Comptroller of the Currency
Administrator of National Banks
US Department of the Treasury

Community Developments

August 2007

Insights

Community Affairs Department

Understanding Employer-Assisted Mortgage Programs:

A Primer for National Banks

Abstract:

This edition of *Insights* looks at how banks can offer loan products to complement employer-assisted home purchase programs (referred to as Employer-Assisted Mortgage (EAM) programs in this report). The report also discusses EAM programs offered in the conventional secondary mortgage market and provides a template for how a bank might establish its own EAM program.

The information presented in this report was obtained from various sources, including national bankers active in making mortgages for borrowers participating in employer-assisted housing benefit programs. The Resource Appendix contains sources of additional information on employer-assisted home purchase and mortgage finance programs.

I. What Are Employer-Assisted Mortgage Programs?

Because the cost of purchasing a single family home has risen in relation to incomes (see Chart 1), particularly in larger metropolitan areas in faster growing regions of the country, some employers have recognized the need to provide their employees with financial assistance to help purchase and finance their primary residences.[1]

Additionally, in the aftermath of 9/11, Hurricane Katrina, and other recent disasters, many public officials in higher cost urban markets have become concerned that their first responders are living too far from the communities they serve. This dual need for closing the homeownership affordability gap for employees and encouraging key employees to live closer to their workplaces has allowed banks to initiate or respond to various employer-sponsored housing benefit plans by providing mortgage financing options for these employees.

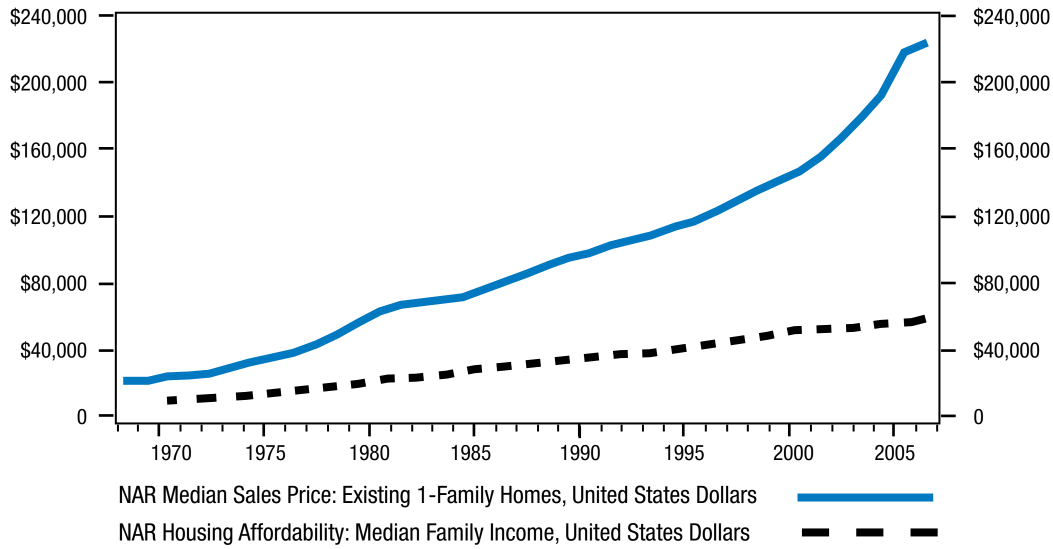
Three differences exist between a traditional home mortgage product and a mortgage offered with an EAM program. First, the employer is actively engaged in the planning, development, and implementation of an employee benefit program. Second, EAM programs typically include access to a bank or group of mortgage lenders who are familiar with the benefits and requirements

[1] Affordability pressures are now spreading, with median house prices in a growing number of large metros exceeding median household incomes by a factor of four or more (Table W-2), *State of the Nation's Housing 2006*, Joint Center for Housing Studies.

of the program. Third, the EAM programs often involve a third party, in this case, the employer, providing funds for down payment and closing cost assistance that is typically repayable through a second mortgage.

Chart 1

Median Family Incomes and Median Home Prices 1970-2005



Source: National Association of Realtors/Haver Analytics

II. Why Are Employer-Assisted Mortgage Programs of Interest to Banks?

Banks find themselves in a unique position to provide the residential mortgage financing resources needed to assist communities and employers with employee assisted-housing programs. Listed below are some of the reasons why banks are interested in providing mortgages with EAM programs.

1. EAM programs can help a bank expand its home mortgage lending business. Increasingly employers, in industries across the country, are setting up programs to provide home purchase assistance to their staff. These programs can involve certain underwriting criteria, subordinated loans, and other special features that are familiar to banks. Moreover, banks offering mortgages to employees of large institutional customers (e.g., corporations, nonprofit organizations, educational institutions, and governmental agencies) can provide a platform from which a bank can develop a broader banking relationship with these employers and employees.

2. EAM programs that involve mortgages, down payment assistance or homebuyer education to LMI borrowers, may help a bank with its Community Reinvestment Act (CRA) rating since home purchase lending in a bank's assessment area is evaluated under

[2] In some underserved, high cost markets, home purchases financed for workers earning up to 120 percent of median income (loans made to middle-income purchasers) may qualify as a CRA-eligible activity when the credit need is caused by disproportionately high cost of housing and the loans are available to low- and moderate-income families as well as middle-income families. See Questions and Answers Regarding Community Reinvestment, 66 *Fed. Reg.*, p. 36625, July 12, 2001.

the CRA lending test. In some instances, CRA consideration is available for financing made available to families earning up to 120 percent of median family income.[2] CRA consideration is also given for mortgages made in designated disaster areas, and for lending activity that helps revitalize and stabilize qualifying rural or "nonmetropolitan middle-income areas."[3]

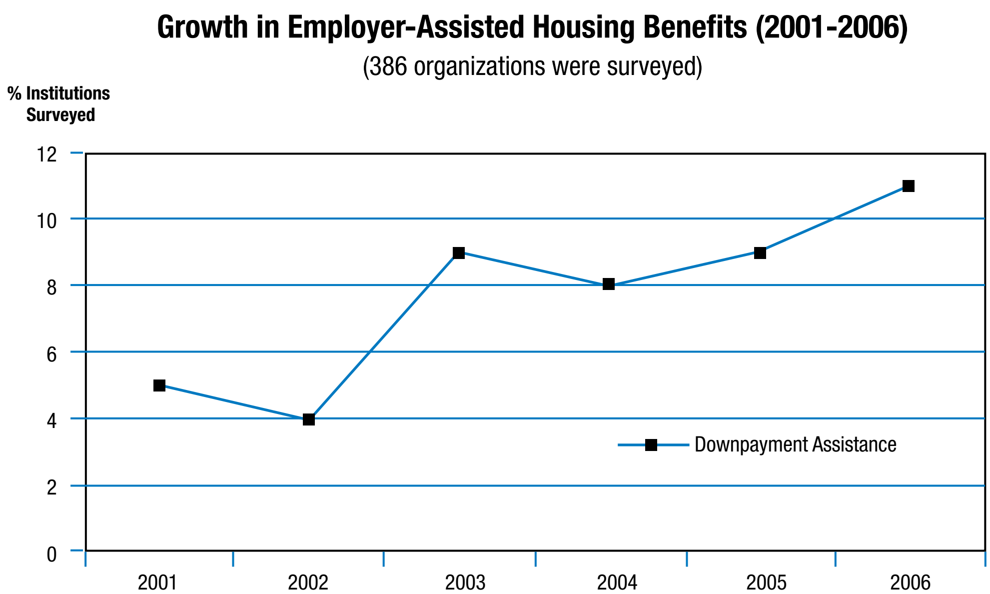
3. Banks are working with units of government to provide incentives to encourage first responders to live in, or closer to, the communities in which they work. Recent disasters have underscored the importance of early responses to critical events and the need for key employees to live near their workstations. EAM programs are being used by some states, counties, and municipalities as an inducement for first responders to purchase homes close to work. Banks can provide the mortgage financing products and services needed by these units of government to implement these EAM programs and, in so doing, potentially receive favorable consideration under the Community Reinvestment Act (CRA).

4. Some banks have recognized that EAM benefits may help reduce their employee turnover and increase their appeal to new employees. To the extent that banks operating in high housing cost markets can help employees purchase homes closer to their offices, this can be an additional benefit to banks.

III. How Do Employer-Assisted Mortgage Programs Work?

A broad range of employers, including some banks, are providing housing assistance programs through their employee benefit plans. A recent benefits survey indicated that the number of employer-assisted housing programs with down payment assistance more than doubled from 5 percent in 2001 to 11 percent in 2006 (see Chart 2).

Chart 2



Provided by Freddie Mac, based on results from the Society for Human Resource Management, 2006 Benefits Survey

The most visible EAM programs today offer employers a great deal of flexibility in the design of individual programs. As a result, housing benefit programs are unique to each employer and location. Even when government benefits are part of the program (in the form of matching funds, subsidies, or tax benefits), employers are designing their assistance programs to meet the needs of

[3] See §ll.12(g)(4)–2, Questions and Answers Regarding Community Reinvestment, 71 *Fed. Reg.*, p.12431, March 10, 2006.

both the employees and the business. When employers have multiple locations, each location may develop benefits and requirements that fit their individual employee and location needs.

There is no standard template for a housing benefit program. EAM programs can be as basic as providing homebuyer education classes and a list of participating banks to employees, or, as sophisticated as a full employee mortgage benefit package, including down payment and closing cost assistance. EAM programs typically involve one or more of the following.

Employee Eligibility Requirements

Employer programs are typically directed to a specifically targeted group of employees. Government-initiated first responder programs may have geographic restrictions on the distance an employee can live from work. Other programs target neighborhoods for community revitalization. Following are some of the eligibility criteria revealed in our interviews:

- Employee must be in good standing with the employer and have completed a stated length of continuous service. This period of service varies from program to program, based on the needs of the employer, but generally falls within six months to two years.
- Some programs assign a maximum income level for eligibility, typically 120 percent of area median income or less.
- First responder programs have geographic limitations on distance from work, 30 minutes or 30 miles, for example, in order for the benefit to provide meaningful response times in the case of emergencies.
- Some programs, which are not targeted toward first responders, limit the benefits to first-time homebuyers.
- Some programs limit the types of residential properties that may be financed to single family homes, thus excluding properties with two or more units.

Homebuyer Education

Financial education and homebuyer information are essential to most EAM programs and are offered typically for all eligible employees. This type of assistance is used to stimulate home purchase interest and readiness. These education programs are often provided by an employer and taught by a local nonprofit organization, sometimes in conjunction with a financial institution. We spoke to personnel in one bank that uses education sessions at employer locations to market their products directly to potential borrowers. Alternatively, another program, developed for a business with employees spread across many states, offers one-on-one counseling and education over the telephone and is provided in multiple languages.

In some programs, nonprofit organizations help to pre-qualify employees for mortgages and access additional non-employer provided financial assistance, if needed. In other cases nonprofits may provide the assistance directly to qualifying employees in the form of loans or grants.

Some banks providing mortgages for employees of large commercial, nonprofit, or government-sponsored EAM programs use mortgage professionals to conduct homebuyer education classes at the employers' facilities (i.e., after regular work hours or during lunch breaks). Alternatively, banks, employers, and government-initiated programs sometimes contract with third-party homebuyer education providers, such as nonprofit housing counseling agencies, to maintain independence among service providers.

Forgivable Loans and Grants

The financial assistance benefits provided by the employer may be structured in several ways, but typically involve the employer providing subordinated financing or a grant for some small fraction of the home purchase amount. If provided in the form of a forgivable loan, this financial assistance is typically structured as a subordinated loan and is usually limited to specific uses, such as closing costs or down payments. Based on our interviews the average loan was $5,000, but ranged from a low of $1,500 to a high of $10,000. Most subordinated loans are three to five years in duration and are typically forgiven in equal increments over the term of the loan. Each annual forgiven amount is considered an employee benefit for that tax year. The amount forgiven each year is considered taxable compensation, the tax on which some employers will cover by increasing the benefit amount.

Alternatively, employers can give the employee funds for the down payment and closing costs. However, such a grant will be considered as compensation income for the employee in the current year.

One bank included in our study that administered an EAM that provided down payment assistance for its own employees in the form of a forgivable loan, also required that all employees participating in the program receive homebuyer education. While this benefit is available to all employees, it is structured to provide $10,000 for employees with household incomes below 80 percent of the county median income, and $5,000 for all employees with incomes over 80 percent of median who are first time homebuyers. To be eligible for the assistance, each employee must have six months of employment history with the bank, and be in good standing. If an employee terminates employment, voluntarily or otherwise, prior to the loan maturity date, the outstanding balance becomes amortized over the remaining term of the forgivable loan. This is a one time benefit.

Other Forms of Employer-Assisted Housing (EAH) Assistance or Benefits

Although the predominant form of assistance is a combination of homebuyer education and forgivable loans, alternative forms of assistance can supplement or substitute for down payment and closing cost assistance. These other forms of assistance include, but are not limited to:

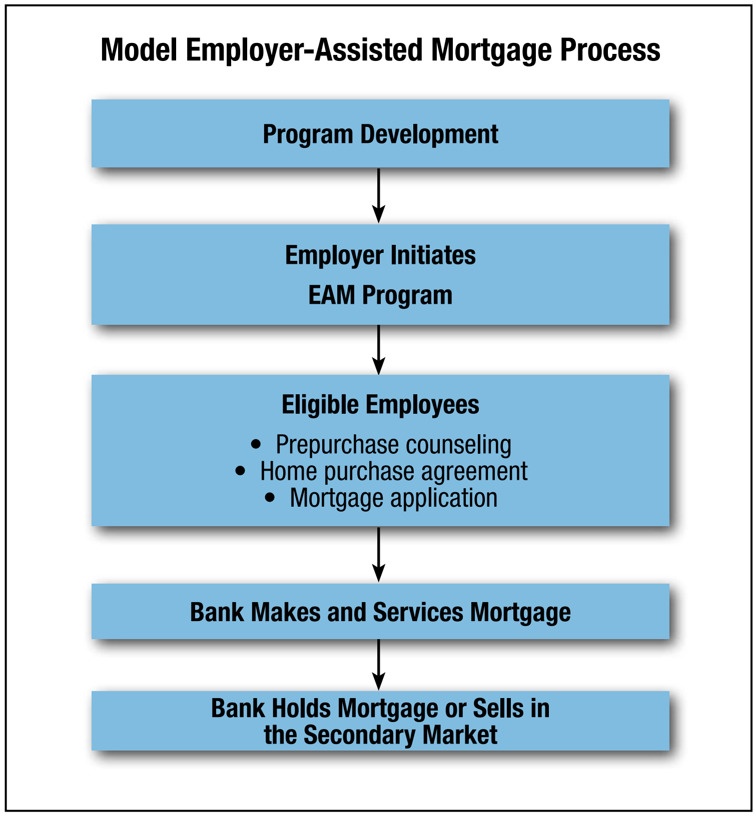
- *Temporary interest rate buydowns* – Employers can provide financial assistance to employees by subsidizing the market rate on a home loan down to a more affordable level.
- *Loan guarantees* – Employers can provide banks with guarantees of loan repayment. By guaranteeing a loan, an employer may allow a bank to make a loan to an employee that might not otherwise qualify for financing.
- *Matched savings accounts* – Employers can establish a plan for employees in which their savings are matched dollar for dollar up to a maximum amount. The funds can only be used to purchase a home and cannot be withdrawn until after the employee has completed a pre-purchase homeownership counseling program.[4]

[4] Some EAM programs also may qualify for Affordable Housing Program (AHP) funds from various Federal Home Loan Bank (FHLB) programs that target the development and financing of low- and moderate-income housing. These funds can be used to provide forgivable loans for down payment and closing cost assistance, as well as matching funds for Homeownership Individual Development Accounts (IDAs) and may receive CRA consideration for the participating bank. IDAs are matched savings accounts designed to help low-income and low-wealth persons accumulate a targeted amount of funds to use for a specified purpose, most commonly purchasing a home, forming a small business, or furthering an education. Account holders generally make monthly contributions to an account, usually over a one- to four-year period, and their savings are matched by funders, typically at a rate ranging from one dollar for each dollar saved to three dollars for each dollar saved. [Adapted from “Building Assets for Stronger Families, Better Neighborhoods and Realizing the American Dream,” Corporation for Enterprise Development, 1998.]

- *Vendor discounts* – Employers working with banks can negotiate lower fees with mortgage industry service providers based on a higher number of transactions. Employer program administrators, in cooperation with banks, may negotiate lower appraisal and home inspection fees, as well as smaller real estate brokerage commissions which, in some programs, have resulted in savings to an employee of up to $2,000 per mortgage.

As an illustration of how these programs work, a hypothetical Model Employer-Assisted Mortgage Program appears in Appendix A. Chart 3 below illustrates how a typical EAM program might operate.

Chart 3



IV. Key Risks and Regulatory Considerations of Employer-Assisted Mortgage Programs

Banks we interviewed advised us that risks associated with EAM loans underwritten to secondary market standards are no different than mortgage loans offered through other first time homebuyer-type programs. In particular, Fannie Mae and Freddie Mac have designed affordable guidelines and loan products that can be adapted for use by lenders in conjunction with employers that wish to develop EAM programs for their employees. Most EAM programs, therefore, are developed using the eligibility and underwriting criteria that allow for their sale to the GSEs under special guidelines for "affordability programs."

Liquidity and Interest Rate Risks

Use of GSE products and guidelines allow banks to manage interest rate, liquidity, and credit risk by selling to the secondary market. The GSEs have developed underwriting guidelines that permit the employer to provide the employee/borrower with financial assistance in the form of subordinate financing from an employer. The GSEs will purchase a first mortgage loan originated by a bank under one of its specialized affordable mortgage programs, while the subordinate financing remains with an employer.

Key Underwriting Considerations

To assist homebuyers in trying to close the affordability gap, the GSEs have developed affordable mortgage products that can be used by employers and their employees in this effort. The two fundamental affordability issues that the GSEs have tried to address in these products are the need for borrowers to stretch more of their income to meet their debt obligations, and the need for reduced down payment requirements because of higher housing sales prices. As a result, some EAM program loans will present higher risks to the lender because of higher acceptable debt–to-income ratios and higher loan-to-value ratios. Following are some of the primary underwriting considerations associated with GSE products used in EAM programs:

- Secondary Financing – The GSEs will permit an employer to provide affordable secondary financing in the form of a repayable, deferred, partially deferred, or forgivable loan or an outright grant. The employee/borrower can then use this secondary financing to supplement their funds for down payment and closing costs. As previously mentioned, since the GSEs do not purchase the secondary loan, the risk associated with this subordinate financing remains with the employer.[5]

- Total-Loan-To-Value – The GSEs have developed affordable mortgage products that permit first mortgage financing up to 100 percent loan-to-value for eligible borrowers. Understanding that the secondary financing, provided by the employer in a EAM product, when combined with the first mortgage will often exceed the value of the home being purchased, the GSEs will permit a total-loan-to-value of 105 percent for qualified borrowers. Matched savings plans, discussed in Section III, can serve as additional down payment resources in some cases and will help to mitigate high loan-to-value risk. [6]

- Debt-To-Income Ratios – Certain GSE products will permit higher debt-to-income ratios under negotiated EAM programs. In one case, the allowable debt-to-income ratio may go as high as 50 percent.[7]

- Temporary Interest Rate Buydowns – To make the initial monthly payments more affordable, the GSEs will permit employer assistance to be in the form of a temporary interest rate buydown during the initial years of the loan. From an underwriting perspective, it is anticipated that annual wage and salary increases for the borrowing employee will offset the graduated interest-rate payment increases.[8]

---

[5] See Fannie Mae Single Family Selling Guide, Part VIII: Community Lending Mortgages, Chapter 2: Community Seconds Option, June 30, 2002 and Freddie Mac Single Family Seller/Servicer Guide, Volume 1, Chapter 25.1: Purchase Mortgages with Secondary Financing , December 15, 2006.

[6] See Fannie Mae Single Family Selling Guide, Part VIII: Community Lending Mortgages, Chapter 2: Community Seconds Option, VIII, 204: Higher Allowable Combined Loan-to-Value Ratio, December 12, 1999 and Freddie Mac Single Family Seller/Servicer Guide, Volume 1, Chapter A34.10 LTV/TLTV ratios, borrower contribution, down payment, reserves, April 25, 2007.

[7] See Fannie Mae Single Family Selling Guide, Part X: Underwriting Guidelines, Chapter 3: Comprehensive Risk Assessment, X, 304: Underwriting Community Lending Mortgages, August 31, 2002 and Fannie Mae Announcement 06-07, June 23, 2006, and Freddie Mac Single Family Seller/Servicer Guide, Volume 1, Chapter A34.9 Borrower income; qualifying ratios, April 25, 2007.

[8] See Fannie Mae Single Family, Announcements and Letters, Ann. 06-07: Community Lending Enhancements – MyCommunityMortgage, June 23, 2006, and Freddie Mac Single Family Seller/Servicer Guide, Volume 1, Chapter A34.5: Temporary subsidy buydown plan, June 22, 2007.

Standard Recourse Risks

As with all loan sales to the GSEs, banks making first mortgage loans to employees using EAM programs are subject to repurchase by the lender if the loan is not originated in accordance with agency standards. Of particular concern in a program which uses second mortgages is that the subordinate financing provided by the employer does not interfere in any way with the first mortgage lender's ability to foreclose.[9]

Bank-Sponsored EAM Risks

There are risks associated with an employee leaving the employer prior to the end of the subordinated loan term when the assistance provided is forgiven. In this event, a bank sponsoring a EAM program for its own employees must have clear guidance written to address these circumstances and to layout expectations, and a process to be followed by both the employees and the bank as employer. Typically, employees who do not remain with the employer for the term of the subordinated loan must repay the outstanding balance over the remaining term of the loan and in some cases may be required to pay interest on the loan. If a property is sold prior to the end of the loan term, the lien on the property must be repaid. If a lien is recorded on the property serving as collateral for the forgivable loan, the employer has an additional source for repayment once the property is transferred. One option for the employer is to permit the lien to be released and repaid as an unsecured note.[10]

V. Who Is in the Employer-Assisted Mortgage Business Today?

The EAM industry today has a diverse number of players working together and independently to help employees purchase housing that is better situated to their work locations.

Financial Institutions

Financial institutions provide the essential tools that allow EAM initiatives to succeed. Banks provide first mortgages to qualified and eligible employees, and, offer special loan products as participants in government-sponsored programs. Additionally, some banks, acting as employers, are offering EAM benefits to their employees, and are taking leadership roles in support of EAM programs in local communities. A Model Employer-Assisted Mortgage Program is included in Appendix A.

Government

The need to stimulate the development of EAMs has been recognized by multiple levels of government. Some larger cities are using their Community Development Block Grant (CDBG) funds to support municipal programs.[11] The U.S. Department of Housing and Urban Development (HUD), the agency that administers the CDBG program, also initiated the *Officer Next Door* program in 1997. Through the program, police officers are eligible for a 50 percent discount on the purchase price of a HUD-owned home. In 2000, the program was expanded to include teachers, and over the years, the program has been opened to firefighters and emergency medical

---

[9] See Fannie Mae Single Family, Annoucements and Letters, Ann. 06-02, Attachment 1: Part VIII: Chapter 2, Exhibit 1 Community Seconds Checklist, March 13, 2006 and Freddie Mac Affordable Seconds Information Sheet, August 2006.

[10] See Fannie Mae Single Family Selling Guide, Part VII: Community Lending Mortgages, Chapter 2: Community Seconds Option, Section 202.02, June 30, 2002.

[11] "Reinventing the Company Town: Employer-Assisted Housing in the 21st Century," by Stephanie A. Jennings, Housing Facts & Findings, Fannie Mae Foundation, Summer 2000 – Vol 2 Issue 2.

technicians (EMT). The program has since been renamed the *Good Neighbor Next Door Program*.[12]

The majority of EAM programs stimulate demand by helping individual households access housing units at a more affordable cost. Government initiatives, at the state and local levels, include challenging the private sector to design a discount program for homebuyers, providing matching funds for down payments, giving tax credits to employers that provide housing assistance financing as employee benefits, administering programs targeted to municipal employees, and partnering with nonprofit housing organizations.

Government Initiatives

City of Seattle

In Seattle, when many of the city's police force could not afford to live in the city and thus were commuting from outlying suburbs, the police chief and mayor worried about the city's ability to respond to a crisis. They further recognized that lack of housing affordability and the high cost of living were barriers for recruiting and retaining employees. They reached out to the financial institutions in the area and asked them to develop a discount program that could target properties within the city limits. The response was the development of a partnership among the city, a financial institution, multiple mortgage related vendors, and employers. The program grew quickly to include all city employees and then to any participating employers located within the city limits. The program, known as the Hometown Home Loan Program, offers a 50 percent reduction on loan fees, discounted closing costs and free pre-approvals, and home buying seminars. The city does not match employer funds, but could use its influence to convince businesses in the region to step up and make a program available.

State of Illinois

The state of Illinois designed a tax credit program that rewards employers by offering them a tax credit for 50 percent of their contributions to their employer-assisted housing program. Employers also receive federal tax benefits because EAM benefit programs are considered a deductible business expense.

City of Philadelphia

The city of Philadelphia has partnered with Greater Philadelphia Urban Affairs Coalition and developed the Home-Buy-Now program. This neighborhood revitalization program provides from $500 to $3,000 in matching funds for home purchase, home renovation, and homebuyer education.

Government-Sponsored Enterprises (GSEs)

The GSEs, specifically Fannie Mae and Freddie Mac, have express authority from the U.S. Department of Housing and Urban Development (HUD) to develop and offer employer-assisted mortgage programs directly to employers. However, the GSEs must adhere to guidelines established by HUD which prohibit them from favoring the services of one lender over another. Once an employer puts a program in place, all primary market lenders must be permitted to participate.[13]

---

[12] Officer Next Door: 24 CFR 291.500. Teacher Next Door:FR-4712-N-02 (*Fed. Reg.*/vol.70,#173/Thursday, September 8, 2005, page 53488.). Information on the Good Neighbor Next Door program is at: http://www.hud.gov/offices/hsg/sfh/reo/goodn/gnndabot.cfm

[13] See letters to Daniel H. Mudd, Chairman and CEO, Fannie Mae and Richard F. Syron, Chairman and CEO, Freddie Mac, from Brian D. Montgomery, Assistant Secretary for Housing – Federal Housing Commssioner, HUD, October 6, 2005.

Nonprofits

Nonprofit housing service providers and developers, with experience providing affordable housing for LMI households, are also partnering in the development of EAM programs. They bring affordable housing expertise to the partnerships and can often provide grant funds, counseling, education, management, loan underwriting, access to below-market rate financing, and other skills and products to the development and purchase mix needed to round out these deals.

Employers

Larger employers, including some banks and employers that are anchored in communities, like universities and hospitals, are providing mortgage benefits that have not otherwise been developed. These employers can tailor the requirements and benefits to the individual employee's needs. Some employers merely make a housing related benefit available to all employees. Other employers target an employee group by stating an income ceiling, or define the required criteria, such as only first-time buyers.

Business Community

Real estate and business trade associations have begun to market these programs and to encourage employers to develop EAM programs for the good of their businesses and communities.[14] The programs help borrowers access more affordable units near their workplaces, and help employers recruit and retain employees who are indebted and more loyal to the employer, and less stressed by long commutes.

VI. What Are the Cost Considerations for Employer-Assisted Mortgage Programs?

Underwriting Costs

As discussed in Sections IV and V, the majority of EAM loans use affordable mortgage products developed by the GSEs. Most lenders are familiar with these products and use automated underwriting, leaving manual underwriting for some special purpose products. As such, the costs associated with these EAM loans are no different than those of traditional mortgage products.

Non-Traditional Mortgage Origination/Servicing Costs

If an employer or bank-sponsored EAM program determines to offer a temporary interest rate buy down, the GSEs will permit it to be provided from the employer's funds.[15] Similarly, if a bank participates in government-sponsored EAM programs in which subsidy funds are used for interest rate buydowns (e.g., FHLB AHP grants), there may be additional mortgage servicing costs associated with these loans. Likewise, we interviewed some banks that had reduced fees as part of their employee benefit program or their participation in government-sponsored EAM programs. And one bank we interviewed established its own mortgage unit to specifically manage EAM loans. All of these costs were incurred voluntarily and were considered in the overall cost of providing EAM loans.

---

[14] The National Association of Realtors (NAR) and the National Chambers of Commerce have joined forces to encourage EAM programs. Some of these programs have been developed with the assistance of the GSEs to help borrowers access more affordable units near their workplaces, and help employers recruit and retain employees.

[15] See Fannie Mae Single Family, Announcements and Letters, Ann. 06-07: Community Lending Enhancements – MyCommunityMortgage, June 23, 2006 and Freddie Mac Single Family Seller/Servicer Guide, Volume 1, Chapter A34.5: Temporary subsidy buydown plan, April 25, 2007.

Tax Consequences and Benefits

Typically, EAM programs provided by banks and other employers include financial benefits, such as forgivable loans and grants. The IRS considers these benefits compensation income resulting in tax consequences for the borrower/employee. In some cases, the employer covers the cost of the taxes in the benefit amount by providing an amount generous enough to cover the tax liability. In other cases, the employer leaves the imputed tax liability for the employee to cover.[16]

Program Administration Costs

Banks offering EAM loans to their commercial customers must coordinate activities internally between commercial relationship units and the mortgage lending unit to maximize market reach and CRA value.

For banks providing on-site homeownership education classes and counseling services to the employees of employers providing EAM programs, there are bank personnel costs associated with counseling and training.

Banks participating in a Federal Home Loan Bank's Affordable Housing Program or other government funded programs (e.g., HUD's CDBG program) used for down payment and closing cost assistance, will have some added expenses in proposal packaging, accounting, reporting, and monitoring activities.

Finally, for banks we interviewed who sponsored their own EAM program for employees, these banks considered the costs associated with levels of assistance provided to be a worthwhile employee recruitment and retention benefit.

Marketing

Banks will encounter some marketing costs associated with keeping their employees and their commercial customer employees informed about the availability of EAM loans. Some banks market by providing homebuyer education classes at employer locations; others use traditional written materials to carry their message. Banks also partner with nonprofits to assist them with marketing activities.

VII. What Are the Barriers That Have Constrained the Growth of the Employer-Assisted Mortgage Business?

Tax Liability

Employees have additional, taxable income because forgivable grants or loans are considered compensation by the IRS. For some employees, the additional income can result in higher tax liability. However, some employers minimize the tax liability costs for employees by covering this cost in the benefit amount. In a typical EAM program in which the employer provides down payment and closing cost assistance to an employee, an employer will initially loan the required funds to the employee and forgive the loan principal on a *pro-rata* basis over the life of the loan. The employee recognizes compensation income equal to the amount of the principal balance that is forgiven.[17] The income is recognized each year as the employer forgives the principal. In

[16] IRC Section 61 broadly covers this and other tax issues. Employers and beneficiaries should consult with a tax advisor about the details of tax consequences for imputed income.

[17] Internal Revenue Code § 61(a)(1) (Gross income includes, "compensation for services, including . . . fringe benefits and similar items.").

addition, if the employer provides its employees with interest free or reduced interest loans in excess of $10,000, the IRS will impute interest income to the employees based on the applicable federal rate.[18]

Homebuyer Education

As was discussed in Section III, some employers have found that financial education and homebuyer education can be pathways to greater participation by employees in the employers' program. Typically, an employer will provide this education through a lender or nonprofit.

VIII. Conclusion

The benefits of EAM programs can be significant to communities, for their critical first responders; to employers, for their valued staff; and to employees, for more affordable housing solutions. The shortage of affordable single family housing has created a unique opportunity for banks to market their mortgage products through EAM programs and thus to reach new markets, attract new customers, and provide additional products and services to commercial customers. Banks also can offer EAM programs as an in-house benefit to attract and retain their own employees. For banks that offer mortgage financing and affordable mortgage products as a primary product line, this market can be attractive, profitable, and an additional strategy to compliment their present business plan. The mortgage products primarily being used today for EAM programs are accepted by the industry and offer maximum liquidity to GSE approved lenders.

[18] Internal Revenue Code § 7872.

Appendix A

Model Employer-Assisted Mortgage (EAM) Program

Some employers are interested in helping their employees live close to work. Other employers want to help their modest income earners become homeowners. Other employers see employer-assisted housing programs as a benefit that employees will value and that sets the business apart from others. We spoke with a bank that offers an EAM benefit to all employees below the Vice President level. The bank is preparing to market the product to commercial customers.

Why the Bank Started the EAM Program

The bank described three reasons for initiating this program. First, it wants to help employees who are being priced out of the local bank service area. Second, the program is a benefit that can set the bank apart from other banks in the geographic area and be attractive for employee recruitment. Finally, if this program is successful at stimulating new mortgage business, the bank plans to offer it to local employers that are established bank customers as part of the bank's relationship and service development.

Purpose

This program provides a secured, second mortgage loan for down payment, closing cost, or interest rate reduction assistance for a home purchase. The loan is forgivable over a five-year period (at the rate of 20 percent per year), at no interest. This benefit serves as an incentive for employees to remain with the bank for the full five years. If the beneficiary leaves the bank's employment, the remaining loan amount must be repaid, with interest.

Underwriting

Employees must meet all eligibility requirements along with all first mortgage underwriting criteria, established by the GSEs. Any other borrowers on the first mortgage must also meet GSE requirements. A borrower qualified for the first mortgage will automatically qualify for the employer's forgivable second mortgage assistance, as long as they also meet the bank's eligibility criteria. Only one second mortgage benefit is awarded per household. To further assist the employee, the secured second loan will not count in the borrower's housing ratio and total debt ratio. The forgivable second loan is subordinated to the first mortgage and meets the requirements of the GSE products and underwriting. The second loan amount is included in the total loan-to-value ratio (TLTV). Maximum TLTV of 105 percent is available under specific GSE mortgage products.

Eligible Mortgage Programs

Any GSE first mortgage loan product that permits down payment or closing costs to be paid with a secured forgivable loan from a third party can be used. GSE maximum loan limits apply.

Interest Rate for EAM Loan

No interest will be accrued or charged unless the employee terminates. If the employee terminates, the unforgiven loan balance converts to a fixed rate loan, at WSJ Prime + 1 percent at the time of the application approval. The employee is expected to repay the loan balance within the remaining term of the loan agreement.

Tax Implications

The bank issues to all borrowers an annual statement for the amount of the loan that is forgiven. Employees are responsible for the payment of income taxes on the amount forgiven annually, as part of the employee's annual income.

For this program, the targets and limits are delineated in the following table.

Targets and Limits	
Targeted employees	• First time home buyers. • Not owned a home within the last three years, or single head of household. • Employees below the VP level.
Geographic restrictions	• Within a county in which the bank provides services.
Borrower eligibility	• Permanent employee. • Working at least 30 hours weekly. • A minimum of six months tenure. • In good standing.
Property restrictions	• None.
Benefit Options	
Homebuyer education/counseling (required)	• Provided by an approved homeownership counseling provider for all borrowers and co-borrowers (including those that are not employees).
Employer financial benefit and income limits	• Up to $12,000, in the form of a forgivable loan, to be used for down payment or closing cost assistance, for first time buyers with household earnings at or below 80 percent of median county income. • $5,000 forgivable loan, to be used for down payment or closing cost assistance, for other borrowers.
Financial benefit term	• Five-year forgivable loan at 0 percent interest. • Twently percent forgiven annually.
Employee obligations	• Employee is responsible for annual taxes related to this benefit. • Borrowers that terminate employment make payments on remaining balance over remaining term of the loan. Loan is converted to a fixed rate of interest.
Loan Flexibility and Requirements	
Maximum total-loan-to-value	• Up to 105 percent of maximum Fannie/Freddie loan limits.
Underwriting guidelines	• Fannie/Freddie requirements, depending on the specific product used.
Documentation	• Standard bank first mortgage documentation with subordinate secondary financing permitted for down payment and closing cost benefit.

Resource Appendix

General Background

Annual Housing Activities Report For 2006 Federal Home Loan Mortgage Corporation March 16, 2007 http://www.hud.gov/offices/hsg/gse/reports/2006aharfmacnarrative.pdf

Center for Housing Policy, Paycheck to Paycheck database, at:
http://www.nhc.org/chp/p2p/

Employer-Assisted Housing Resource Guide, Greater Minnesota Housing Fund, http://www.gmhf.com/Publications/eah/eah_guide.pdf

Greater Philadelphia Urban Affairs Coalition:
http://www.gpuac.org/programs/documents/HBNFinal.pdf

Home From Work "Developing an Employer-Assisted Housing Benefit Plan, Step-by-Step Guide," National Association of Realtors, http://www.realtor.org/prodser.nsf/OpenProd?OpenForm&IN=126-140

Illinois Reach (Regional Employer-Assisted Collaboration for Housing):
http://www.reachillinois.org/start.asp

National League of Cities, Municipal Action Guide:
http://www.nlc.org/ASSETS/5F878CA097DA4091B4EE1C6FE498EC68/MPRhousingassistanceMAG.pdf

"Workforce Home Benefit Toolkit," Freddie Mac, 2003.

Bank Programs

Bank of America, employee benefit program:
http://www.bankofamerica.com/associatehomeownershipprogram

HomeStreet Bank program, Seattle, WA:
http://www.djc.com/news/re/11161878.html
http://www.homestreet.com/programs/employers/index.aspx

Letty Ann Shapiro was the primary author of this report. Also contributing were William Reeves, E. Matthew Quigley, Barry Wides, and Julie L. Williams. Community Developments *Insights* reports differ from OCC advisory letters, bulletins, and regulations in that they do not reflect agency policy and should not be considered as definitive regulatory or supervisory guidance. Some of the information used in the preparation of this paper was obtained from publicly available sources that are considered reliable. However, the use of this information does not constitute an endorsement of its accuracy by the Office of the Comptroller of the Currency.