

Success of First Homes should be a national model

10/25/2008

Post-Bulletin

By Al Tuntland

I have endured about all the name-calling and finger-pointing among the various parties to the national sub-prime mortgage disaster that my stomach can take. I would much rather discuss an outstanding success in this field that is ongoing right here in the greater Rochester area.

In the late 1990s, both the Mayo Clinic and the Rochester Area Foundation (RAF) recognized the need for more affordable housing in the Rochester area. The RAF, with the enthusiastic backing of the Mayo Clinic, decided to take an active role in addressing this unmet need. First Homes was organized as a subsidiary of the RAF and began working on this problem back in 2000.

First Homes set an ambitious goal of providing 875 housing units within 10 years. We got a great start on funding with a large gift from Mayo. The rest of the community stepped up, and we raised \$12 million locally. We have leveraged that with an additional \$123 million from the Greater Minnesota Housing Fund, the Minnesota Housing Finance Agency and local lenders (who provide the mortgage money.) In eight years, we have expended \$135 million and provided 929 housing units for those who otherwise would be unable to afford them, far exceeding the original goal of 875 units in 10 years.

The mission of First Homes was -- and is -- "to provide entry-level homes for working-class families." To facilitate this, the First Homes board set some especially important criteria from the very beginning.

First of all, the clients had to have a financial need, and they had to have a steady job. This was to be a hand up, not a hand out. We were not going to help those who would not help themselves.

Second, we vowed to place as many of our clients as possible in owner-occupied single-family homes. However, we recognized that apartment living was more suitable for many potential clients, and we needed to provide housing for them also.

Third, both the single-family houses and the apartments had to be good quality, well-constructed housing units, built by reputable local builders. We were not going to permit shoddy construction. However, we did not restrict our single family houses to any given area. The First Homes houses look like every other house in their neighborhood; the only difference is the financing mechanism.

Fourth, any aid money put into the First Homes program would go to increase the inventory of entry-level housing, and never leave the program. Constructing financial aid as loans (as contrasted to grants) would provide permanent, sustainable aid without requiring the constant infusion of new money.

Any financial aid provided directly to our clients (to purchase houses) or builders (to construct apartments) would be in the form of low-interest or no-interest loans secured by the property and would be paid back if the client or builder ever decided to sell the property and leave the program. (Homeowners keep their share of the equity in the house upon resale, and apartment dwellers get their rent reduced proportional to the amount of aid loaned to the builder.)

Finally, we prohibited the lenders from employing either adjustable-rate mortgages or lower introductory (teaser) rates. In addition, we required them to apply their normal lending standards and tell us how large a monthly house payment our homeowner clients could afford. We then provided enough financial assistance to bring the mortgage amount down to that affordable monthly payment level.

It is particularly noteworthy that 550 of these 929 units are single-family homes, all of them mortgaged. By definition, all of the folks in these homes were (or are) so-called sub-prime borrowers, since their average family income is only \$25,145 per year.

Here's why I am so proud of the record of First Homes: while the foreclosure rate on sub-prime loans nationally is astronomical, we have had only four -- that's right, four -- foreclosures out of the 658 mortgages originated (550 homes plus 108 resales). And at least one foreclosure was due to a divorce, which is financially catastrophic in most families.

The First Homes program is one of the most successful in the nation, and has received national recognition. This is what happens when people of good will and common sense get together to solve a problem,

unencumbered by political agendas, greed, indifference, or mind-boggling incompetence. The "elites" in Washington and New York could learn a lot from just plain folks like us.

Al Tuntland is a former director and board chair of the Rochester Area Foundation. He was also the first executive director of First Homes. He retired as president and CEO of Schmidt Printing in 1994.