

## **APPENDIX E**

### **EMPLOYER ASSISTED HOUSING**

The Affordable Housing Task Force has examined Employer-Assisted Housing (EAH) programs from various locations in the United States and proposes that the City of Asheville and local business, non-profits and organizations implement an Employer-Assisted Housing Collaborative program that gives employers flexibility in choosing the menu of benefits available to their employees and is affordable to all employers, including those of small businesses.

**RECOMMENDATION:** A local Employer Assisted Housing Collaborative should be implemented with the following components which have been taken from model programs in other communities in the United States.

1. Partnership with a lead bank that offers its loan products at discounted rates in exchange for exclusivity.
2. Network of third-party appraisers, inspectors, realtors, and developers who discount their services to program participants.
3. Partnership with non-profit agency for pre and post purchase counseling for homebuyers and housing counseling for renters.
4. Specialized program for renters that includes security deposit, utility deposit and first month's rent assistance. If renter continues employment over a specified period of time, can access down-payment/closing cost assistance for purchase of first home.
5. Website linking bank, counseling programs, and third-party partners.
6. Employer flexibility: employers can design their own program components with lead entity, such as how much employer contributes as matching funds (if any), how long employee must continue employment, maximum income level, permissible geography.

#### **1. Home Ownership**

Following are some ways that employers can help their workforce buy homes.

A. Forgivable Down Payment Loans

An employer advances funds for a down payment to an employee. The employer forgives the loan on a pro rata basis annually in return for the employee's completion of an identified length of service at the company. The loan may or may not have an interest component.

B. Mortgage Loan Guarantees

The employer promises to pay the lender all or part of a loan amount still owed if the employee defaults on the loan. Because this guarantee reduces a lender's risk, down payment requirements can be reduced or waived. A mortgage Loan Guarantee program can be structured in a variety of ways in order to retain the employee, i.e., if the employee does not stay with the company for a specified number of years, s/he must pay back the loan within a certain amount of time. The employer's secured interest in the property should cover any default. Also, the employer can establish a loan loss reserve fund as an investment – all principal and interest not used to pay the mortgage can be returned to the employer.

C. "Soft" Second Down Payment Mortgages

Employers arrange for below-market rate second mortgages that may be used for down payments in exchange for employer-administered payroll deductions and/or loan guarantees.

D. Transaction Cost Assistance

Employers help employees with expenses related to closing costs. This can be accomplished through volume discount programs in which a lender or broker reduces fees or points in exchange for a certain level of business.

E. Custom Banking/Savings Plans

Employers provide employees help in buying a home through automatic withdrawals for mortgage payments or attractive loan features in a company's savings plan.

## **2. Rental Assistance**

For a variety of reasons, home ownership is not a good choice for many families. For this reason, employers assist their staff in finding safe, affordable, and comfortable places to rent. According to the Housing Collaborative consultants, who survey employers around the country, rental housing assistance is used more frequently than other employee assisted housing benefit. These consultants also find that rental assistance increases the number of job applicants.

Following are some ways that employers can help with the costs of apartments.

### A. Initial rental costs

Employers provide employees with rental assistance for the initial deposits required by landlords.

**Employee's tax considerations.** Amounts paid to an employee directly or to a third party for the benefit of an employee must be included in the employee's taxable income, which includes rental subsidies. In this case, IBM provides federal, state and local tax assistance to its employees.

### B. Relocation Assistance

Employers provide a variety of services to offset relocation costs such as temporary housing, placement services, moving costs and/or car rental.

**Employee's tax considerations.** Employer should consult with human resources or legal staff for specifics regarding the tax consequences of relocation assistance.

C. Master Leases

An employer provides an apartment building owner a guarantee that a certain percentage or number of rental units will be leased to its company employees. Because the building owner can plan for a lower vacancy rate and guaranteed income on a portion of the units, he or she can reduce the monthly rental charged for each unit.

**Employers' Considerations:**

**1. Employer's tax considerations for all housing assistance programs:**

There are no rules that specifically refer to the income tax treatment of employers who provide mortgage assistance to employees. As a general rule, employers are allowed to deduct amounts paid to employees as compensation. If the employee must include the amount in his or her income, then the employer is allowed the tax deduction.

Amounts paid to an employee directly or to a third party for the benefit of an employee just be included in the employee's taxable income. This includes down payment assistance, amounts received as mortgage interest subsidies and payment used to "buy down" a loan interest rate.

**2. Program Administration**

The lead entity of the collaborative should either provide program administration or contract with a non-profit or bank to administer the program.

**Homebuyer Education** - Most home ownership counseling is conducted by nonprofits. The curriculum covers a wide range of topics, including walking the prospective homebuyer through the entire home buying and lending process.

**Down payment assistance, loan servicing** – Similar to homebuyer education services, nonprofits are capable of assisting employers in pre-qualifying employees for loans as well as originating and servicing second loans for down payment assistance.

**Other housing assistance services** – Some non profits work with individual employers to tailor housing services to meet a company’s unique needs. Other nonprofits—similar to an employee assistance program—can provide employees with individual counseling unique to their needs and link them to a variety of housing programs.

Another advantage of outsourcing housing assistance programs to a nonprofit, is that the employer contribution for the housing services desired can be designed as a tax-deductible donation.

**Attractive lending terms** – Some lenders are also willing to provide services and attractive loans depending on the volume of business they receive from an employer. Examples include discounted closing costs, interest deductions and attractive banking services.

### **3. Risk Management**

To protect each party’s interests, all forms of housing assistance should include documentation ranging from a legally prepared promissory note to a human resources customized loan request form. This documentation outlines the terms of the assistance, covering such things as the case of termination before a prescribed time. It could outline that an employee receiving housing

assistance is required to reimburse the employer on termination, that a payment plan can be set up, or that the company will write off the debt.

To minimize the risk of foreclosure by employees, employers may:

- Establish employee eligibility requirements
- Require home ownership counseling
- Define pre-qualifying and underwriting criteria
- Execute promissory notes and other legal documents
- Define size and term of the housing assistance
- Utilize an intermediary such as nonprofit who is familiar with NC real estate and lending practices
- Utilize a legal and tax expert

### **SPECIAL NOTE: Pending Legislation before the United States Congress**

The Housing Americas Workforce Act (HAWA), H.R. 1850 and S. 1078, was re-introduced in the House of Representatives and in the Senate in 2007 with bipartisan sponsorship. No formal action was taken on either the House or the Senate bill but is expected to be pushed forward during the second session of the 110<sup>th</sup> Congress in 2008. The HAWA will provide a tax credit to employers who provide housing assistance benefits to certain employees. Currently federal tax laws and corporate accounting rules do not provide incentives for employers to offer housing assistance to their employees. The HAWA tax credit would be available to any for-profit or nonprofit employer. Employers would receive a 50-cent tax credit for every eligible dollar of housing benefit made available to their employees. Employers would receive this tax credit on housing contributions up to \$10,000 or 6% of the purchase price of the home (whichever is less) or up to \$2,000 for rental assistance. Employers would receive the tax credit only for housing contributions made to employees with a household income that does not exceed 120% of the area median income (insert number for Asheville here). The housing benefit received by the eligible employees would be excluded from their income and therefore not subject to income tax. Demonstration grant funds would be available to nonprofit housing organizations that have a proven track record in the field of housing and community development.

Asheville City Council should advocate with Congressman Heath Schuler, Senator Elizabeth Dole and Senator Richard Burr and encourage each of them to vote in favor of HAWA. Locally the positive experience of the Mission Home Help Program can be used to demonstrate to them how employer assisted housing programs are beneficial to the community and how providing incentives such as HAWA will allow smaller employers and nonprofit employers to offer this valuable benefit to their employees.