

Location Efficient Mortgages: Theory, Application, and Prospects for Smart Growth

Overview

A burgeoning population seeking relatively affordable housing is placing high demand on outlying, auto-dependent, residential markets. Simultaneously, public policies addressing housing, transportation, and land use concerns aim to increase homeownership, decrease drive-alone travel, and harness outlying development. A new mortgage lending product aims to synergistically address each public policy aim by allowing low- and moderate-income households the opportunity to purchase homes in transit accessible neighborhoods that would otherwise be unobtainable due to cost. The product is commonly known as a Location Efficient Mortgage (LEM) and the program is currently employed in a handful of cities nationwide, including Chicago (IL), San Francisco (CA), Los Angeles (CA), Seattle (WA), and Minneapolis/St. Paul (MN).

The term Location Efficient Mortgage (LEM) is copyrighted and use of the term requires guidelines to be followed. Most of the described programs subscribe to such guidelines; some programs do not and therefore do not use the LEM title. For purposes of clarity and simplification the LEM term will be used in this paper to refer to the general concept, regardless of specific procedural issues.

Because homes in transit accessible neighborhoods require less driving, it is easier for households to lower their rates of automobile ownership and use, thereby lowering their household transportation costs. This reduction in transportation costs is then folded into the mortgage calculation. If the household moves to a location efficient neighborhood, the LEM allows for a lower down payment from the borrower's own funds and a higher mortgage-to-income qualifying ratio. The result is a mortgage several thousand dollars more than the traditional mortgage, just by moving to a transit-rich neighborhood. From a public policy standpoint, it is being touted as a unique program to increase homeownership while curbing sprawl and the auto-dependent land use patterns that often result.

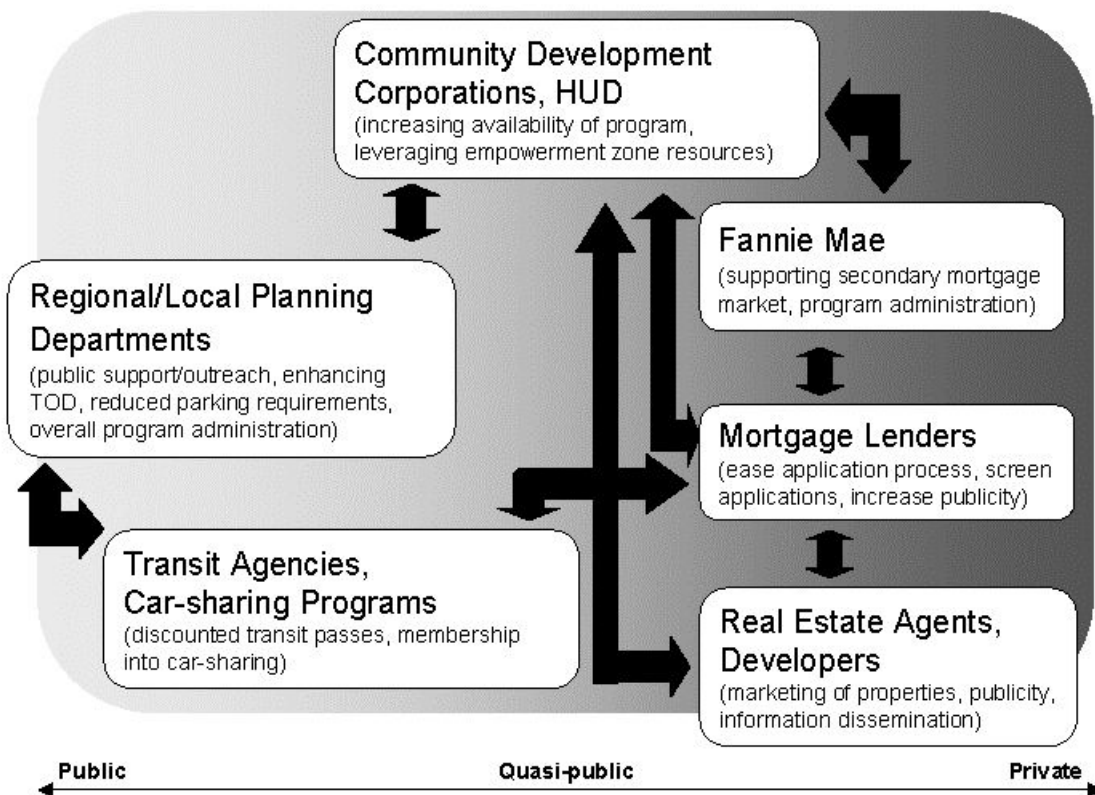
Multiple agencies and combined efforts

As with any public-private partnership, successful implementation of the LEM program requires coordination and support from a variety of organizations. The combined efforts of the CNT, NRDC, and the STPP were the seed that sprouted the idea. In concert with efforts from Fannie Mae and local public/private organizations, the progressive mortgage program has become a reality in a handful of cities. Agencies assume different roles in different settings depending on the manner in which the program is applied. One need only look at the supporting agencies listed on an interior bus advertisement shown in Figure 2 (King County Metro, Fannie Mae, Seattle Office of Housing, HomeStreet Bank) to understand the multiple parties involved.

Mortgage lenders and the secondary mortgage market. The most important stakeholders for the LEM are mortgage lending institutions and supporting agencies. Primary among these stakeholders is Fannie Mae. Fannie Mae has agreed to support the

LEM secondary mortgage market through a underwriting experiment in excess of \$110 million. It is only through Fannie Mae's commitment that LEMs are available and that loans are available through large mortgage lending institutions (e.g., Countrywide Home Loans) and more conventional banks (e.g., Home Street Bank). More mortgage lenders have expressed their willingness to write LEMs to qualified borrowers, contingent on such mortgages being accepted on the secondary mortgage market. Mortgage lenders can be instrumental in introducing LEMs to households that might not otherwise become aware of the program.

Aligned with the lenders are real estate agents and real estate developers. In many respects, real estate agents are on the front line to bring properties in LEM neighborhoods and the LEM program to the attention of potentially interested households. Similarly, real estate developers could potentially tap into an additional market of buyers who may not be able to qualify for given properties without support of the LEM. For instance, LEM program officials in Seattle are aiming to engage a variety of developers to advertise the LEM as part of their marketing pre-sales efforts.



SOURCE:

http://www.transformca.org/ia/tranmort/sup/TEM_Primer+Overview.pdf