

# SHELTERFORCE

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## The Market is...

...the Problem?

...the Solution?

Stories from Santa Fe,  
Albany and Minneapolis

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And... Katrina,  
Before and After





# Business Wisdom in the High Country

To sustain its mission of providing real estate services to low-income families, Homewise has adopted some fundamental principles of the market.

By Jason Stevenson

In the Spring of 1992 Mike Loftin moved to Santa Fe, New Mexico, to become the new executive director of Neighborhood Housing Services, a small nonprofit engaged in home improvement and rehabilitation on the city's poorer west side. As soon as he arrived, Loftin, who was then 34, canvassed the organization's existing clients, a practice he learned during his 12 years as a community organizer in Chicago. "I was expecting to hear about problems in their neighborhoods, about vacant lots, broken sidewalks," he remembers. "But instead, these homeowners, mostly seniors, were complaining that their grown kids could not afford to buy a house in Santa Fe." Loftin was shocked. "I went to my board and told them there's got to be a way to help these people buy a home."

Loftin admits that he knew little about real estate and mortgages at the time. "My only experience with a bank loan was buying a car," he says. Over the next decade, however, Loftin and the staff at Neighborhood Housing Services, now called Homewise, grew into major providers of workshops and financial services to help Santa Fe's lower-income residents purchase their own homes. Homewise today is a pioneer in promoting affordable homeownership, a community development financial institution that offers a range of commercial real estate services with the added assurance that

the buyer's financial well-being is the top priority. "For Homewise to play this role is unique," explains Doug Dylla, senior manager at NeighborWorks America, a nonprofit based in Washington, DC. "It allows a homebuyer to feel comfortable that they are working with a trusted advisor in what is a confusing and complex process." That trust has enabled Homewise to take a leadership role in alleviating Santa Fe's low-cost housing crunch. As of September 2005, more than 1,200 Santa Feans could trace their new homes to Homewise mortgages and counseling, and more than 3,000 people had graduated from the organization's home-buying workshops.

## The City Different

Long before Santa Fe comes into view during Interstate 25's steady climb from Albuquerque, the 12,000-foot peaks of the Sangre de Cristo Mountains gradually crowd the horizon. Only at the crest of the highway's final hill does this city of 65,000 materialize at the mountains' base as a jumble of sun-washed adobe buildings.

Santa Fe is an old town, founded by Spanish explorers in 1610, a decade before the Pilgrims landed at Plymouth Rock. It is also the capital of New Mexico, although its relaxed atmosphere makes it more of a mountain village than a metropolis. Famous as the arts Mecca of

the West, Santa Fe has merged its rich history of Spanish, Native American and frontier cultures into the unique "Santa Fe style," which today inspires numerous art galleries, festivals and a world-famous opera. These attractions, and the appeal of 300 days of sunshine, make Santa Fe a popular location for the vacation properties of Texas energy barons and bi-coastal elites, and that, according to Loftin, has made life challenging for the city's long-time residents.

"Unlike other western resort towns like Aspen or Telluride, which were created out of nothing, there was a real community in Santa Fe before the rush of new housing," explains Loftin, who is an Albuquerque native. "And now you have young people with centuries of family history in Santa Fe who can't afford to buy a home."

The city's recent housing trends echo Loftin's concern. Unlike California's Silicon Valley or New York's Soho, where real estate booms were fueled by a strong local economy, housing values in Santa Fe are rising, but wages are not. The median selling price for a home in Santa Fe was \$393,000 during the second quarter of 2005, many multiples of the city's median household income of \$40,000, and more than double the median sale price of \$180,000 during the spring of 1998.

A generation ago residents of Santa Fe

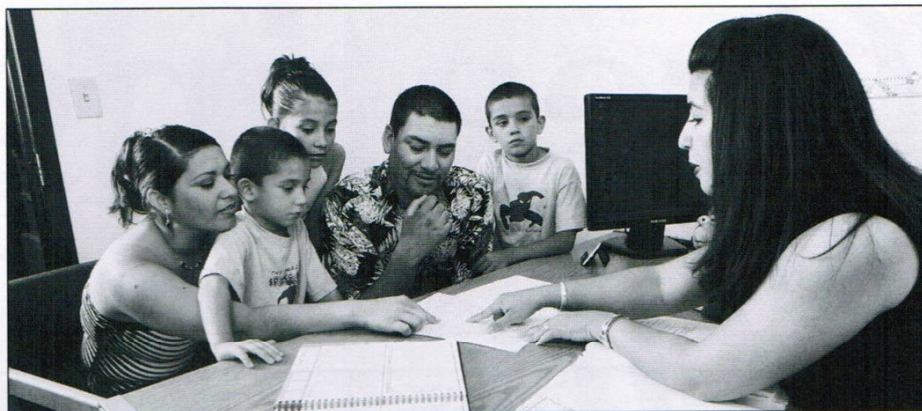


could expect to buy their own home, but today many new and established working-class residents believe it is impossible. Many public school teachers and police officers either rent or live in the affordable suburbs of Albuquerque like Rio Rancho. "There's a huge disconnect in Santa Fe," says Loftin, "and there's also a sense of loss for the community."

Santa Fe's politicians have responded with a higher minimum wage and affordable housing mandates for developers. But Loftin believes that fostering home ownership and its wealth-creating benefits requires more than just policy changes. "It's very easy to get someone into a home with a subprime mortgage and high monthly payments," he explains, "but it's much harder to buy a home the right way."

### Experimentation

In 1993, Homewise developed a workshop to help prospective homebuyers reduce credit card debt and increase savings – two steps to make them better mortgage candidates. But when banks continued to reject their clients' applications, Loftin and his staff realized that Santa Fe's real estate market, then on the verge of a housing boom, ignored the city's lower-income residents. "The pieces of the real estate process are not aligned around the homebuyer's interests," explains Loftin. He believes that because real estate agents and mortgage lenders are paid by commission, they are motivated to sell the most expensive homes as quickly as possible. "There's a lot of money made on real



*Lorena and Jesus Talavera and their kids with Lulu Gomez, a homebuyer counselor for Homewise. The family plans to close on their new home in January.*

estate in Santa Fe," he says, "and we figured out that banks and mortgage firms were not interested in our first-time homebuyers."

To take a more active role, Homewise arranged a line of credit through a local bank to enable the organization to make home loans to graduates of its financial workshops. "The [line of credit] was not difficult to secure – our bank partner was very cooperative," explains Jan Martinez, chief financial officer at Homewise. "One advantage [we] enjoy is a strong financial position to support a debt relationship." The credit line funds the home loans during the two weeks it takes to process a mortgage, and until Homewise can sell the loans to secondary market buyers like Fannie Mae to recoup their investment and make more loans. Since Homewise often processes five to 10 loans at a time, the credit line is rather substantial to cover the costs, and Homewise guarantees it by keeping a portfolio of mortgages that it does not sell.

Now that Homewise had a financial arrangement to make home loans, the organization only needed banks to produce the closing documents on sales. "But then we had a few episodes where lenders would be late with the documents, or charge high fees," explains Loftin, "and we were like, 'why can't we do the closing documents?'" So in 1995, Homewise began closing on their clients' home purchases and channeling the resulting fees back into their homebuyer education program. "We didn't know where we were going when we started in the early 1990s," Loftin says, "but we gradually realized that we could develop a self-contained and self-supporting homeownership program."

Homewise's next move came after its staff heard stories about clients being pushed into buying homes that were too expensive for them. Loftin responded by hiring a full-time

broker and training several existing staff members to show houses. Today Homewise has three agents who canvass Santa Fe for affordable properties and shuttle clients on home tours. Some of these low-cost homes include the first two phases of the Evergreen site, an 80-unit, energy-efficient housing project owned and developed by Homewise itself on the city's south side. Designed for first-time buyers, Evergreen's floor plans range in price from \$170,000 to \$240,000 – over \$150,000 below the city's median sale price.

### The Homesmart System

Loftin likes to group Homewise's workshops and financial services into what he calls the "Homesmart" system – a business model in which the revenue generated from loan origination fees, closing costs and interest income is recycled to fund the nonprofit's free education programs. But the system's most important goal is to lower costs for homebuyers, a mission that Dylla says is unusual: "Commercial businesses are usually about streamlining their process to save costs internally, but Homewise is looking to save customer costs." The Homesmart model seeks savings for lower-income homebuyers by finding the lowest interest rates, charging reduced closing fees and eliminating mortgage insurance by structuring loans to cover more than 20 percent of the down payment.

Homesmart is designed to help the first-time homebuyers often sidelined by Santa Fe's real estate market, though Loftin claims he doesn't seek an adversarial relationship with local lenders and agents. In contrast, Loftin says that he tries to develop alliances that are advantageous for everyone. "Our role has been to partner with lenders to figure out this niche of low-end loans, and create the efficiencies of

### In Brief...

#### METRO SANTA FE

Population: **147,635**

White: **50%**

Latino: **44%**

Number of housing units: **65,638**

Median year housing built: **1980**

Homeownership rate: **70%**

Median household income in 1999: **\$46,000**

Average household income in 1999: **\$60,991**

Poverty rate: **11%**

Household income < \$37,000 and paying 1/3 or more for housing: **54%**

Sources: United States Census 2000, [www.dataplace.org](http://www.dataplace.org)

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# HOMEWISE

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specialization," he explains. Because Homewise works exclusively with lower-income homebuyers, Loftin encourages banks and developers to cooperate with his organization on these mortgages so they can be handled more cheaply, and the banks can receive credit under the Community Reinvestment Act.

Loftin is also quick to point out that the Homesmart system is not a closed monopoly. "We don't care which home you buy or which services you use," he says. "If your brother works for a bank and waives the closing costs – go for it." In addition, if Homewise counselors conclude a client isn't ready to purchase a home, they will work with that client to develop a plan to get them ready. Loftin constantly stresses the priority of solid savings habits and financial security over the purchase of a home. "The home is not the product we are after," he says. "Our main goal is to get people to be buyer-ready." As a result, Homewise's operations are built around educational workshops with titles like SaveSmart, Home Buyer Education, Financial Fitness and Hands-On Home Repair, all designed to prepare people to buy and maintain homes. "If you earn \$30,000 a year, or even slightly less, you can buy a home in Santa Fe," Loftin says. "We do it all the time."

## Risky Business

Loftin knows the risks that nonprofits face by engaging in real estate lending and development, even as his organization has grown from three employees in 1992 to 27 today. "There are a million places to be ambushed in

real estate," he admits. If the housing market collapses, construction delays pile up or an organization overextends itself, nonprofits can be financially ruined. He acknowledges that an additional challenge for nonprofits working in a capital-intensive field like real estate is the constant lag between their program goals and their funding. "Nonprofits must keep promising more deliverables at the same time that they are seeking more grants," Loftin says. "It's a race that they can't win." Homewise insulates itself from this feast or famine scenario by pumping the revenues generated by loan origination and closing fees back into programs. "We try to operate like a business by paying close attention to our revenue," he says.

Like any business CEO, Loftin is constantly on the lookout for new ideas to fuel his organization and inspire his staff. He travels frequently to policy conferences on housing and financing, and he is an avid reader of business strategy books from authors like Harvard competition guru Michael Porter, and Jim Collins, who profiled 11 successful companies in his book, *Good to Great*.

Effective hiring and staff development are two priorities that Loftin believes are critical to the mission of Homewise. "The reason we have some success is because of the talent," he says. He instructs his managers to look for new hires all the time, especially for customer service positions. Doug Dylla agrees that smart hiring has played a role in Homewise's successful expansion into mortgage lending: "You need a much higher level of skill once you get into the risky elements of real estate."

Effectively screening its lending portfolio is another way Homewise protects itself from financial shocks. During the past decade Homewise has experienced only four defaults totaling \$18,000 from among the more than 1,000 loans it made by itself or through partner banks. Loftin attributes the organization's low default rate to its strong emphasis on education. "Buying a home is not only about creating wealth and capital assets," he explains. Potential homebuyers, he says, need to learn how to balance discretionary income, liquid assets and long-term savings, and to understand how to use their home equity. The goal of Homewise's homebuyer education programs is to create a "full plate of financial security," and he is critical of nonprofits focused only on placing people in new homes. Teaching homebuyers how to be financially savvy is a priority reiterated by Michele Lis, a training and counseling manager at Homewise. "We encourage people to poke and to ask, and to keep

asking until they get an answer," she says.

## Next Stop, Albuquerque?

As Homewise celebrates its 20th anniversary next year, the organization is debating whether to expand the Homesmart model to other communities. The Albuquerque metro area, home to 750,000 people and only an hour south of Santa Fe, is the logical place to start, but Loftin says housing groups there don't want Homewise to move in. He is discouraged by the protectionism that he sees in the nonprofit world, even as he observes the need for more buyer education programs in Albuquerque. "We haven't decided if it's worth the headache yet," he says of the potential expansion. Even as Homewise faces resistance, Loftin says other nonprofits in Albuquerque are beginning to emulate its retail-style business model.

Meanwhile Homewise continues to promote homeownership in Santa Fe, working in the same commercial world as the city's bankers and real estate agents. Loftin admits that the retail focus of his organization could potentially promote profits over customer service, but he says he is committed to keeping Homewise focused on lower-income residents. He also chairs the county's affordable housing task force, and recently used his position as the city's unofficial housing watchdog to ensure a new downtown condominium project includes the proper percentage of affordable units. Homewise also remains focused on the low-income community; Loftin says the majority of the people helped by Homewise approach the organization with incomes under the median level and less than \$1,000 in savings.

Despite the success of the Homesmart model and the thousands of people who have benefited from its workshops, the most persistent obstacle discouraging homeownership in Santa Fe is a very simple one: many lower income residents are conditioned to believe that they cannot buy in the city. Michele Lis confronts this perception all the time. "I start all my outreach meetings by explaining that the median home bought by a Homewise client in 2004 cost \$175,000," she says. "They look at me and say, 'How can that be?' and 'Why don't I see it?'" Loftin admits that negative perceptions can be stronger than the reality, but he is not discouraged about it. "The way you tear down that attitude is you have a few people go out and do it." And that is exactly what Homewise is continuing to do so well. ♦

Jason Stevenson is a writer living in Santa Fe.

## Resources

Homewise  
1570 Pacheco St., Ste. A-1  
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505-983-9473  
[www.homewise.org](http://www.homewise.org)

"Success in Santa Fe," by John Nichols.  
*Shelterforce*, March/April 1996, #86, p.8.  
[www.nhi.org/policy/orderpub.html#back](http://www.nhi.org/policy/orderpub.html#back)

"Words into Action: A New Housing Delivery System for Santa Fe," by Peter Werwath. *Shelterforce*, March/April 1996, #86, p.12.  
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