



Frequently Asked SHIP Questions

Q: *At your conference, I met another SHIP administrator who has used the fairly new “safe harbor limits” provided by the U.S. Department of Treasury to set a \$220,000 maximum sales price or value limit for her community. How can a SHIP jurisdiction justify setting such a high price? It’s just not affordable.*

A: In recent years, many communities have increased the maximum sales price or value limit for their SHIP programs. As Stan Fitterman’s article in this journal indicates, housing prices have risen dramatically in recent years. Your question illustrates a common misconception of the maximum limit, which is not intended to represent an “affordable” home value. Instead, it indicates the house sales price at and below which SHIP eligible homebuyers may find an adequate supply of homes to purchase.

First, some background information is needed. The SHIP Statute requires jurisdictions to set an upper limit on the value of a home that will be considered “eligible housing” for purposes of SHIP assistance. This requirement is outlined in section 420.9075 (4)(c) of the SHIP Statute: “The sales price or value of new or existing eligible housing may not exceed 90 percent of the average area purchase price in the statistical area in which the eligible housing is located.” The SHIP Rule further addresses this topic in section 67-37.007 (4)(d) 6: “The local government at its discretion may set the sales price or value below the 90 percent benchmark. The maximum area purchase price used must be that established by the U.S. Department of Treasury or that calculated in accordance with Section 420.9075(4)(c), F.S.”, which states that the “average area

purchase price may be that calculated for any 12-month period beginning not earlier than the fourth calendar year prior to the year in which the award occurs.” A SHIP jurisdiction, therefore, has the flexibility to justify its maximum purchase price or value based on one of three sources: A local study of sales price levels in the past 12 months, Florida Housing’s bond study—which reports recent price levels for Florida’s metropolitan statistical areas, or the U.S. Department of Treasury’s data, called the “safe harbor limits.” If a SHIP jurisdiction needs a copy of either of the latter two studies, they can request them from the coalition by calling (850) 878-4219.

A community’s maximum sales price or value should be set at a realistic level to represent the sales price at which there are an adequate number of homes to buy. Affordable housing professionals do not have the power to control the sales price of homes—housing prices are established by the interaction of buyers and sellers in the open market. For the most part, we rely on the private sector to build the single family houses that low-income buyers will purchase with assistance. There must be an adequate supply of homes for these buyers to purchase, and so the actual price of available homes for sale must be considered when setting the maximum sales price or value.

As housing prices rise, communities must increase their maximum sales prices. If they do not raise this price to keep up with the market, SHIP eligible buyers will not be able to find any homes to purchase. The market is not producing houses at a price that SHIP eligible buyers can afford. This is why the SHIP subsidy is needed. It is the combination of a buyer’s first mortgage money and this subsidy that makes the equation of home purchase truly

affordable. As housing prices continue to outpace the annual increase in household incomes, it will take larger levels of subsidy to keep this equation affordable. Call the Florida Housing Coalition for additional assistance on considering the level at which to set your community’s maximum sales price or value.

Q: *SHIP’s definition of “affordable” is confusing to me. Does it state that housing costs must be less than 30 percent of the homebuyer’s monthly income?*

A: The answer to this question is no, and it reveals a lesson about a central concept defined in the SHIP Statute. The definition of “affordable” is in the definition section of the SHIP Statute. It means that “monthly rents or monthly mortgage payments including taxes and insurance do not exceed 30 percent of that amount which represents the percentage of the median annual gross income for the households as indicated in subsection (19), subsection (20), or subsection (28).” This definition makes reference to the 19th, 20th and 28th definitions in the SHIP Statute, which respectively address the definitions of a low-income, a moderate-income and a very low-income household. Each definition cites a percentage—80 percent in the case of low-income, for example—that represents the maximum percentage of the area median income that a household can earn and still qualify to be in that income category.

Now reconsider the definition of “affordable.” When addressing a low-income household, for example, affordable means that housing costs do not exceed 30 percent of that amount which represents 80 percent of area



Have you got a question about the SHIP program? Free telephone technical assistance is available to help you successfully implement your SHIP funded work. Call the Florida Housing Coalition's SHIP telephone line at (800) 677-4548.



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median income. This definition is similar but distinct from another way that housing professionals commonly talk about affordable. We commonly talk about devoting up to 30 percent of a household's income to housing costs. We might, for example, discuss the mortgage payment of a low-income family earning 60 percent of the area median income. If we know that 60 percent of the monthly area median income is \$1500, we would calculate that monthly housing cost of no more than about \$450 is affordable for the family under consideration.

Using the SHIP definition of affordable, however, we would conclude that an even higher housing cost is consistent with the definition in the statute. Considering the income of the same family, the SHIP definition would conclude that a housing cost of up to \$600 is affordable. Although the household in this example has income equivalent to 60 percent of the area median income, SHIP's definition of affordable housing for a low-income family means that housing costs do not exceed 30 percent of that amount which represents 30 percent of area median income. In this example, 80 percent of the monthly area median income is \$2,000 and 30 percent of this income is \$600.

Q: *Follow-up question: I understand what you are saying. In fact, SHIP's definition of "affordable" continues on with an additional sentence that notes that "it is not the intent to limit an individual household's ability to devote more than 30 percent of its income for housing." How does this second half of the definition relate to what you are saying above about affordability?*

A: The final part of the definition notes that "housing for which a household devotes more than 30 percent of its income shall be deemed affordable if the first institutional mortgage lender is satisfied that the household can afford mortgage payments in excess of the 30 percent benchmark." This brings up the other important lesson in the definition. It indicates that a SHIP administrator may rely on the guidance of a mortgage officer who concludes that a specific buyer can afford monthly payments that are higher than 30 percent. After all, lenders are in the business of assessing risk on the loans they offer. It is conceivable that a lender could approve a mortgage payment representing 32 percent, 34 percent or maybe 36 percent of a buyer's monthly income; some buyers can demonstrate that they have consistently and successfully made high rent payments for years. They can now do the same with a mortgage.

SHIP staff must also assess risk, however. There is risk involved with simply relying on a first mortgage lender to tell you what is a truly affordable payment. When the Florida Legislature modified the SHIP definition of affordable in 1994, there were few examples of lenders engaging in "predatory practices." It seemed more reasonable to solely rely on a lender's assessment of risk. In recent years, we are increasingly faced with lenders who provide unfavorable lending terms and conditions that can set up a buyer to fail.

To protect the interests of SHIP-assisted homebuyers, a growing number of SHIP administrators have worked with their most active lenders to establish local "lenders guidelines." These guidelines define the terms of what would locally be considered an acceptable first mortgage for a SHIP-assisted buyer. The lenders

guidelines in most communities set an upper limit for the front-end ratio, the percentage of monthly income devoted to a mortgage payment. Guidelines may also set an upper limit for the mortgage interest rate and for the closing fees associated with the loan. In this way, lenders guidelines provide the protection needed to ensure that SHIP buyers do not over-commit themselves to mortgage payments. The guidelines supplement SHIP's definition of affordability to avoid the need for SHIP administrators to rely on the assessment of lenders in each individual case.

Now consider the SHIP definition of "affordable" as a whole. What implications do these lessons about this definition have for our work? On the positive side, housing administrators may have more flexibility than they may have originally thought to help applicants purchase houses. On the other hand, the definition could possibly set up homebuyers to fail by allowing them to take on unaffordably high mortgage payments. SHIP administrators reduce the risk of foreclosure by working with the buyer and the lender to discuss the reality of what maximum mortgage payment is affordable for each buyer. If desired, a local SHIP jurisdiction can add language to its local housing assistance plan stating the percentage of each specific household's monthly income that housing costs cannot exceed. In addition, lenders guidelines can provide the formal written guidance that establishes the true definition of affordability for a specific community. The Coalition can provide you with additional direction on how to address this issue in your SHIP program. 