



# MAKING YOUR SHIP PROGRAM MARKET RESPONSIVE

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# Table of Contents



Introduction

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Program Structure

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Policy Design

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Best Practices

# Introduction

Real estate markets are constantly changing with local and national economic conditions, because of natural disasters, and due to global health emergencies as recently experienced with COVID-19. Though different market conditions present various barriers to affordable housing, access to state and federal resources is critical in all cases. Many Florida communities rely upon the State Housing Initiatives Partnership Program (SHIP) as a dedicated funding source to implement affordable housing efforts primarily for homeownership, but recent shifts in the housing market have proven difficult to navigate programmatically.

This pamphlet provides best practices for structuring strategies that are effective in hot and cold markets and offers guidance on building flexibility into program policies to quickly respond to shifting market conditions. Subject matter speaks to using valuable subsidies toward activities that can maximize access to affordable units in changing markets and examines strategy design that can help address challenges such as cost escalation, increased purchase prices, low home valuations, low purchase price limits, failed home inspections, and more.

Since addressing affordable housing is a multi-faceted approach, this pamphlet provides practical solutions for addressing the immediate housing needs of low-income and vulnerable populations as well as suggests practical long-term strategies to make your SHIP program market responsive.





# Program Structure

## Key Strategies:

- Housing Rehabilitation
- Purchase Assistance
- New Construction
- Acquisition/Rehabilitation
- Rental Assistance



# Housing Rehabilitation

Preservation rehabilitation is key to addressing housing affordability both for prospective homebuyers and existing homeowners. At least 75 percent of the SHIP allocation must be reserved for activities that either newly construct or repair housing and activities include strategies like housing rehabilitation and emergency repair.

Housing rehabilitation can be a very effective strategy for responding to changing markets as it supports housing affordability, preserves the existing affordable housing stock, and prevents the displacement of low-income and at-risk homeowners. Further, pairing housing rehabilitation with purchase assistance activities opens buyers to a less competitive, less expensive market and increases buyer options for purchasing a home.



*Preservation extends the useful life of existing affordable units.*

# Purchase Assistance

Homeownership is important to building generational wealth and is a primary strategy for supporting affordable housing. This strategy can work in any market and is often instrumental in low-income households achieving homeownership. A minimum of 65 percent of the SHIP allocation must be spent on eligible homeownership activities and a purchase assistance strategy can help meet this set-aside. Purchase assistance can be used for down-payment and closing costs, gap financing, mortgage buy-downs, homeownership counseling, and more.

Purchase assistance is very impactful for offsetting costs in inflated markets and offers several affordability advantages in comparison to renting. This strategy provides permanent housing solutions that build equity, promote financial security, build strong credit, reduce housing costs, and offer social benefits such as healthier living and a sense of belonging.

*With assistance,  
homeownership  
becomes  
possible for  
many  
low-income  
households.*



# New Construction

*New construction makes homes more affordable.*

Development is necessary for increasing access to affordable housing, particularly in hostile markets, and is a primary method for creating units subject to permanent affordability. Having a new construction strategy helps maintain compliance with SHIP requirements that 75 percent of funds must be spent on eligible construction activities. Assistance can include the costs of construction, acquisition of property for the development of affordable housing, gap financing, impact fees, and more.

New construction provides the ability to support production of new units when overall market supply is low and allows flexibility in addressing different market conditions. A new construction strategy can address high development costs by filling in the gap between total development costs and affordable price and can address times when the cost of development exceeds property values. Development is a great strategy to support permanent affordability as subsidies are structured to stay with the unit.





# Acquisition/ Rehabilitation

Similar to new construction, an acquisition and rehabilitation strategy for homeownership can be very effective when land for new development is limited. As other strategies, acquisition and rehabilitation can also contribute to maintaining compliance with SHIP requirements that 75 percent of funds be spent on eligible construction activities, with funds used as a source of gap financing to cover the costs of rehabilitation and modernization of units to meet current housing standards while enabling homes to be sold at an affordable price.

An acquisition and rehabilitation strategy can support neighborhood stabilization efforts in both hot and cold markets, providing a resource for nonprofits and other sponsors to compete in the acquisition of homes with investors who are often seeking greater profits from flipping properties or renting at high rates until a sale becomes favorable. This strategy can be particularly effective for creating and preserving affordability in redevelopment areas in any market condition, making this option more viable to first-time homebuyers that may be more attracted to higher-cost neighborhoods.



*Acquisition - rehab prevents displacement  
and promotes housing choice.*

# Rental Assistance

Rents have risen substantially in recent years and many households are in arrears facing eviction post pandemic. SHIP allows for the provision of rental assistance which involves direct assistance to benefit an eligible tenant household. Rent subsidy assistance may include security and/or utility deposits, eviction prevention, and payment of rent for up to 12 consecutive months. Rental assistance most commonly helps very-low-income tenants, up to 50 percent of the area median income, which helps maintain compliance with SHIP requirements that at least 30 percent of the funds be reserved for very-low-income households.

Rental assistance is often the only way a family can secure housing in a volatile market and can be critical to families remaining in their homes. Beyond reducing the risk of homelessness, rental assistance programs offer stability and financial strength allowing households to prepare for upward mobility.

*Rental assistance can be the difference in securing a home and providing housing stability.*







# Policy Design

## Flexible Terms:

- Award Amounts
- Appraisal Gaps
- Earnest Money Deposits
- Home Inspections
- Homebuyer Education
- Purchase Price Limits
- Refinancing



# Award Amounts


## Market Trend

For many prospective homebuyers, the primary barrier to achieving homeownership is down-payment and closing cost requirements which vary based on purchase price. In hot markets, low interest rates and increased demand raise home purchase prices, pricing out first-time and lower income homebuyers. Alternatively, high interest rates reduce home purchase prices but increase the overall mortgage payment. Cash deals, bidding wars, and homes selling above the listing price also make it nearly impossible for first-time or lower income homebuyers to compete in a hot market.

## Policy Response

1. Increase maximum award amounts based on a market analysis.
2. Make ALL closing costs allowable for assistance.
3. Provide the maximum amount of assistance, as needed.
4. Pair purchase assistance with housing rehabilitation.

## Impact



Achieves Homeownership

Promotes Upward Mobility

Supports Long Term Affordability

Builds Equity and Wealth



# Appraisal Gaps

## Market Trend

As a criterion for providing financing, lenders require a home appraisal. The home value must be equal to or greater than the sales price. As property prices rise faster than recent comparable sales are recorded, low appraisal values are common. In fast-moving markets buyers are willing to bid up prices and purchase above listing price, which would benefit appraisal values but for the exception that there is a lag in data from contract to closing. Insufficient comparable home sales results in appraisal gaps which hinders homeownership.

## Policy Response

1. Include appraisal gap financing as an allowable program cost.
2. Base appraisal gap assistance on insufficient sales comparisons, not condition of home.
3. Require buyer to request an appraisal reconsideration prior to providing assistance.
4. Provide an appraisal gap assistance cap based on the “true” value of the home.

## Impact

Maintains Compliance with Lender Requirements

Supports the Transaction Proceeding to Closing

Promotes Accuracy in Housing Valuations

Encourages Investment in Homeownership

# Earnest Money Deposits

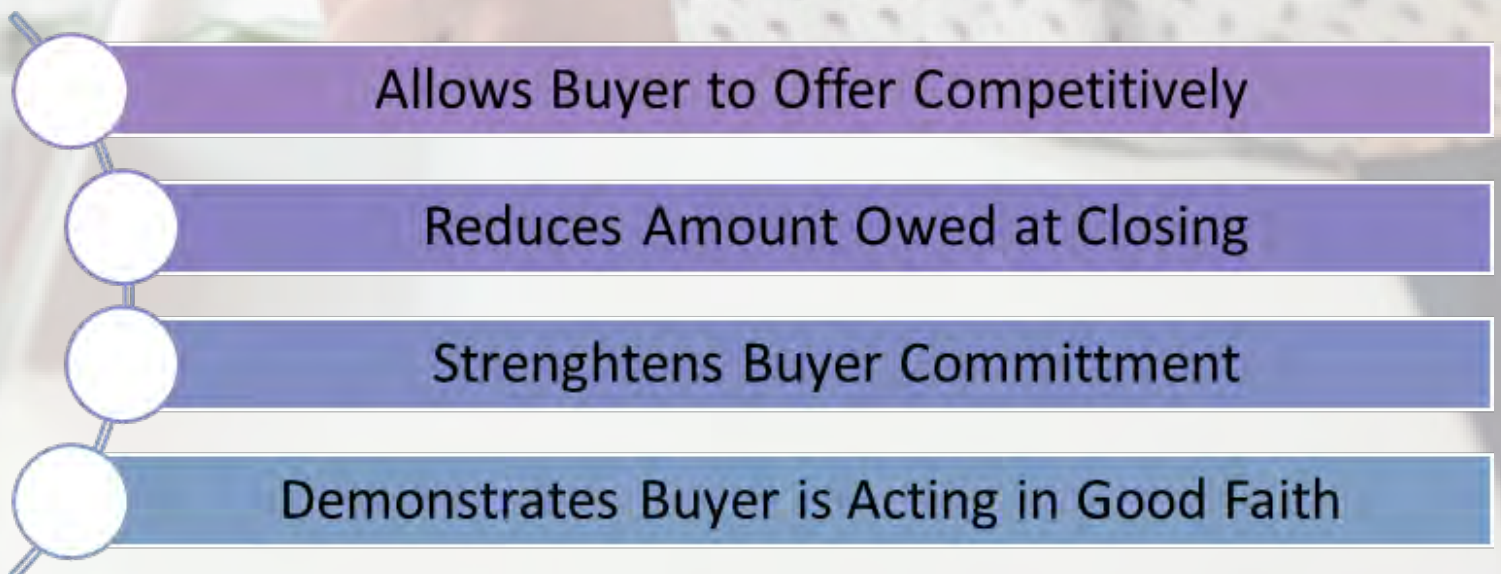
## Market Trend

Sellers typically require that purchase offers be accompanied by an earnest money deposit to indicate the buyer's commitment to the sale. The amount given for an earnest money deposit can vary, but in competitive markets, sellers favor higher amounts to ensure the sale won't fall through. In a neutral market or buyer's market, it is typical for deposit amounts to range between 1-3% of the purchase price. In a competitive market, sellers may prefer deposits up to 5% of the purchase price. The funds are placed in an escrow account and will go towards the buyer's down-payment and closing costs.

## Policy Response

1. Provide earnest money assistance as an eligible down-payment or closing cost.
2. Determine terms of assistance as match basis, fixed amount, or percentage of purchase price.
3. Require earnest money deposits be secured in an escrow account, no cash directly to buyer.
4. Develop deposit release policies to protect against buyer non-performance.

## Impact





# Home Inspections

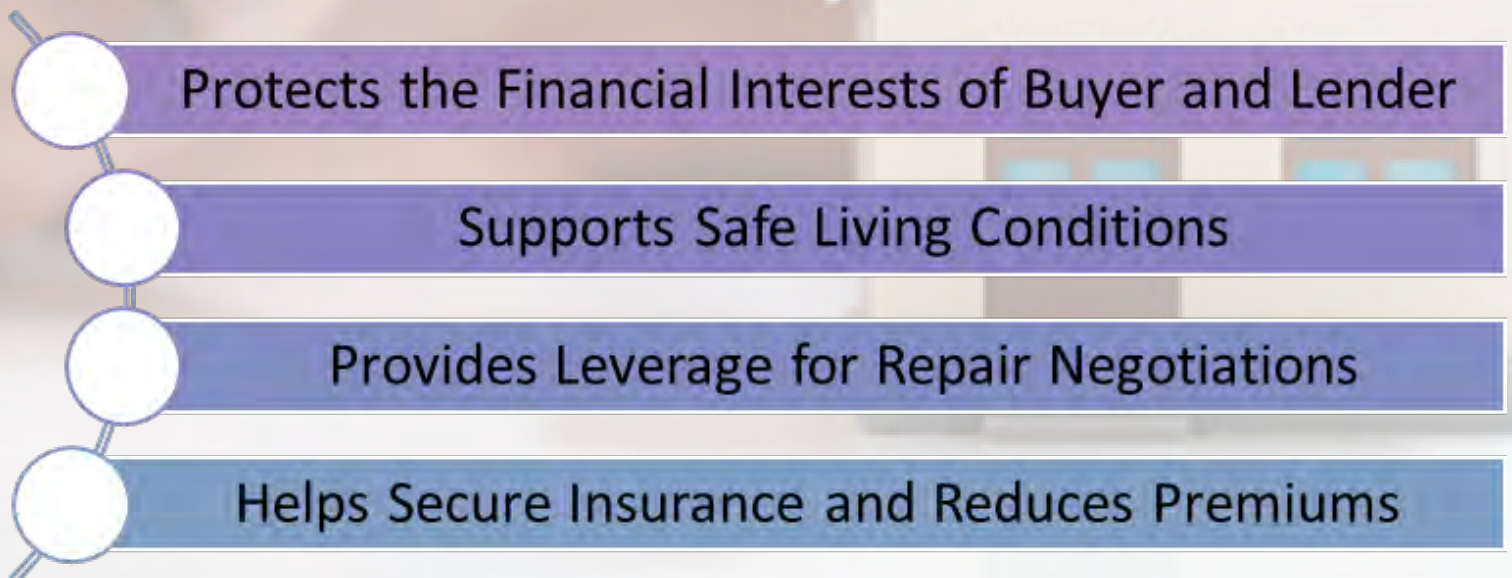
## Market Trend

In competitive markets, homes are listed “as is” and sellers are less likely to offer buyer concessions or make repairs based on a home inspection report. If the home is found to be in poor condition, buyers often have no other option than to cancel the sales contract and continue their search. Every contract entered also means another home inspection and non-refundable fees upwards of \$350. It is also common for sellers to request shorter inspection periods to move the transaction along and reduce the number of days off market. This can lead to rushed inspections and additional fees.

## Policy Response

1. Consider inspection fees as allowable closing costs.
2. Determine assistance amounts based on current market rate for home inspection services.
3. Set terms for the number of home inspections eligible for assistance, per applicant.
4. Set minimum standards for inspections periods, recommended no less than 7 days.

## Impact



# Homebuyer Education

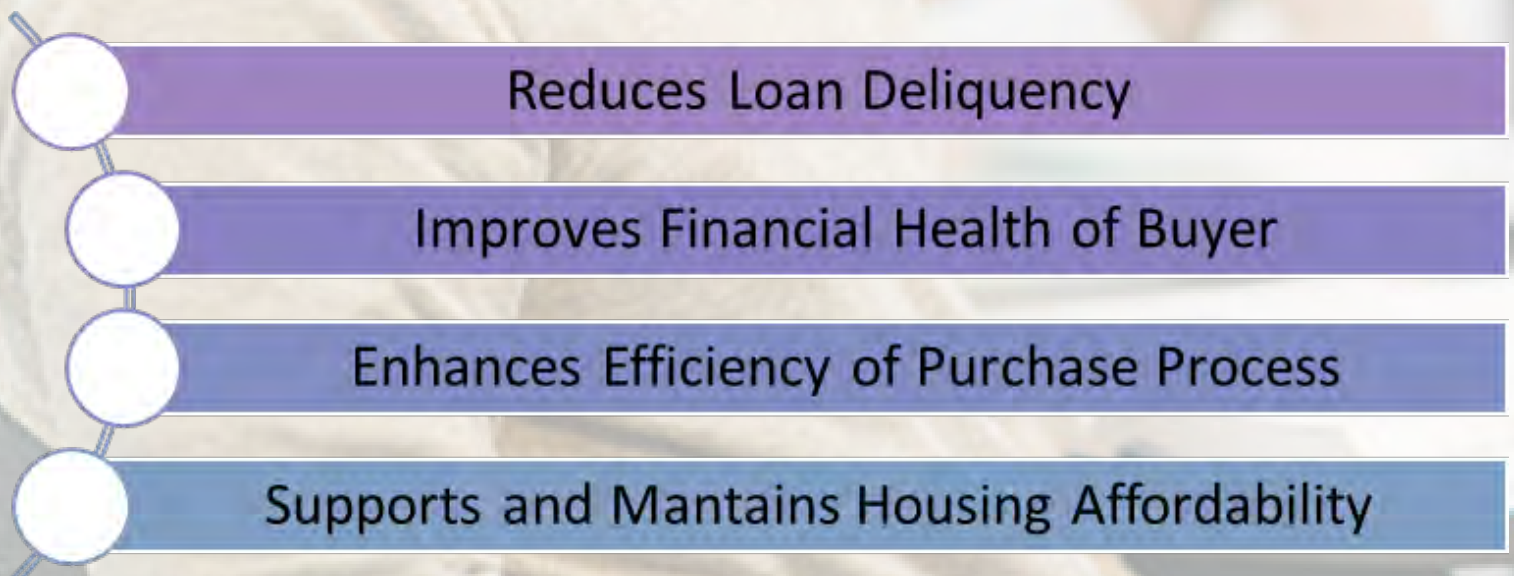
## Market Trend

Homebuyer education benefits borrowers, lenders, and real estate professionals by preparing homebuyers for the purchase process. Buying in a competitive market presents many challenges including increased purchase prices, shifting interest rates, lack of seller concessions, and low inventory. Educated homebuyers significantly increase loan closing rates. Homebuyer education can also help existing homeowners maintain affordability.

## Policy Response

1. Require homebuyer education as terms for assistance for purchase assistance programs.
2. Include pre-purchase and post-purchase topics in homebuyer education curriculums.
3. Amend homebuyer education curriculums based on current market conditions.
4. Partner with a HUD-certified counseling agency, if available.

## Impact





# Purchase Price Limits

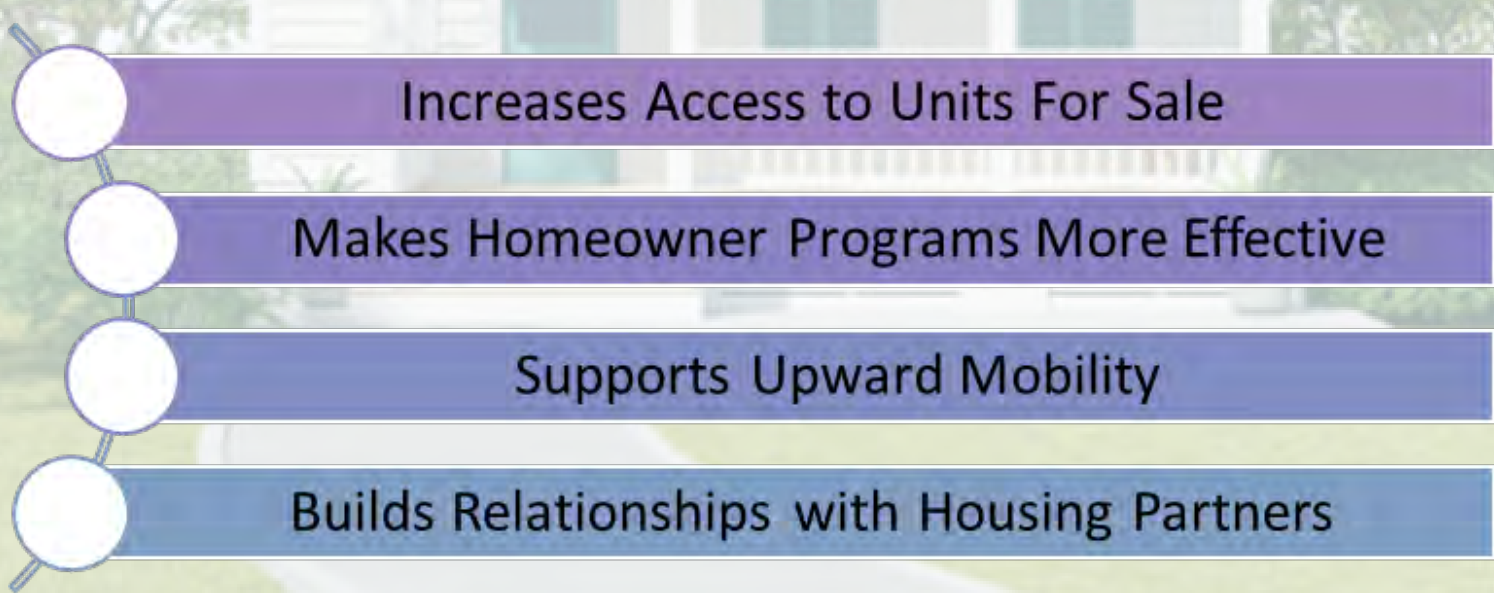
## Market Trend

Increased home values and home purchase prices have significantly decreased access to units within maximum purchase price limits. The lack of available units in compliance with regulatory limits makes homeownership programs less effective and impedes access to homeownership opportunities, particularly for low income and vulnerable populations. For SHIP grantees, purchase price limits are established based on 90% of the U.S. Treasury limit and are adjusted for each Metropolitan Statistical Area (MSA). Local Housing Finance Authority established limits can also be used.

## Policy Response

1. Conduct a market analysis to identify the current average area purchase price.
2. Work with the state to set accurate purchase price limits, or default to maximum limits.
3. Amend purchase assistance policies to reflect new purchase price limits.
4. Partner with Realtors to receive sales inventory of homes meeting purchase price limits.

## Impact



Increases Access to Units For Sale

Makes Homeowner Programs More Effective

Supports Upward Mobility

Builds Relationships with Housing Partners

# Refinancing

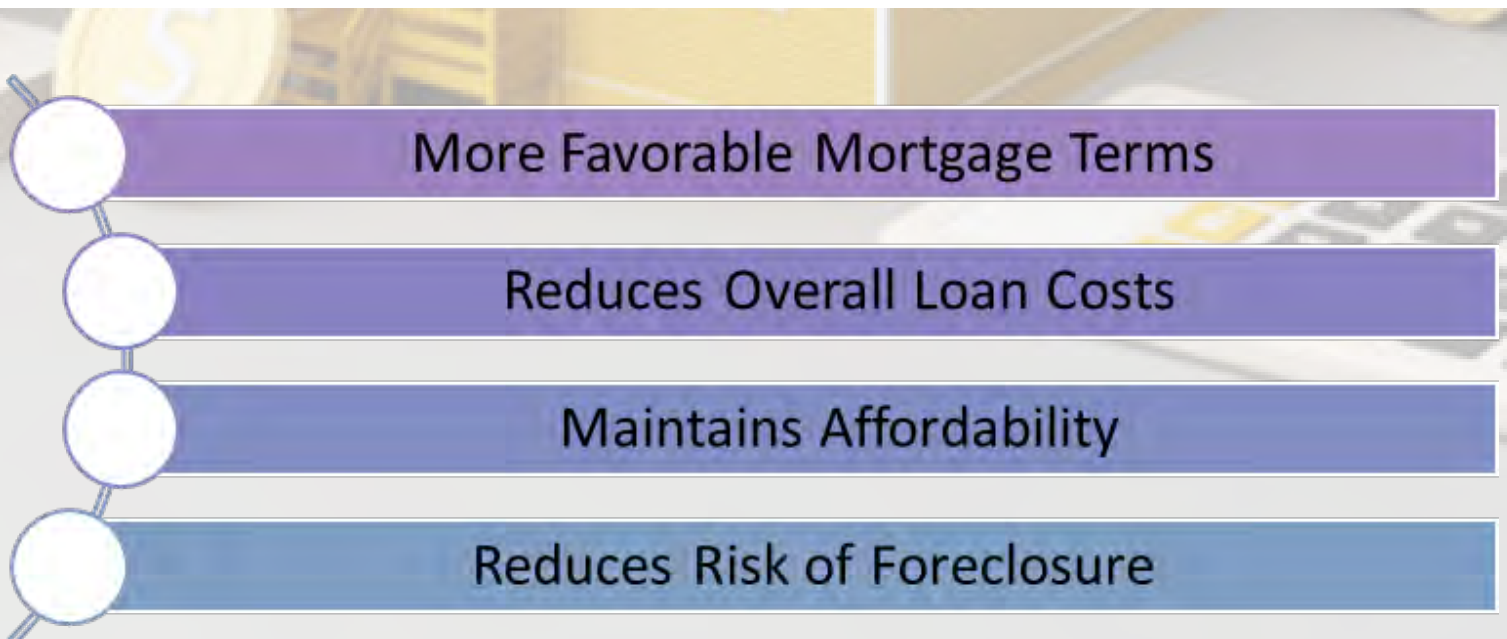
## Market Trend

Inflation is jeopardizing the stability of homeownership and refinancing is a primary way for existing homeowners to reduce their mortgage payment, lower interest rates, and maintain affordability. Rising housing costs continue to decrease affordability putting low-income and vulnerable homeowners at risk of loan default. Refinancing can provide further savings by eliminating private mortgage insurance and often presents opportunities to enter a new loan with a shorter term, paying the loan off faster and lessening the amount of interest paid during the life of the loan.

## Policy Response

1. Include refinancing as an allowable activity under the purchase assistance program.
2. Identify terms in which refinancing is allowable.
3. Ensure policies are written to prohibit cash back refinancing.
4. Provide educational resources about refinancing.

## Impact







# Best Practices

Guidance:

Creating Partnerships  
Regulatory Process  
Program Evaluation



# Creating Partnerships

Successful affordable housing efforts are often dependent on creating and maintaining strategic partnerships. Supportive relationships with housing partners and inclusion of key stakeholders in policymaking results in more effective strategies and a more impactful SHIP program. In fact, the creation of a Local Housing Assistance Plan is intended to increase the availability of affordable residential units by combining local resources and cost saving measures into a local housing partnership and using private and public funds to reduce the cost of housing. Collaboration bridges the gap between expertise and knowledge, coordinates housing goals community-wide, and increases access to resources.

SHIP requires that participants encourage the involvement of appropriate public sector and private sector entities as partners in order to combine resources to reduce housing costs for the targeted population. There are several methods for establishing long-term partnerships including:

1. Develop policy with housing partners.
2. Hold quarterly or bi-annual information sharing sessions.
3. Host SHIP roundtables with housing partners.
4. Offer SHIP certification classes.
5. Provide incentives to collaborate.

## *Partnerships Should Involve:*

*Lending Institutions  
Housing Builders & Developers  
Non-Profit Housing Organizations  
Housing Service Providers  
Affordable Housing Advocates  
Advocates for Marginalized Populations  
Real Estate Professionals  
Continuums of Care*



# Regulatory Process

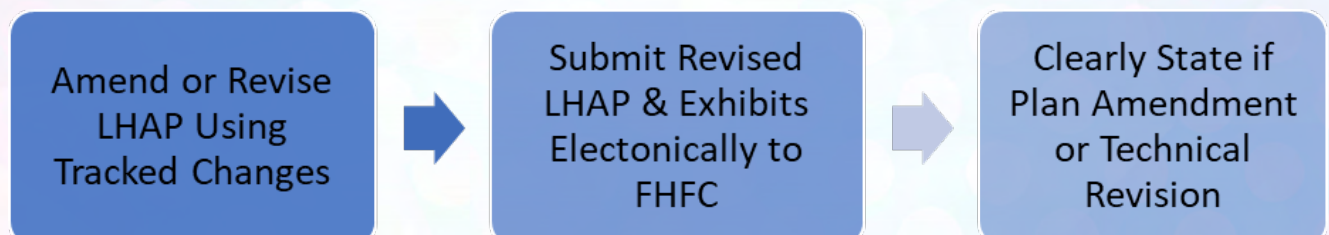
It can be difficult to administer housing programs in a constantly shifting market, particularly when goals are set for a three-year period in the Local Housing Assistance Plan. To better navigate market trends that are changing quickly and complicating program delivery, grantees may need to adopt additional strategies and/or amend policy to be more flexible.

The SHIP program provides local governments with the flexibility to define the terms of their strategies based on program design and resident and community input. It also allows local government to change the terms of an LHAP strategy periodically. Because terms of assistance are often a local decision, LHAP revisions or amendments are not always necessary. There are certain circumstances when changes to the LHAP are required, particularly when involving housing strategies. SHIP allows changes or amendments as either a technical revision or a plan amendment.

**Technical Revision:** An update or clarifying revision to an existing housing strategy in the LHAP. This revision can be approved by the local government governing board and submitted to the SHIP Administrator for the purpose of notification.

**Plan amendment:** A strategy is added or deleted and requires approval of the SHIP review committee.

## *LHAP Revision/Amendment Procedure*





# Program Evaluation

Performance measures help to provide an understanding of success and whether program goals are being met. Consistently evaluating your SHIP program is a systematic way to determine what is working and what is not. This is particularly important in a changing real estate market that is impeding access to affordable housing for low-income and vulnerable populations.

All jurisdictions participating in the SHIP Program must submit an annual report of its local affordable housing program expenditures, leveraging, and beneficiary characteristics. This is a great opportunity to evaluate your SHIP program annually and provides the opportunity to ensure that adopted strategies and program policies are still applicable in the current market or mitigate barriers to affordable housing by revising or amending program components that are inadequate.

*It is best practice to regularly examine:*

## Housing Market

- Cost Burden
- Home Values
- Median Sales Price

## LHAP

- Housing/Incentive Strategies
- Maximim Award Amounts
- Purchase Price Limits

## Programs

- Terms of Assistance
- Policies & Procedures
- Beneficiaries/Expenditures





