Employee Home Ownership Program (EHOP)

Employer Frequently Asked Questions

- ***Does EHOP have to be a loan?*** EHOP is a benefit program defined by the employer and designed with the assistance of FP. As such, you can offer a purchase assistance loan program, housing grants, rental assistance, educational or referral services, or any combination of benefits. Most typically, FP would facilitate an ownership program that requires special expertise and capacity.
- ***What types of repayment plans can be offered on an EHOP loan?*** Amortizing loans, Deferred Interest Bearing loans and Equity Share loans. A forgivable loan feature can be utilized with the deferred interest or equity share loans. We recommend a loan term of at least 15 years on EHOP loans since a shorter term will make it difficult for the employee to obtain a primary first mortgage loan.
- ***What are the primary advantages and disadvantages of the Equity Share model?***
  Advantages - A primary constraint to purchasing a home is the ability to afford a mortgage. Since there are no monthly payment requirements, the Equity Share model allows the employee to more easily qualify for a mortgage they can afford. The employee loan bridges all or part of the difference between their mortgage and the home purchase price.
  Disadvantages - There isn't a mechanism for requiring repayment of the loan in the event of termination of employment. An Equity Share loan is repaid only upon sale of the home, refinance of the primary mortgage, the employee no longer resides in the home as the primary residence, or upon maturity of the loan, whichever occurs first.
- ***Where does the money come from to start EHOP?*** The employer allocates funds for the EHOP program.
- ***How much money we need to start an EHOP program?*** You can budget for the program based on immediate need, an annual appropriation, or total amount of funds available. We recommend you calculate how many employees you want to help over your planning horizon multiplied by the amount you are comfortable committing to each employee.
- ***How much assistance should we commit to our employees?*** Since retention is a primary benefit to the program, many employers will use the calculated cost of turnover over the planning period to guide the level of employee assistance. The actual loan amount should be limited to the lesser of a flat amount or percentage of the home purchase price so as not 'over' commit resources.
- ***If the employee terminates employment can we require them to pay off their loan in full?*** No. Due to limitations imposed by the secondary mortgage market, the employee would be unable to obtain a first mortgage if termination resulted in a balloon repayment. If you choose a Deferred Interest loan option, employee termination (or loss of benefit privileges) would require monthly repayments sufficient to amortize the loan over the remainder of the loan term. Under the Equity Share loan model the employee must be allowed to keep the loan through the term of the loan even if they terminate employment.

- ***What are advantages of using FP?*** If you anticipate the program will be offered to only one or two key employees, you may not need a third-party administrator. However, most employers will recognize immediate benefits from engaging a partner with considerable expertise in designing, implementing and monitoring a loan program. Leveraging existing capacities and multiple assistance 'pools' for which employees may qualify, FP's not-for-profit status provides a more efficient and cost-effective delivery system than internal personnel.
- ***What is the relationship between FP and our organization?*** Your organization can invest with FP in an Equity Equivalent Investment (EQ2) and FP will deliver the loan services, serve as the mortgagee and grantee of the loan, but FP retains control of the EHOP funds in a designated investment account and FP assumes all credit risk on the loans.
  Or FP can be your Loan Servicing Agent (LSA) and FP will manage the EHOP funds by delivering the loan services, funding the loans, and serve as the Note holder and Servicer only. FP will fund the loans at closing and invoice the employer. The employer retains control of the funds and assumes all credit risk on the loans.
- ***How does Funding Partners earn their income on EHOP loans?*** If the employer participates in an EQ2 then FP collects an application fee from the borrower at time of loan closing, retains the interest income earned on the investment account balance and retains 25% of the interest or equity share income from EHOP loan repayments as compensation for the credit risk we assume. If FP is the LSA for the employer then FP collects only an application fee from the borrower at time of loan closing.
- ***What are the taxable benefits to the employee?*** Any reduction of loan principal or finance charges at a rate less than the *Applicable Federal Funds Rate* (AFFR; currently 3.42%) the employee is subject to a taxable benefit. The amount of principal reduction (forgiveness) is taxable in the year in which the reduction is made, whereas the taxable benefit under a below-market rate loan is equal to the incremental difference between the note rate and AFFR. If equity share is forgiven completely within the first three years, there would be a taxable benefit equal to 3.42% APR of the principal amount through the actual duration of the loan. Employers are advised to consult with its own tax and legal advisers in developing policies regarding treatment of the EHOP benefit.