

***Building a Model for Affordable
Home Ownership***

New Dawn Enterprises

*Documentation and Analysis of Two
Assisted Mini-Home Ownership Projects*

Submitted to:
Homegrown Solutions

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June 1997

Preface

This report was produced under the auspices of *Homegrown Solutions Maison*, a grant program funded by Canada Mortgage and Housing Corporation and administered by the Canadian Housing Renewal Association, The Canadian Housing Federation of Canada, Canadian Home Builders' Association, and Federation of Canadian Municipalities are partners in the initiative, participating in the steering and selection committees for the initiative.

Homegrown Solutions Maison was initially funded in 1995 by the federal government as a national enablement demonstration initiative with the objectives to:

1. help locally based community organizations to meet housing need by identifying and harnessing new and existing resources available to their communities; and
2. demonstrate and share the ideas and approaches used to respond to local housing need.

Homegrown Solutions Maison is not just about physically producing houses, it is an effort to build local capacity and enable communities to be creative in leveraging the resources that already exist to meet local needs.

This final report has been produced by New Dawn Enterprises Limited as documentation of this initiative in order to share this information with others seeking to similarly address affordable housing need in their community.

A total of 13 initiatives were selected in 1996 and each will culminate in a final report during the latter part of 1997. A further 15-20 initiatives will be funded in 1997 with the initiatives then being implemented in 1998/99 and reports produced as each initiative is completed.

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This project was funded by Canada Mortgage and Housing Corporation (CMHC) but the views expressed are the personal views of the author(s) and CMHC accepts no responsibility for them.

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EXECUTIVE SUMMARY

Project Highlights

New Dawn, a not-for-profit community development corporation, prepared two case studies to determine whether manufactured housing would be one way to provide affordable homeownership for low-income households and those on social assistance. The people involved participated in the planning and development of collectively-owned mobile home parks.

In one case, the development was facilitated by a community worker from the provincial government and in the other by New Dawn itself. Both included education and training components, through which it was expected that participants would gain new skills, increased self-esteem and a stronger sense of community.

The cases show that manufactured homes can provide an affordable option. However, important lessons were also learned about providing housing when the homeowners are dependent on social assistance. The Oceanside project has experienced a high level of default due to the inability of households on fixed social assistance incomes to meet unexpected or rising costs.

Funding and Community Resources

The two cases used existing properties in the community. One case rehabilitated a deteriorated privately-owned trailer park; the other developed a former military base.

The groups both ordered a large number of the manufactured homes in bulk to minimize acquisition, transportation and installment costs. This made the dwellings more affordable.

A provincial community services ministry absorbed the staff costs for the project in which it was directly involved. Consultant costs were capitalized and paid through the mortgage advance. Participants were qualified for a high ratio (95%) mortgage under the CMHC First Home Loan Insurance Program. The 5% downpayment was funded through the Provincial GST rebate (for which manufactured homes are eligible).

Beyond the GST rebate and ongoing social assistance payments, no additional subsidies or funding was used. Ongoing costs are paid by the new owners, either from earned income or social assistance.

A small grant from Homegrown Solutions funded the documentation of the case studies; it was not used to fund either project.

Impact on Affordable Housing Supply

Together, the two initiatives added thirty-six new manufactured homes and rehabilitated or created two manufactured-home parks.

In the Oceanside project, total capital costs were around \$46,000 (homes plus site development); the monthly carrying costs, including mortgage, taxes and utilities were approximately \$600 and were just affordable within the maximum shelter allowance under the welfare rates prevailing at the time. For low-wage earners, this approach would be affordable to households earning \$24,000.

Lessons and Adaptability

A key finding was that setting the monthly mortgage payment at the maximum shelter allotment left the occupants very constrained and vulnerable to increased costs. Households had no capacity to absorb reductions in assistance levels, or increases in expenses such as property taxes, utility costs or mortgage rates, normal expectations of homeownership. It also left no reserve or cushion for even small maintenance and repair expenses. The experience in Sydney has been one of a high default and foreclosure rate as a result of stretching budgets to the limit.

The collective self-help approach did generate benefits in terms of developing personal and organizational skills, strengthening the community and enabling bulk purchase. Better budgeting and a pre-purchase counseling process would be desirable in any future initiatives of this sort.

The manufactured home provides a good quality home at a relatively affordable price and subject to municipal regulation of mobile home parks may be easily transferable to other communities.

1. INTRODUCTION

In 1991 and 1993 two mini-home ownership pilot projects were initiated in the industrial Cape Breton region. The first project was developed by the Nova Scotia Department of Community Services, Cape Breton County region. The second project, modeled after the first, was initiated by New Dawn Enterprises Ltd., a Community Development Corporation located in Sydney, Nova Scotia. The projects are respectively known as Oceanview and Pine Tree Park.

In both projects a group of low-income persons, primarily Social Assistance Recipients (SARS), were assisted in collectively bulk purchasing new mini-homes through the harnessing of the shelter component of their Social Assistance income. Participants were able to move to a position of affordable home ownership through a self-help process which served to build individual and community capacity to be self-determining.

With funding from Homegrown Solutions, New Dawn Enterprises documented and conducted a feasibility study of the emerging model of home ownership based on the two projects. The study has revealed that the model has the potential to be replicated. Significant local affordability barriers, however, such as reduced Social Assistance amounts, an uncertain source of funds for home repairs and high municipal property taxes mean that it is imperative for users of the model to conduct a careful financial assessment of their revenue and expenditures and consider the risks involved.

2. OBJECTIVES OF DEMONSTRATION

The objective of both projects was to assist a group of SARS and some low-income seniors and low-income earners to move to a position of affordable home ownership in a collective manner which would build community. Initial accounts of the success of both projects pointed to a potential affordable home ownership strategy which could be developed into a replicable model. Several differences between the two sites warranted closer examination of each to determine the social and financial viability of such a model.

With financial assistance from Homegrown Solutions, New Dawn conducted a documentation/analysis of the two projects. The objective was to explore the feasibility of replicating the approach used in both the Oceanview and Pine Tree Park mini-home ownership projects.

The research consisted of documenting the processes used at each site to achieve home ownership. A comparison was drawn between the two projects to determine common critical mechanisms. This analysis was used to establish a framework for the development of a replicable model which was evaluated in terms of its financial feasibility, both independently (the purchase of mini-homes specifically) and vis-à-vis the purchase of wood-frames.

3. OVERVIEW OF APPROACH

Affordable home-ownership was achieved by organizing a group of SARS, low-income earners and low-income seniors to collectively bulk purchase new mini-homes (self-contained manufactured homes which can be installed in residential areas in a semi-permanent state). The Oceanview project also included the purchase of lots of land where the mini-homes would be placed. Pine Tree Park project participants rent their lots.

Home ownership was viewed by the project developers as a tool which could aid SARS in the difficult transition from dependency on government welfare programs to independence and self-reliance. The self-help group approach would contribute to the building of individual and community capacity to “do-for-themselves” rather than “have-done-for them” when it came to meeting important needs.

Two features of the approach made it one which was affordable for SARS: (1) bulk purchase, which brought the price per mini-home unit down considerably; (2) the ability of Family Benefits recipients to earn up to \$200.00 per month which would provide the cushion needed for the participants to cover the additional costs of home ownership. Most participants already had access to small paying jobs or were in a position to gain access to employment with minimum training/education.

Home ownership was achieved over a one to two year period. The Oceanview project involved 28 persons, 22 of whom would live in the new mini-home subdivision. The remaining six were included for the purposes of taking advantage of the discount on the mini-homes through bulk purchase. Fourteen of the 22 participants had been already living at the Oceanview site in the former trailer park. The Pine Tree Park project involved 17 persons, 14 of whom would actually live at Pine Tree Park Estates, the designated mini-home park site. All 14 of the new Pine Tree Park residents were renting apartments elsewhere in the area prior to obtaining their new mini-homes.

The critical mechanism used in both processes was to assist the participants build their own organizational structures: Oceanview Re-Development Society and Pine Tree Park Association. Through these structures the participants established various organizational committees to carry out the necessary work involved in collectively bulk purchasing new mini-homes. This work included hiring professional consultants, bringing in speakers to speak on topics relevant to home ownership, issuing tenders for the manufacturing of the mini-homes and securing financing.

At the end of each project participants were successful in obtaining mortgages to purchase comfortable new mini-homes. For those persons in receipt of Social Assistance, whom constituted all of the participants in Oceanview and half of the participants in Pine Tree Park, mortgage payments were based on the shelter component of Social Assistance income. Social Assistance cheques were sent directly to the lending institution where the monthly mortgage amounts were deducted.

Each project also attempted to incorporate a training and educational component into the home ownership program. In the case of Oceanview, after the participants received their homes a community land trust was set up and the group became incorporated as Oceanview Re-Development Society. The long-term objective was to use the land as collateral to build a “SARS building” - much like a community center - which could be utilized by the members to meet their various needs. The Center would also be used to earn revenue for the Society through the hosting of community suppers, card tournaments, etc.

The Pine Tree Park project incorporated a Personal Care Worker (PCW) certification course into the home ownership program. Pine Tree Park Estates has a high senior population. The number of health care services there, owned and operated primarily by New Dawn Enterprises, opened up the possibility of project participants finding employment close to their new homes.

4. TARGET CLIENT GROUP

Both projects had SARS as their primary target group. The Oceanview project worked with the original trailer park residents (who were predominantly SARS), inviting other interested persons in the community to participate. The Pine Tree Park project selected their participants and specifically targeted under- or unemployed single mothers. To create a mixed community, several seniors were also involved.

SARS were targeted because of their particular housing needs. Home ownership is rarely an option for them and rental accommodations tend to be sub-standard. The method of home ownership used in both projects can be easily adapted to meet the needs of other low-income earners. As the research has revealed, the model may be more appropriately suited to the budgets of low-income earners since shelter components of Social Assistance are generally insufficient to meet all of the costs related to home ownership.

5. HISTORY OF PROJECTS

Oceanview

Oceanview was a small trailer park located on the outskirts of New Waterford, a coal mining town adjacent to Sydney, Cape Breton. In the late 1980s the privately owned park was in a state of rapid deterioration and was referred to locally as a “welfare slum.” Many of the trailers had serious structural faults such as holes in the roof, rotting skirting, inadequate plumbing, etc. Tenant relationships with the park owner were deplorable.

During this period one resident activist took on the responsibility of tallying the repairs required for each trailer and approaching the local community services office for repair grants and loans. As time passed it became increasingly apparent that the homes were in such a dismal state repairs would not strengthen the units. The Provincial Department of Community Services could no longer rationalize the annual injection of between \$10,000-20,000 dollars into the park. Requests for financial assistance began to be turned down and the homes further deteriorated, posing in some cases health and safety hazards for the families who lived in them. Soon the only options became to re-develop the park completely or shut it down and relocate the residents.

A community worker in the Rehabilitation and Community Services Division of the Department of Community Services had been assigned the challenging task of addressing the park’s predicament. His knowledge of the construction and housing market at the time led him to believe that redevelopment of the park was possible. High interest rates were deterring potential home buyers, the construction industry was experiencing a slump and mortgage funds of lenders were accumulating. Under these conditions lenders became increasingly “open” to considering loans to borrowers previously felt to be too risky.

The community worker also recognized that any social intervention which hoped to move beyond addressing the immediate needs of the region’s poor would have to be implemented in a way which would simultaneously address the level of dependency on government welfare programs which had come to characterize many of his clientele. By utilizing a self-help approach to home ownership, participants would begin to learn how to draw on their own strengths, resources and community assets to solve personal and community problems.

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Based on this emerging plan several differences from Oceanview in planning the Pine Tree Park project were identified outright. Much of the re-development of the base was geared towards meeting the needs of the local aging population. The creation of a mini-home park would have to be one which could become integrated into such a community. Careful screening of participants would have to take place to find persons willing to live in an area with a large number of seniors.

Integration would be more likely to occur if the residents of the park were representative of a variety of income levels, ages, and family composition. This mix would also avoid the creation of a "low-income ghetto." While the majority of participants were in receipt of social assistance or unemployment insurance, some also had part-time employment or skills which would be immediately marketable with minimal training. Seniors and pre-seniors (over 50 years) were also invited to apply to participate in the home ownership process.

In March of 1994, a group seven low-income individuals and families, primarily single-mothers, met to initiate a one-year home ownership and training program. The group eventually grew to seventeen members, fourteen of who would live at Pine Tree Park Estates. The other three were included in the bulk-purchasing of mini-homes. Of the seventeen participants, three were over the age of fifty.

6. PROJECT SPONSORS AND PARTNERS

The lead proponent of the Oceanview project was a community worker in the Rehabilitation and Community Services Division of the Provincial Department of Community Services. Many clients on his caseload were living in the Oceanview trailer park. When the time came to decide the fate of the park, the scope of his particular job description permitted him to take on the re-development of the park as a working project.

The lead proponent of the Pine Tree Park project was New Dawn Enterprises Ltd. New Dawn is a not-for-profit Community Development Corporation committed to establishing and operating locally based ventures that contribute to the creation of a self-supporting community. In its present operational form New Dawn consists of two main branches: real estate and health services. The organization consists of the parent company, New Dawn, and nine subsidiaries.

New Dawn served as a sponsor of the Pine Tree Park project. The manager of New Dawn's real estate division regularly attended the meetings of the participants and assisted in assisting the participants when requested. Pine Tree Park Association, however, acted as an independent group and the relationship between New Dawn and the Association was strictly one of landlord/tenant. The actual work of coordinating the Pine Tree Park project was carried out by three community workers in the Rehabilitation and Community Services Division of the Provincial Department of Community Services: the former Oceanview coordinator and two workers "in training."

The success of both projects depended on the involvement of a number of community organizations who were willing to give requisite presentations, the CMHC, and the municipal government. This was particularly true with the Oceanview project which had to re-zone the area from a private mini-home park into a residential subdivision. The lack of capital outright meant that a degree of trust and understanding had to be present between the project team and the municipality with respect to guaranteeing that re-development of the park would meet municipal standards.

7. HOME OWNERSHIP PROCESS

Steps To Home Ownership

Each project undertook a series of steps which led to the purchase of new mini-homes. While some differences existed between the two projects, the study revealed that overall the two groups followed the same plan. The following steps were taken by both groups to achieve home ownership:

1. Initial Meetings With Participants To Discuss Project

The first few meetings were focused on meeting two objectives: providing participants with the necessary information they required to determine whether they wished to take part in the project; and, establishing a level of trust among participants and facilitators. Commitment and responsibility to what would amount to a long process leading to home ownership were emphasized, stressing the fact that participants would be doing the work themselves with assistance from various agencies and organizations. These meetings also served as an informal screening process to determine which persons were serious about the project and willing to make the commitment.

2. Creation Of An Organizational Structure To Implement The Plan

Based on the advice of the community worker, the residents formed a formal organizational structure and established an Executive Committee and several other committees required to further the home ownership process. For the Oceanview project these committees included a Purchasing Committee, Insurance Committee and Appliance Committee. For the Pine Tree Park project committees included a Purchasing Committee and Training Committee.

Officers for each committee were voted in for the positions of chair, vice-chair, secretary and treasurer. An effort was made to have each participant take part in a minimum of one committee to promote their ownership of the project and aid in the development of new skills. Each committee was assigned tasks to complete and had to report back to the larger group. Roles and responsibilities of each committee and its members were discussed. Tasks to be accomplished were identified with explanations of how to proceed with them (letter writing; phone calls; arrangement of meetings etc).

3. Hiring Of Lawyer And Project Manager

Both projects hired a project manager and project lawyer to act on behalf of the residents regarding technical matters. The project manager was responsible for ensuring that the lots were developed according to standards and to oversee the installation and inspection of the lots and trailers. The lawyer was responsible for all legal matters.

4. Presentations

Presentations were made to the group throughout the project from a variety of agencies, organizations and mini-home manufacturers.

The following presentations were made to Oceanview Re-Development:

- ❖ Consumer Affairs (budgeting)
- ❖ CMHC: financing; insurance; mini-home standards and maintenance requirements; procedure for installation, inspection
- ❖ Insurance company
- ❖ Mini-home manufacturers

The following presentations were made to Pine Tree Park Association:

- ❖ CMHC
- ❖ Consumer Affairs
- ❖ Property Maintenance Supervisor from New Dawn Enterprises (size of lots; position of trailers; water supply; snow removal; lot rental fee, etc. Negotiations were held around various issues such as street lights; permission to erect small sheds, etc.)
- ❖ Mini-home manufacturers
- ❖ Nova Scotia Community College (training)
- ❖ Sydney Senior Care Home Living Ltd. and Cape Care Ltd. (employment opportunities)
- ❖ Metro Planning (building permits, etc.)
- ❖ Insurance company

5. Issuing of Tenders

The participants made a thorough investigation of various mini-home manufacturers to assess their products and compare prices. After having budgeted how much the group could afford to pay for the mini-homes, tenders for manufacturing were written and submitted to several companies whom the participants favored.

6. Securing of Financing

Both projects experienced difficulty in securing financing for purchasing the mini-homes due to their status as low-income/SARS who were considered high-risk. High ratio mortgages which permitted buyers to borrow up to 95% of the purchase price were obtained for participants through the CMHC's First Home Loan Insurance Program which provides lenders with loan guarantees.

Regarding Oceanview, a number of factors contributed to the participants being able to obtain mortgages. One manufacturer was able to guarantee financing for the participants through the company's financial institution. The local branch of this institution had conducted previous business with the Department of Community Services and was assured of the Department's commitment to seeing the project succeed. Furthermore, a staff member involved in mortgage lending at the time was committed to the idea of providing financial support to SARS. After much negotiation financing was secured through this one branch and residents chose the homes from the manufacture who had offered the financing.

Regarding Pine Tree Park, a team of two participants and the lawyer approached various banking institutions with a request for project financing. Some lenders agreed to finance some members of the group but not all. The group decided that everyone had to gain approval or no one would receive financing. An agreement was eventually struck with one

local lender which was later revoked based on a decision from their Halifax office. The decision appeared to be based on the high risk classification of the borrowers. As in the case of Oceanview, financing was finally secured through one of the manufacturers who arranged financing through their lender which was located on mainland Nova Scotia.

For further discussion regarding financing see Section 8: Financial Feasibility Analysis (p.15). For an analysis of the CMHC's role in relation to the securing of financing see page 14.

7. Arrangement of Mortgages

Once the residents secured financing, meetings between individual participants and a representative of the lending institution were set up to determine mortgage payments based on the individual's income and the particular model of mini-home they had chosen.

8. Delivery of Mini-Homes

Orders were placed with the mini-home manufacturer and the homes were constructed and delivered to individual residents over a two month period.

Project Mechanisms

Based on the documentation of the two projects, five critical mechanisms have been identified as integral to both the Oceanview and Pine Tree Park mini-home ownership projects.

1. Project coordinator
2. Establishment of an organizational structure
3. Access to legal and property development expertise
4. Education on important topics pertinent to home ownership
5. Interested lender

8. CRITICAL ANALYSIS

Affordability

Both projects were successful in assisting the target group to organize themselves and move as a group to individual positions of affordable home ownership. This study has revealed, however, that affordability problems have developed four years after the completion of the Oceanview project. Of the original 22 participants living in the subdivision, eleven residents have had their mortgages foreclosed and have left the subdivision.

The primary reason for this is an increase in property taxes. When budgets were initially being drawn up in 1991 to determine what participants could afford the group was quoted a tax amount of \$33.00/month. Actual property taxes on the units turned out to be greater. Soon after this period the seven regional municipalities in Cape Breton County amalgamated into the Cape Breton Regional Municipality. With amalgamation tax rates increased slightly again. The banks covered the increase for a period of time and residents soon discovered that they had to pay not only a higher monthly mortgage, but the arrears which had accumulated as well. Current tax payments fall into the range of \$75.00-\$100.00/month.

The tax increases coupled with the arrears made the new monthly mortgage payments unaffordable. Residents were forced to use money allocated for food and clothing since they were already in receipt of the maximum shelter component under Social Assistance. The increases made those residents who were already having difficulty budgeting their fixed income to go completely off budget. After several missed payments the mortgages were foreclosed.

For the other residents who left, despite the considerable drawbacks to foreclosure (the loss of their home and good credit rating), doing so served to alleviate some of the financial stress the tax increases were causing. It was felt that if they returned to rental arrangements they would be, albeit minimally, better off.

Currently there are eleven residents who have decided for the time being to stay and try to continue to make their payments. The research revealed that this may be possible for them due to their access to outside financial support either through part-time or casual work, relatives or boyfriends. Without this assistance it is highly probable that more would leave.

The Pine Tree Park experience is considerably different. Mortgage payments are being paid on time and only two of the original fourteen persons living on the site have left: one having been evicted and one purchasing her own land on which to place her trailer. While the price of the homes were roughly equivalent to the Oceanview homes, the different locale of the park in relation to municipal boundaries (Pine Tree Park has lower county tax rates), coupled with the fact that Pine Tree Park residents do not own the land and pay property taxes only on their homes, translates into lower property taxes. The fact, however, that many of the Pine Tree Park residents access outside financial help and/or are working part-time indicates that mortgage payments on Social Assistance alone is still difficult.

The issue of affordability is critical in assessing the viability of this approach to home ownership. The results of this study suggest that the shelter component of Social Assistance is not be sufficient to cover the mortgage payment plus other shelter costs. This conclusion is arrived at through a number of observations.

First, it appeared to be common knowledge amongst participants in both projects that many residents have additional income through work, or access to it if the need arose. It is difficult to determine exactly how many residents had this assistance, to what amount and whether the need to access it stems from home ownership expenses.

It was also revealed by an employee of the Department of Community Services that, in many cases, private landlords renting to SARS tend to forego collecting rent for three specific months of each year: September - when school starts and new clothing and supplies are needed, December - when Christmas makes it usual monetary demands, and June - when Grading Day (the last day of school) celebrations require extra "treats" for the children. This kind of flexibility is not available when paying off a mortgage. In at least two of the Oceanview foreclosure cases the mortgage payments were halted in September because of the additional costs associated with school starting.

Second, SARS have little or no income which can be used to cover repair costs which might arise. The mini-homes which were purchased for both projects were of modern vintage and meet CSA and NHA specifications. The units tend to have long construction lives and with normal living/maintenance they should easily and adequately survive their mortgage commitment. However

some Oceanview homes have been in need of repairs which the mini-home warranties do not cover. House insurance has a deductible which SARS generally do not have immediate access to (if at all). Government housing programs may cover some major repairs but generally not minor ones. These programs are being pared down to cover essentially emergency repair costs. For persons solely on Social Assistance, \$50.00 for a minor repair is difficult to access. Without these repairs a home will deteriorate more quickly, eventually placing the SAR once again in a sub-standard home.

Third, social welfare programs are currently being restructured such that Social Assistance applicants receive less in the way of financial help. The former Family Benefits program is being phased out and replaced with an Income Assistance program which provides lower maximum amounts available (for a comparison of rates see Appendix A). According to one Department of Community Services employee, further reductions are a possibility. Another employee who approves home ownership assistance applications said that she had been advised not to consider any applicant who is on Income Assistance because of their unstable income and the unavailability of repair funds.

Fourth, regarding municipal taxes, the only method of adjusting amounts to reflect family income (so that a SAR is not paying the same amount as a working person) would require negotiations with the municipality. A representative from the Taxation Department of the Cape Breton Regional Municipality stated that in order for property taxes to become means tested (set according to one's income), a subsidy would have to be exacted from other taxpayers. This appears not to be an option. The Municipality recently removed itself from what they refer to as "the social welfare field" when Social Assistance was turned over to the Province of Nova Scotia. A subsidized property tax was viewed as having to enter into that field once again.

Group Capacity

The capacity-level of individuals in the groups is also a contributing factor to the success rate of this approach to home ownership. In the Oceanview project the majority of the participants were comprised of tenants of the former trailer park. Many of these families were considered by the Department of Community Services to be "multi-problem" families. Illiteracy, long-term unemployment and substance abuse were some of the problems experienced by some of the park residents. The impact of these problems on the lives of the participants was felt by the coordinator to make it more difficult for them to take on the additional responsibilities required when purchasing a new home. This became particularly true when the mortgage payments became unaffordable.

The Pine Tree Park project selected each participant. The community worker was entrusted to chose those whom he felt would have the capacity to not only fulfill their responsibilities to make mortgage payments, but those who also had the skills to obtain employment with minimal education/training. The result was a group of semi-skilled heads of families who had been carefully screened so as to ensure their success in maintaining mortgage payments and eventually procuring employment.

Organizational Support

Access to organizational support proved to be an important factor for the long-term success of each project. The main support for the participants in the Oceanview project was the community worker. While he was supported by the Department of Community Services and the multitude of services which they provide, the projects did not receive the kind of institutional support necessary to the

project through to a successful conclusion. The decision of the Department to not replace the community worker responsible for Oceanview upon his promotion to another Department, and the failure of the Department thus far to intervene in the current crisis experienced by the Oceanview park residents over mortgage payments, attests to this position.

The Pine Tree Park project had the benefit of an array of supports. The original community worker was involved along with two other community workers in training. In addition, the project had the backing of a prominent community development organization, New Dawn Enterprises. New Dawn was committed to seeing the project succeed because of its intention to assist low-income members of the community achieve affordable housing. A staff member of New Dawn participated in the project by regularly attending meetings. Members of New Dawn's Board of Directors were kept informed of the project and were prepared to provide the group with guidance if requested.

Holistic Approach

The importance of having an education/training component integrated into a home ownership plan for SARS should not be underestimated as it is critical to the success of the approach.

First, initial planning of the projects anticipated that the cost of owning a new home would require participants to earn some additional income. In Nova Scotia SARS are entitled to receive full Social Assistance Benefits plus any income up to \$200.00 before deductions are made (see Appendix A). Integrating an education/training component into the home ownership process becomes an important factor in ensuring that participants are able to obtain some kind of part-time employment which will be necessary to cover the costs of home ownership.

Second, an education/training component serves to maintain an important balance between the economic conditions of SARS and the "working poor." SARS cannot be conceived as receiving more from welfare programs than those who are working for low wages. Upsetting this balance not only threatens any monetary incentive to work, but triggers a negative backlash against those who are unable to find employment.

The importance of this issue in relation to assisting SARS purchase new mini-homes was brought to New Dawn's attention in the publishing of an article in the local daily newspaper. This article discussed New Dawn's receipt of funding from Homegrown Solutions and briefly outlined the approach taken in both projects. A short time after a letter to the editor was published from someone who was appalled that SARS would receive a new home "for nothing" when working taxpayers and homeowners worked very hard to get their own home (*Cape Breton Post*, June 20, 1996).

To maintain the balance between SARS and the working poor requires that assisted home ownership be conceived as a method through which affordable housing is created for those who are in need, *and* as part of an intervention strategy which will assist SARS get off of welfare and into the workforce. Integrating an education and/or training component into the home ownership process becomes critical to the program's acceptance by the community. The benefit of improved self-esteem and pride in oneself which comes through owning a home will indirectly contribute to being able to take further steps towards independence. However, this process can be facilitated more easily if steps are taken to directly link the benefits received from the assisted home ownership process and future employment prospects.

Canada Mortgage And Housing Corporation (CMHC)

The presence of the CMHC locally was viewed as contributing to the success of the projects. Participants in both projects were approved for CMHC's First Home Loan Insurance Program enabling them to borrow 95% of the purchase price of the property. One of the consultants involved in the Oceanview project felt that having a local CMHC representative who was accessible and "in-touch" with Cape Breton Island housing realities, was key to developing innovative projects of this type. The local CMHC representative was deeply aware of the need for affordable home ownership in the region and had over the years established a relationship of trust with some individuals and organizations involved in the projects. The recent centralization of CMHC operations to mainland Nova Scotia was felt to hinder further project initiation through the absence of a local representative.

Improvements

Through interviews with several individuals who were involved in either one or both of the projects a number of improvements were noted.

❖ Ongoing access to assistance

Several of the participants in the Oceanview project stressed the need for ongoing (post-home delivery) access to someone who would be able to advise the residents on matters related to home ownership. It was felt that several families who left could have stayed had someone been available to guide them with budgeting and paying bills. Depending on the capacity level of the group, the availability of a coordinator should only be incrementally phased out after the homes have arrived to ease the transition to home ownership and the new demands this brings.

❖ Requirements regarding participation in the education/training components should be planned and clearly spelled out in the beginning stages of the project.

Plans for education/training with the Pine Tree Park project were made too late. When the homes arrived many of the Pine Tree Park participants chose not to attend the course organized and an important part of the home ownership process was lost. Education/training should be a priority with the group and planned in the beginning stages of the project. Requirements to attend education/training programs should be clearly understood by all participants.

❖ Clear communication with participants' social workers

The social workers of some of the participants were not informed of the home ownership project which created difficulties for some of the participants. All caseworkers should be clearly informed of the project and its implications regarding Social Assistance allocations.

9. FINANCIAL FEASIBILITY ANALYSIS

It was difficult to arrive at the exact costs accrued for both the Oceanview and Pine Tree Park projects since neither project kept a formal budget. However the financial framework from which each project operated could be documented.

Participants in both projects were approved individually for mortgages depending on their income. For those participants receiving only Social Assistance, mortgage amounts were deducted directly from Social Assistance cheques which were sent to the lending institution.

Under CMHC's First Home Loan Insurance Program participants were able to borrow 95% of the purchase price of the mini-home. The 5% down-payments for the mini-homes were made through GST Rebates which were at the time available in Nova Scotia for first-time home-buyers when new homes were being constructed.

In-kind contributions were made by the Nova Scotia Department of Community Services through the provision of the community worker(s) who coordinated the project. Participants also had access to other services offered by the Department through these workers (such as Child Welfare services). New Dawn Enterprises provided the Pine Tree Park group with space to hold meetings. Oceanview Re-Development had to pay for meeting space using money from a slush fund to which all persons involved in the project contributed. All presenters came free-of-charge.

Budget Items

Based on the framework outlined in Section 6, the following costs should be considered when assessing the feasibility of this model of home ownership. Some items may or may not apply depending on the capacity level of the group and whether a mini-home or wood frame unit is being purchased. Items 1,2,3,4,5 were included in the Oceanview mortgages. Items 1,3,4,5 were included in the Pine Tree Park mortgages.

Capital Costs:

1. Price of Unit

The costs of the mini-homes will depend on the manufacturing company and the number of orders. If bulk orders are possible the individual unit costs will decrease significantly. For example, the average price of a mini-home at the time of the Oceanview project was \$42,900.00. Because a bulk order of 28 homes was made to the manufacturer the average price of the unit was brought down to approximately \$35,000.00. Prices varied somewhat depending on how many rooms were included in the unit and any optional home features which the participant chose.

2. Land Purchase or Mini-Home Pad Rental

Land costs are included if land is being purchased by the participant. Each lot of land in the Oceanview subdivision was approximately 40"x100 " in size and cost approximately \$6,000.00. The Pine Tree Park participants rented the mini-home pad from New Dawn Enterprises at a cost of \$85.00 a month. This was paid by the residents directly to New Dawn each month.

3. Site Preparation Costs

Sites for mini-homes may require re-development or upgrading. This includes preparation of land for the mini-home pads and insuring that services (water and sewer) are properly installed. Development must be done in accordance with municipal standards. These costs are the responsibility of the developer. If the land is being rented the developer will be the landowner. If the residents are purchasing the land as an independent group they are considered the developer

and must bear the costs. In the case of Oceanview, the responsibility for land development was made a requirement of the landowner (participant). This amount was included in the participants' mortgages. For the Pine Tree Park project, New Dawn Enterprises was responsible for all costs related to site preparation.

4. Legal and Consultant Fees

Legal fees will have to be paid to cover legal costs associated with home purchasing such as registry of deeds and mortgages, dispersal of funds, etc.

Consultant fees cover the provision of necessary technical expertise regarding land assessment, issuing tenders, the placement of units, site inspection and installation of mini-homes.

Lawyer and consultant fees and their responsibilities to the project need to be negotiated. Actual costs will depend upon whether the group is acting independently or as part of an organization. For example, if the project is taking place under the management of a community development organization there may be staff who are capable of taking on many of the responsibilities required of a development consultant. Legal fees could also potentially be arranged "in-house" which may reduce the costs. This did not occur in the Pine Tree Park project as the relationship between the group and New Dawn was strictly one of landlord/tenant.

If the group of potential home-owners is acting independently, as both Oceanview and Pine Tree Park project participants were, these costs depend on access to professional expertise and fee negotiation.

5. Home Buyer Costs

Buyer costs include those costs normally associated with home ownership. They include the following: mortgage fees from the lender; CMHC high ratio insurance; assessment fees; title and closing charges; and other additional settlement charges. Such costs are included in the mortgages. A detailed list of cost items can be obtained from any banking or real estate institution.

Additional Project Costs:

Additional project costs are those costs which arise in the period leading to home-ownership.

6. Coordinator

Depending on the capacity level of the group, a coordinator may need to be hired to facilitate the assisted home ownership process. This is particularly true if the project is initiated by an

agency or organization. Both the Oceanview and Pine Tree Park projects did not have coordinator costs since the coordinator(s) were paid by the Nova Scotia Department of Community Services.

7. Workshop/Presentation Fees

Some individuals or agencies who present information to the group may have a service fee or request an honorarium. Both the Oceanview and Pine Tree Park projects did not have any workshop/presentation costs.

Ongoing Home Ownership Operating Costs:

Ongoing home ownership operating costs are those costs which the home owner can expect to pay on a regular basis while owning their home.

8. Property Taxes

Taxes must be paid on the unit. If land has been purchased taxes must be paid on the lot as well. Sewer service taxes may also be included depending on whether the sewer system is tied into a sewer service. The Oceanview project participants had their property taxes paid by the bank who held their mortgages. The taxes are added to the monthly mortgage payment each month. The Pine Tree Park project paid their property taxes themselves.

9. Utilities

Home-buyers must take into account additional costs associated with accessing utilities such as heat, lights, and water, as well as the ongoing monthly charges associated with each. For persons on a fixed income who are used to having many utility costs included in monthly rent, having to pay all utilities will require special attention at first.

Hook-up charges may require some additional financial assistance. Estimations of these costs were deducted from the shelter component to arrive at the monthly affordable housing expense for the Oceanview and Pine Tree Park projects (see Sample Proforma on next page).

10. Home Repair Costs

Moneys need to be allocated for repair costs which might arise. While this will not be an issue for the first three to five years due to the new condition of the mini-homes, as the homes age, repairs will eventually have to be made. Mini-homes often come with repair warranties which must be closely examined to determine their exact coverage. Home insurance has a deductible which, for persons on fixed incomes, is generally difficult to access.

If projects are coordinated with assistance from the Provincial Department of Community Services or Provincial Housing Departments some financial arrangements may be possible should the need for emergency repairs arise. These arrangements must be clearly worked out beforehand. Neither the Oceanview nor Pine Tree Park projects calculated for home repair

costs due to the availability of programs from the Provincial Department of Housing and Department of Community Services designed to assist low-income home owners. These programs no longer exist because of government cut-backs.

10. SAMPLE PROFORMA

Since few actual costs were available for either the Oceanview or Pine Tree Park projects, a sample proforma with approximate costs has been drawn to illustrate how mini-home ownership was calculated to be an affordable housing alternative for persons on fixed incomes.

The first step which must be taken is to determine the monthly allowable housing expense which can be applied towards mortgage payments.

Example

A single parent with two dependents under the age of six receives \$1030.00/month in Family Benefits for shelter and basic needs. Of this amount, \$609.00 is allocated for shelter (see Appendix A). To determine the monthly amount available to pay mortgage (revenue) the following costs have been deducted from the shelter component:

Revenue:	Expenses:
\$ 609.00	Utilities: \$175.00
	Property taxes: <u>\$ 73.00¹</u>
Balance:	\$361.00

The Estimated Affordable Price Range is the maximum price a buyer can afford based on their monthly revenue. For a person receiving \$361.00 in shelter the estimated affordable price range is \$46,684.00 (See Appendix B for formula to arrive at this figure).²

Having arrived at this figure, participants must deduct expenses for the project, including the cost of the land to determine what they must receive from the mini-home manufacturers as a price for per unit (mini-home) based on a bulk order.

<u>Maximum Price Range:</u>	<u>Expenses:</u>
\$46,684.00	Land: \$6,000.00
	Legal Fees: \$1,000.00 ³
	Project Fees: <u>\$2,801.00⁴</u>
	\$36,833.00

Through this formula it can be determined that participants need each mini-home to cost (through bulk purchase) \$36,833.00 (including transportation and taxes). Costs will vary significantly

¹ \$73.00 is the monthly property tax payment for a property valued at \$43,000.00 (land (40" X100") and mini-home) at a rate of 2.027%, for an annual total of \$871.61.

² This budget is calculated using an interest lending rate of 7.5% amortized over a 20 year period.

³ The lawyer for both Oceanview and Pine Tree Park charged each participant \$1000.00 for his services.

⁴ Project fees were calculated at 6% of total project costs which were estimated at \$1,027,000 (22 mortgages valued at approximately \$46,684.00 each)

depending on interest rates, property taxes, whether land was purchased or whether a mini-home pad was rented.

It should be noted that while telephone and insurance are items normally associated with shelter, under Family Benefits regulations these items are considered luxuries and must be paid for out of other revenue.

11. COST ANALYSIS

Mini-homes

Financing proved to be the biggest challenge facing the implementation of this approach to home ownership. In both projects the group was forced to purchase homes from certain manufacturers because they could not obtain financing from lending institutions. Doing so caused participants in the Pine Tree Park project to obtain their mortgages from an off-Island bank. This was viewed as unfortunate since it meant that participants had to spend money on long-distance phone calls and all banking had to be done via instant teller machines. This left some feeling less in control of their budgets.

For the Oceanview project the lawyer received approximately \$1,000.00 per home and the consultant received approximately 6% of the total costs of the two year project, equaling 3% earned each year. For the Pine Tree Park project the lawyer received approximately \$1,000.00 per home and the consultant received approximately 7% of the value for each home.

Some participants in both projects felt that the consultant and lawyer fees were too high and there was suspicion that they were possibly taken advantage of because they were mostly SARS. According to the coordinator who participated in both projects there were many group meetings and individual counseling sessions where the lawyer was actively participating. The project manager of Oceanview stated that he completed over six months of work without any guarantee of payment due the initial uncertainty of financing. Meetings with Municipal and Private sector agencies were also stated as being many and time consuming.

The issue of home repairs means it is imperative that the home-owner has access to additional income either through part-time or casual work or through other persons. The shrinking of government programs to assist low-income home owners means government assistance should not be assumed.

Wood Frame Homes

The contraction of the local housing market has caused housing prices to decrease, making the purchase of them a potential option for SARS. Wood-frames were assessed as to their feasibility using the same model of assisted home ownership. Two factors were discovered which prevent this from being a viable option. First, in the mini-home projects, down-payments were obtained from GST rebates as part of a Nova Scotia Provincial Government program to assist the housing construction industry. This rebate is not available unless the homes being purchased are new, making existing homes ineligible. Without this rebate it is doubtful that SARS would have the savings to make the necessary down-payment.

Second, at a 7.75% interest rate the maximum price SARS could afford for a new home based on the shelter component is approximately \$46,684.00 for a three person family (see Appendix B). Once

additional project costs are deducted, the actual price range which is affordable falls under \$40,000.00. According to one local Realtor, most wood-frame homes in the region which fall at or under this amount tend to require between \$5,000 and \$10,000 in repairs to bring them up to health and safety standards. Including these costs brings the homes out of the price range of the SARS.

12. IMPACT OF PROJECT

In spite of the serious affordability problems being faced by the Oceanview project, the impact on the participants of owning a new home appears to have been significant. Homes were referred to in glowing terms such as “my palace” or “my castle.” Oceanview, once referred to locally as a “welfare slum”, became a place where children were unashamed of bringing their friends home to after school. Being able to provide their children with a nice home was important for many of the mothers.

Owning a home seemed to instill a greater sense of pride in oneself and a renewed sense of purpose. Several participants in both projects took training courses after having received their homes and some are now working. One Pine Tree Park participant said that having a beautiful new home, rather than being stuck in a dingy apartment normally reserved for SARS, improved her self-esteem to the point that she was able to pursue training and get a job. Another said that having a new home made her feel she was getting somewhere in life and she felt inspired to work hard to keep her home.

The actual process involved in buying the new homes also seems to have had a positive impact. The collective approach served to foster a greater sense of community, allowing the families to get to know each other before they actually moved in.

There is no evidence of the process used in each project having influenced the participants in other matters which affect them as a community. The Oceanview participants, for example, have been unable to come together collectively to address their current crisis and are waiting for someone to come in from Community Services and “solve their problem.” This may be attributed to a degree of dependence by the participants on the project coordinator who took a leadership role in moving the project through to its completion.

13. FUTURE OF MODEL

The experiences of the Oceanview and Pine Tree Park projects point to a model of assisted home ownership which has the potential to be replicated. However, successful replication depends to a great deal on the amounts allocated for shelter under Social Assistance and the participants access to additional funds. The reduction in Nova Scotia of Social Assistance amounts makes this model not feasible for SARS who are in receipt of Social Assistance only. *It is only affordable if the SARS have additional access to funds and if the local property tax rate is reasonable relative to their income.*

This model has the greatest potential to be replicated if it is geared towards lower income earners who have slightly more disposable income to cover the costs of home ownership. However, the instability of the local job market and the drop in housing prices means that such an option needs to be prudently considered beforehand.

14. RECOMMENDATIONS

On the basis of this study several recommendations can be made to ensure the success of groups using this model of home ownership.

1. Ensure that the local municipality is “on-side” by discussing with them the project, its objectives and the need for their support. The municipality may prove to be an important ally in the future and open communication will assist in that regard.
2. Take the necessary time to make certain that participants are well aware of the additional demands home ownership brings. Many people accustomed to renting fail to recognize what is involved in owning their own home. Don’t set them up for failure by making it sound easy.
3. Have a solid understanding of the capacity of the group you are working with and be ready to provide the necessary supports both during and after the home ownership process. Give participants, for example, problem-solving scenarios related to home ownership which will assist them in developing their capacity to act on their own.
4. Hire a coordinator and professionals who know how to work in a self-help environment. While “doing for” may house the participants sooner, “doing with” will guarantee greater overall project success in meeting broader objectives.
5. Understand the tasks which must be done professionally and be prepared to negotiate around fees and contracts. You may also be able to do some of these tasks on your own to lower overall costs.
6. Plan for the project to take a minimum of one year or, better yet, plan for two. Time is required to ensure that participants are able and committed to home ownership. Time is also required to develop group capacity which is integral to the project’s goals.
7. Plan budgets carefully. Look ahead and try to incorporate fluctuations in interest rates, property taxes, utility costs, and Social Assistance amounts. Try to anticipate and limit your chances of being surprised.
8. If possible, link your project with an established community based organization who has an interest in, and expertise to lend to, your project. This kind of organizational support will enhance your ability to meet your objectives if barriers arise.

15. CONCLUSION

This report has assessed the feasibility of replicating the approach taken in two assisted mini-home ownership projects in the Industrial Cape Breton region. The essence of the approach was to organize a group of SARS, low-income seniors and low-income earners to collectively bulk purchase new mini-homes through the harnessing of their shelter component of Social Assistance income.

The report concludes that the current socio-economic climate in the province of Nova Scotia is one which is inhospitable to this model of affordable home ownership for persons solely on Social Assistance. Federal and Provincial Government deficit reduction measures have caused cut-backs

in social spending which have resulted in lower Social Assistance rates, high municipal property taxes and reductions in housing programs. The consequence of these changes for this model of assisted home ownership has been that mortgages and home ownership costs are no longer affordable for SARS whose only income is Social Assistance. The model is better designed for those persons who have access to additional income. In areas with high unemployment, however, stable employment may be difficult to maintain.

The report has affirmed the power of the collective approach to achieving home ownership objectives. Through the development of their own organizational structure a group of individuals were able to move to a position of home ownership in a manner which reduced costs (through bulk purchasing), saw the sharing of skills, and laid the ground for the building of community. Such outcomes would not be possible if an individual approach to home ownership was taken.

Assisted home-ownership is an approach which can be used to achieve broad housing and community objectives. It is dependent, however, on stable economic conditions which are currently not favorable for fixed and low-income families. Certain economic trends such as lowering interest rates and a contraction of the local housing market may off-set reductions in government social spending and make the approach viable. It remains for each group of citizens interested in this approach to evaluate local conditions carefully before any action is taken.

APPENDIX A

The maximum amounts receivable for Family Benefits and Income Assistance in Nova Scotia, as of October 1996, are listed below. It should be noted that the Family Benefits program is currently being phased out and all new applicants will be placed on Income Assistance, except for persons with disabilities.

Shelter: Shelter costs cover rent or mortgage, heat, water, taxes, and lot fees. They do not include telephone, insurance, or cable television.

Basic Needs: Basic needs cover any additional living costs, the primary ones being food and clothing.

Family Benefits

<u>Number of Persons</u>	<u>Shelter</u>	<u>Basic Needs</u>
One Person	\$519.00	\$195.00
Two Persons	\$563.00	0-6 yr. :\$122.00 7-12 yr. :\$149.00 13-18 yr. :\$171.00 19 plus yr. :\$156.00
Three Persons	\$609.00	0-6 yr. :\$122.00 7-12 yr. :\$149.00 13-18 yr. :\$171.00 19 plus yr. :\$177.00

Income Assistance

<u>Number of Persons</u>	<u>Shelter</u>	<u>Basic Needs</u>
One Person	\$197.00	\$153.00
Two Persons	\$547.00	0-6 yr. :\$112.00 7-12 yr. :\$139.00 13-18 yr. :\$161.00 19 plus yr. :\$153.00
Three Persons	\$566.00	0-6 yr. :\$112.00 7-12 yr. :\$139.00 13-18 yr. :\$161.00 19 plus yr. :\$153.00

Additional Income

Recipients are able to earn up to \$200.00/month and receive their maximum income if they have a dependent. A single disabled person is able to earn up to \$100.00 and receive their maximum income, however, the work must be deemed therapeutic. Any amounts over these are deducted at 75%.

Example:

A family of three (a parent and two children under the age of six) receive \$1030.00 a month in Family Benefits (Shelter \$609.00 plus Basic Needs at \$421.00). The mother earns \$300.00. She can keep \$200.00 with no deductions and 75% of \$100.00 (\$75.00) is deducted from her Family Benefits cheque bringing the total to \$955.00.00. Her maximum income for that month is \$1255.00 (\$955.00 plus \$300.00).

Additional income figures for Income Assistance are not currently available.

APPENDIX B

Estimated Affordable Price Range

The Estimated Affordable Price Range is the maximum price a buyer can afford based on their annual income. This amount is arrived at through determining the Monthly Allowable Housing Expense and the Estimated Mortgage Amount. The Estimated Affordable Price Range is the Estimated Mortgage Amount divided by .95 (assuming a 5% down-payment as a qualified first time home buyer under CMHC's First Home Loan Insurance Program).

The Monthly Allowable Housing Expense is the total amount which can be allocated to mortgage payments each month based on the buyers income. The Monthly Allowable Housing Expense is determined through subtracting shelter expenses such as utilities, insurance, telephone and taxes from the total amount received for shelter through financial assistance programs (social assistance, income assistance, employment assistance, old age security, and permanent disability allowance), or 30% of gross monthly income.

The Estimated Mortgage Amount is the total affordable mortgage amount a buyer can take out based on their monthly income. The Estimated Mortgage Amount is the Monthly Allowable Housing Expense divided by the interest rate factor (the dollar amount required each month to amortize \$1000.00 over the specified amortization period (10-25 years)) and multiplied by \$1,000.00.

Example:

Based on the Sample Proforma on page 18 which lists the Monthly Allowable Housing Expense as \$361.00, the Estimated Affordable Price Range and Estimated Mortgage Amount are as follows:

The Estimated Mortgage Amount

\$361.00 divided by interest rate factor of 8.14 (8.14 is the factor for a 7.75% loan amortized over a 20-year period)⁵ multiplied by \$1000.00.

The Estimated Mortgage Amount is \$44,350.00

The Estimated Affordable Price Range

\$44,350.00 divided by .95 (assuming a 5% down-payment as a qualified first-time buyer)

The Estimated Affordable Price Range is \$46,684.00.

⁵ This figure can be obtained from any real estate agency or mortgage lending institution.