organizations and government programs that are in place to promote affordable home ownership.

The focus of Controlled Equity is to empower homeownership. When people own their own home, they become an integral part of a community. They belong to its future! New home construction will be our main goal. While some existing housing will certainly work, the majority of the homes in the program will be new construction. In many cases it does not make sense to try to rehab poorly built homes because they will never meet the same standards of new construction. Working with communities, we can determine where redevelopment zones need to be created and plan for years of strong growth in the housing sector. This will also create many new jobs and help to erase stigmatized neighborhoods, while not displacing the residents, but elevating them to new homes.

The larger the Controlled Equity program grows, the more stable the real estate market becomes. As real estate is the number one source of wealth in the world, it is not a huge risk to bet on its stability. Should there be a downturn in the market, it will not affect homeowners that participate in the Controlled Equity program. Real estate prices would have to fall by more than 50% before they would begin to question if they are overpaying. Our focus will always be to ensure the stability of our homeowners who are experiencing hardship through loss of employment or some unforeseen emergency.

As Controlled Equity is “safeguarding” the value of their homes, we can also utilize this equity, in certain circumstances to help homeowners through difficult challenges to avoid losing their homes. Anyone with experience in mortgage loan servicing will understand that there will be cases where a homeowner cannot be helped and losing their home will be unavoidable. There will be a totally new reality to all parties when every homeowner has the ability to cash out and walk away from their home with money, or will now have the ability to restructure their debt without having to refinance their home.

There are many disadvantaged groups of people who have never been given a fair shot at the American Dream. We need to do everything we can to level the playing field and lift everyone up, who is willing, to enjoy a better life.

Currently there are tens of millions of people who do not believe that they will ever be able to own a home. Controlled Equity offers real hope to anyone that wants to break out of poverty and low-income rental property. Owning your own home is the American Dream and can be accessible to everybody who wants it.