Employer-Assisted Housing

The August 2005 newsletter presented a discussion of Workforce Housing. This issue of the newsletter focuses attention on employer-assisted housing. The source of the information presented is a 228-page book that was published by the Bureau of National Affairs, Inc., of Washington, D.C., titled, Employer Assisted Housing: A Benefit for the 1990s. The material contained in the book was the product of a three-year study of employer-assisted housing conducted by the American Affordable Housing Institute at Rutgers, the State University of New Jersey. Although the book is out of print, the discussion of the topic, including a description of various forms of employer-assisted housing in the second chapter, remains relevant and is summarized here. One of the book’s three authors, Daniel Hoffman, may be contacted at Employer-Assisted Housing and Community Strategies in Philadelphia at 267-408-9848.

Overview of the Housing Benefit

Housing as an employee benefit has received only sporadic attention by both employers and labor. In the 1980s, however, a number of employers began to offer housing assistance as a part of their benefit plan. Housing assistance as an employee benefit has not been standardized like the more common health insurance. Instead companies have customized their plans to meet their own cash/debt/risk preferences, to meet the corporate objectives that fostered the plan, to meet the perceived housing needs of the workers, and to meet the needs of the community. In general, companies sought to create a plan that is cost-effective and has minimum risk while enhancing the image of the organization both to the employees and the community.
Before proceeding, it is important to understand contemporary “employer-assisted housing.” In their book, Schwartz et al. describe employer-assisted housing as the offering of one or more housing benefits to non-management workers.

Unlike the “company towns” of the 19th and 20th centuries, those employers with currently active housing benefit programs view them as supportive not only of corporate objectives but of worker’s aspirations and community goals.

Group Mortgage Origination

Group mortgage origination plans are viewed as the starting point on which to build a more broadly based employer-assisted housing program. Group mortgage origination plans essentially are volume discount plans in which a mortgage lender agrees to reduce interest rates, points, and/or application fees in return for the expectation of increased mortgage lending activity.

Such a plan requires that the employer take the necessary steps to establish an agreement with a willing lender. The employer then assumes the familiar role of informing employees of the availability of the benefit, a role similar to that played for the health insurance benefit. Notice that the group mortgage origination plan does not require the employer to become a mortgage lender or processor any more than group health insurance plans require them to be doctors or medical specialists.

The cost to the employer of a group mortgage origination plan can be as low as the cost of establishing the agreement with the lender and notifying employees of the plan’s availability. In some cases, employers provide additional subsidies in conjunction with the lender’s assistance. These additional subsidies are discussed in the following sections. Combining employer and lender subsidies allows the employer to leverage its contribution, a unique feature of investing resources in housing assistance plans.

It is interesting to note that employers that implement a mortgage origination plan join forces with a mortgage lender. This coalition places the employer in league with an important member of the home building industry and provides access to other sectors of the industry. As such, the employer can draw upon the collective experience and knowledge represented by the coalition in order to offer novel, cost-effective plans without becoming a housing-industry expert.

Closing-Cost Subsidy

Closing costs, as opposed to down payment, represent one of the most difficult barriers to home ownership faced by lower-income families. Under the State Housing Incentives Partnership (SHIP) program, closing-cost subsidy is regarded as a desirable action by many local governments. In the case of employer-assisted housing plans, closing-cost subsidies can be layered on top of group mortgage origination plans.

The closing costs that may be the focus of an employer’s closing-cost subsidy program may include: points, title insurance, title searches, or engineering studies.

Down Payment Assistance

The American Affordable Housing Institute’s survey of employed, renter households found that 60 percent of those interested in purchasing a home thought that they would be unable to do so because they could not afford the down payment. This barrier represents an opportunity for employer assistance in the form of mortgage guarantees, mortgage insurance, or direct down payment assistance. All of these forms of em-
ployer-assisted housing serve the purpose of reduc-
ing risk to the mortgage lender and, once again, can be layered on top of a group mortgage origina-
tion plan.

**Mortgage Guarantees**

Employers that choose to offer a mortgage guaran-
tee incur a financial liability but have no direct cash outlay. The company’s balance sheet may show the guarantee as a “contingent liability.” However, since the mortgage default rates are about 2 percent and since there is evidence that the default and foreclo-
sure rate for lower-income families is even lower; the likelihood of the company having to face the liability is quite small. Another comforting fact is that the value of a property usually is sufficient to satisfy the liability.

If the mortgage guarantee program is structured to be in effect only as long as the employee remains with the company, the problems and costs associated with employee turnover are reduced. In terms of the company’s “bottom line,” reduced turnover lowers costs for recruitment, training, and other hiring costs.

**Group Mortgage Insurance**

Conventional private mortgage insurance costs from 50 to 100 basis points. It is this down payment cost that group mortgage insurance addresses. The advantage to the employer is that the contingent li-
ability incurred in a guarantee program is transferred from the employer to the private mortgage insurance company.

Employers can provide this housing assistance in several ways including a grant, a loan, or a forgiv-
able loan.

**Down payment Assistance**

One form of down payment assistance is a third-party second mortgage. In this arrangement the employer enters into an agreement with the lender to provide payroll deductions for payment of the first or second mortgage. This agreement and others encourage the lender to offer second mortgage loans at or near first-mortgage rates. If the second mortgage brings the loan-to-home-value ratio down to 80 percent, the first mortgage becomes readily marketable by the lender without mortgage insurance. It is worth noting that an employer organizing this form of down payment assistance may do so without funding the down pay-
ment; the benefit may, in fact, be costless.

**Forgivable Down payment**

A second form of down payment assistance is the forgivable down payment loan. The 1990 American Affordable Housing Institute survey found that 29 percent of responding employers reported that it cost $1,000 to $3,000 to recruit and train entry-level em-
ployees; and, 38 percent indicated a similar amount for training alone. These and other similar data on the cost of hiring have caused some employers to give serious attention to reducing employee turnover rates. Although not all turnovers are undesirable, most is. Further, not all turnovers are related to hous-
ing. However, since homeownership represents an aspiration of most families, an employer that assists families in fulfilling their aspirations would seem to have a distinct competitive advantage in recruiting and training employees. By offering down payment loans that are forgiven at a rate that is less than the annual cost of recruiting and training, employers can create a program that cuts costs, reduces turnover, and helps employees meet their housing objectives.
**Purchase of Securities**

Public or private mortgage bonds can be purchased by employers at negotiated, below-market rates. Proceeds from the sale of these bonds can be loaned to employees for first or second mortgage purposes. The rates applied to these loans would reflect the below-market rate being paid by the bond. Although the return to the company may be relatively low when compared to other investment opportunities, the rate considered in combination with the savings gained by facilitating recruitment and reducing turnover may make the return more acceptable. Since other employee benefit plans have a zero return, even a low return is significantly better.

**Cash**

An employer may invest, lend, or issue a grant for housing. At the most expansive level, an employer can participate as an equity investor in the production of rental housing and hold a limited partnership in a project. Since corporations remain exempt from passive-loss tax limitations, equity investment can make sound investment sense.

A lower level of involvement in the development of rental housing can be in the form of contributions toward development. This approach may be in cooperation with a non-profit developer making the transaction a charitable contribution. In the case of a charitable contribution, there can be no preference shown to the employer’s employees when renting the completed units. If this preferential treatment is desired, the employer could make a corporate (non-charitable) donation to a developer, without the long-term return relationship of an investor. In return, the developer would be expected to reserve units and reduce the rent for the employees of the participating firm.

Finally, an employer can lend money to a developer at below-market rates or on a delayed or flexible payback basis. Groups of smaller employers, who individually lack large cash resources, can join forces to pursue this option. Interest in this type of arrangement comes when the units are to be produced in close proximity to the participating employers and the development is seen as facilitating neighborhood revitalization or enhancing security.

**Construction Loan Financing**

The Financial Institutions Recovery, Reform, and Enforcement Act (FIRREA) of 1989 made construction financing increasingly difficult for developers to obtain. FIRREA imposes a 15-percent-of-assets limit on lenders for any one project as opposed to the previous standard of 100 percent. The result is that developers of large projects must piece together construction financing from multiple sources, raising transaction costs of already expensive financing. Although developers face an increasingly difficult time in raising short-term financing, large corporations continue to borrow at, or near, prime rates.

This situation creates an ideal situation for corporations to assist in housing production. The corporation can borrow at favorable rates on behalf of developers who need short-term construction-loan financing or by guaranteeing all or a portion of a construction loan. The guarantee represents a credit enhancement that allows the developer to borrow at more favorable rates. At the conclusion of the development, the project secures permanent financing and the employer is repaid or the employer’s guarantee is ended.

If the development process goes smoothly, this arrangement has no direct cost or impact on the cashflow of the corporation. The risk comes from projects that never complete development or that are built only after great difficulty.
### Purchase Guarantee

An option for the employer to reduce the risk of development after completion is the purchase guarantee. For example, an employer can agree to purchase some number of units in a development if those units are not otherwise purchased by a given date. Such a guarantee places the employer in a position to extract substantial sales-price discounts for its employees.

The lender’s risk of delayed payment of the construction loan is reduced; the developer’s risk of having to carry property for an indefinite period is eliminated.

If the project sells out before the developer can call upon the employer’s guarantee, there is no cost to the employer.

### Development Sites

Employers may own surplus land or obsolete buildings that could be developed for employee housing. The site can be sold at discount, leased, or donated to a developer. In return, employees would be expected to receive occupancy priority and sales-price or rent concessions. The developer may be for-profit or non-profit or may be public development entities. Prospective condominium associations formed by employees interested in living in the project also represent prospective developers.

There are a variety of ways for the employer to prevent loss of for-sale housing to the open market. One option is for the company to retain the right of first refusal to buy the property. Another approach is to place a lien on the unit equivalent to the difference between the discounted price and the market value. This lien need not be repaid if the unit is resold at a discounted price to another employee of the firm.

### Master Leases

There is a shortage of rental housing in many markets. Changes in the federal tax code, investors’ unwillingness to own property on a long-term basis, and difficulties in obtaining financing have been blamed for these shortages. This situation creates an opportunity for employers to play a key role that is neither excessively risky nor costly.

As master leaseholders, employers can provide housing opportunities for moderate- and low-income employees while addressing important business, recruitment, retention, and neighborhood security issues. The master lease is an agreement that a given number of units will be rented by the master lease holder - the employer. The master lease holder need not become involved in the ownership or management of the property. Rather, the master lease simply requires the master lessee to pay rent on a unit if it is not being paid by a sub lessee (the employer).

Master lease agreements aid prospective developers in securing financing for new construction. Existing building owners also may have reasons for entering into master lease agreements. Buildings with a significant vacancy rate or owners who want to rehabilitate or refinance property may find that a master lease agreement improves cash flow, marketability, and lender security.

### Specialized Benefit Plans

Employee Stock Option Plans (ESOPs) offer a means for an employee-owned firm to create an ESOP-financed housing benefit program.

Unionized firms were given the authority to expand trust-fund benefit programs by an April 1990 amendment to the Taft-Hartley Act. The amendment permits employers to contribute to a tax-exempt housing trust managed jointly be a board representing labor and management.
Summary

Employer-assisted housing plans are making their appearance alongside health insurance and similar conventional employee benefit programs. These housing-related plans are relatively new; they have not yet become standardized. Rather, employers are structuring plans to meet their special combination of cash, debt, and risk.