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Introduction

This report is the second volume in a two-volume assessment of the voucher homeownership program prepared by Abt Associates Inc. for the U.S. Department of Housing and Urban Development. HUD contracted with Abt Associates in 2001 to describe the early implementation of the voucher homeownership program. The study is the first assessment of the program at this early stage of its implementation and examines how the program is working in the following locations across the country:

- Bernalillo County, NM
- Colorado (state program)
- Danville, VA
- Green Bay, WI
- Milwaukee, WI
- Missoula, MT
- Montgomery County, PA
- Nashville, TN
- San Bernardino, CA
- Syracuse, NY
- Toledo, OH
- Vermont (state program)

The 12 study sites were selected to include both PHAs that are operating their programs without outside resources (beyond the voucher program) to defray the cost of administering the program and PHAs that are offering the program as part of the Neighborhood Reinvestment Corporation (NR)'s voucher homeownership demonstration.¹ A second site selection criterion was that sites had to have had at least one family purchase through the program as of November 2001 when site selection was conducted. After satisfying these two criteria, we selected sites covering a range of program designs, geographic locations, and PHA characteristics. The 12 study sites, however, were not intended to be representative of any broader pool of homeownership programs, housing markets, or PHAs.

The study draws on complementary analytical techniques—case studies and cross-site analysis. The study findings are organized into two volumes based on these different modes of analysis. Volume 1 of the report—the *Cross-Site Analysis*—highlights common themes and patterns across the study sites, including lessons learned from the early implementation of the voucher homeownership program. *Volume 1 also includes a detailed introduction to the voucher homeownership program and to the study, as well as an Executive Summary of the main study findings.*

Volume 2 of the report—the *Case Studies*—provides details on the voucher homeownership programs at each of the study sites and tells the story of program implementation from the point of view of program staff, partners, and participants. The case studies presented in Volume 2 form the basis for the cross-site findings presented in Volume 1. The case studies discuss in detail the program choices that the study sites made in designing local voucher homeownership programs and the challenges that the PHAs and their partners have faced in program implementation.

¹ Under the demonstration, as of May 2002, NR has provided funding to 21 of its local NeighborWorks affiliates—community-based organizations that work with low-income homebuyers and homeowners—to partner with PHAs to implement the voucher homeownership program. In fiscal years 2001 and 2002, Congress appropriated a total of \$15 million to NR to support this initiative.

The case studies were developed following two-day site visits conducted by Abt staff to each of the 12 study sites. During the site visits, we interviewed program staff, partners, and program participants; gathered data on participating families from PHA administrative files; and compiled detailed information on how home purchases are financed. Finally, we collected U.S. Census Bureau data at the neighborhood level to evaluate how the neighborhoods in which families are purchasing compare to the neighborhoods in which they were renting.

The case studies provide particular insight into how local factors—such as housing market conditions, PHA staff capacity, and the availability of program partners—shaped the design and implementation of the program at each study site. The diversity of the study sites in terms of housing markets, PHA types, and populations served is such that the case studies should also offer useful lessons to a range of PHAs considering offering the program.

Each case study covers the following topics:

- Housing market conditions;
- Program design, including: targeting and outreach, homeownership counseling, home search and inspections, financing models, and post-purchase activities;
- Program management, staffing, and partnerships;
- Program outcomes; and
- Lessons learned.

The case studies include numerous exhibits designed to be helpful for PHAs considering the voucher homeownership option. These exhibits include a flow diagram of the voucher homeownership purchase process at each site; summaries of the study sites' approaches to targeting and outreach, counseling, and inspections; and sample purchase transactions to illustrate the financing arrangements in place at each site. Finally, the case studies document the key advice that program directors and staff at the 12 study sites offered to PHAs considering the homeownership program.

Bernalillo County, New Mexico

Bernalillo County Housing Department

Introduction

The Bernalillo County Housing Department (BCHD), a division of the Bernalillo County government, administers 1,693 housing choice vouchers. Bernalillo County is the most populous county in New Mexico and includes the city of Albuquerque. BCHD administers the voucher program in the unincorporated areas of Bernalillo County; however, an agreement with Albuquerque Housing Services allows voucher program participants from unincorporated areas of the county to relocate to the city of Albuquerque and vice versa.

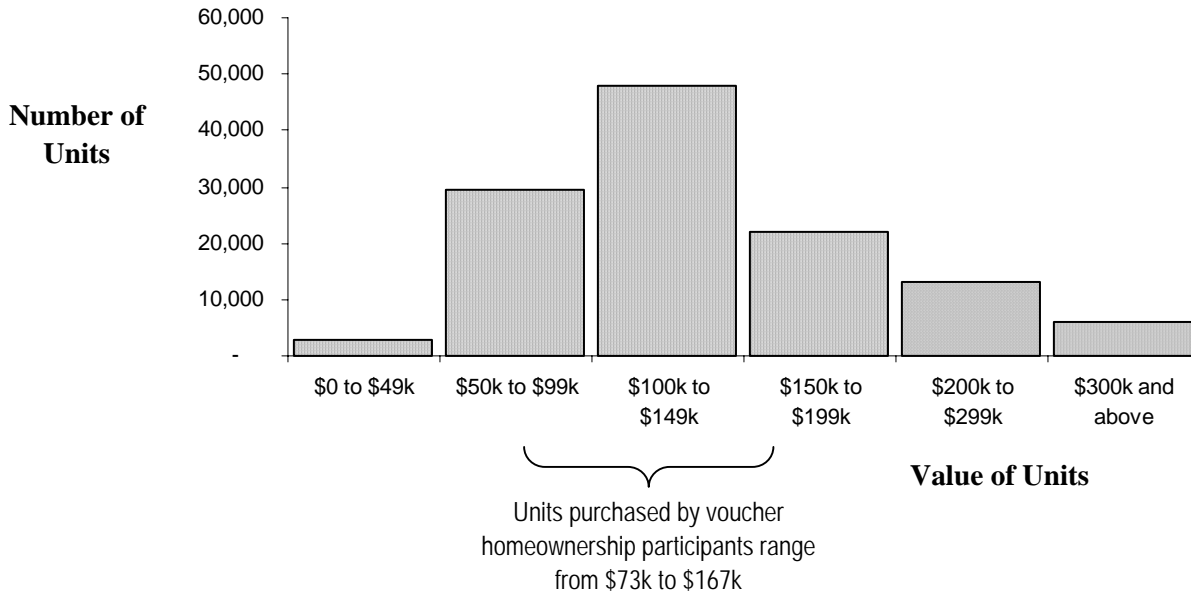
BCHD began offering the voucher homeownership option in July 2001 under the authority of HUD's final rule. At the time of the site visit, in March 2002, 13 program participants had purchased houses. In April 2002, two more households purchased. Local partners play a central role in BCHD's program. The New Mexico Mortgage Finance Authority (the State Housing Finance Agency) provides below-market first mortgage loans and down payment and closing cost assistance to program participants. These additional subsidies are crucial to making homeownership affordable to BCHD participants. BCHD has also partnered with two nonprofit organizations to provide homeownership counseling. One of these organizations provides counseling specifically for persons with disabilities and has been instrumental in assisting borrowers to purchase using Fannie Mae's HomeChoice mortgage product for persons with disabilities. BCHD and its partners are pleased with the number of closings to date and hope to achieve as many as 20 closings per year. However, most of the households who have purchased through the program thus far were fairly close to being able to purchase at the time they applied to the program. BCHD anticipates that as the program expands, the low incomes and poor credit of applicants may become a more significant challenge.

Housing Market Conditions

Bernalillo County has one of the more expensive housing markets among the 12 sites in the study. However, housing prices currently appear to be relatively stable. According to the National Association of Realtors, the median sales price of existing homes in the first quarter of 2002 was \$128,000, four percent lower than the 2001 median. BCHD staff report that there is sufficient housing stock affordable to program participants, although one- and two-bedroom units are more difficult to find than larger units. The purchase prices of the homes purchased through BCHD's program thus far range from \$73,787 to \$167,300, with an average purchase price of \$98,008. The purchase price of \$167,300 is something of an exception, as the next highest purchaser price is \$117,900.

The chart below presents data from the 2000 Census on the number and value of owner-occupied units in Bernalillo County. Approximately 64 percent of the units in the county are valued between \$50,000 and \$149,000, within the price range of BCHD program participants. This supports the view of program staff that the local housing market does not present a barrier to the program's growth.

Value of Owner-Occupied Units in Bernalillo County, Based on 2000 Census



Program Design

Targeting and Outreach

BCHD makes the voucher homeownership option available to existing participants in its rental voucher program and to households admitted to the voucher program from the waiting list. To date, most homeownership applicants have been existing voucher program participants. In addition to the minimum income and employment requirements specified in the final rule, BCHD requires that program applicants have no outstanding debt to BCHD, no family-caused violations of HUD’s Housing Quality Standards (HQS) in the last 12 months, and no serious or repeated lease violations within the past 12 months. Potential applicants from the waiting list with poor credit are encouraged to enter the rental program until they have an opportunity to improve their credit. Candidates who appear to be purchase-ready may go directly into the homeownership option.

BCHD officials have not set a limit on the number of households who may pursue homeownership, but estimate that they will likely have about 20 closings per year. BCHD staff report that they have tried to keep the program requirements simple and open to as many households as possible. As a result, they have not limited the program to participants in the FSS program or otherwise imposed additional PHA eligibility requirements. When it first announced the homeownership option, BCHD sent letters to all households in its rental voucher program that met the minimum income requirement for the program (about 500 households). Based on its previous experience administering a down payment assistance program for the New

Target Population and Outreach Methods

BCHD’s voucher homeownership option is available to existing voucher participants and households admitted to the program off the waiting list.

Since conducting initial outreach to about 500 rental voucher participants in July 2001, BCHD has relied primarily on word of mouth to market the program.

Mexico Mortgage Finance Authority (MFA), BCHD expected that less than 10 percent of those recruited to the program would be able to purchase in the first year.

According to BCHD staff, 225 households have expressed interest in the program since it was first announced. Ten percent of these households did not meet the minimum employment and income requirements of the program, and others have poor credit that will prevent them from purchasing for some time. Nevertheless, as of March 2002 BCHD staff felt that they had incurred a sufficient backlog of prospective homebuyers that they no longer needed to market the program actively. At the time of the site visit, BCHD's primary method of outreach was to discuss the homeownership option at briefings for new voucher program participants and at annual reexaminations of existing program participants. BCHD staff also receive inquiries from participants in Albuquerque Housing Services' rental voucher program, who have heard about the homeownership option through word of mouth.

BCHD asks all clients expressing an interest in the homeownership option to sign a letter of intent to participate in the program. While not a formal screening device, the letter includes a checklist of the basic eligibility criteria of the program (e.g., first-time homebuyers, minimum income requirements, good credit, etc.). Clients who believe they meet the eligibility requirements are encouraged to contact BCHD's Family Self Sufficiency Program (FSS) Coordinator, who is responsible for the daily management of the program. The FSS coordinator discusses the program requirements with applicants over the telephone and refers them to the nonprofit organizations that provide homeownership counseling. Once the applicants have completed the pre-purchase counseling, they meet in-person with the FSS Coordinator to begin BCHD's formal screening process.

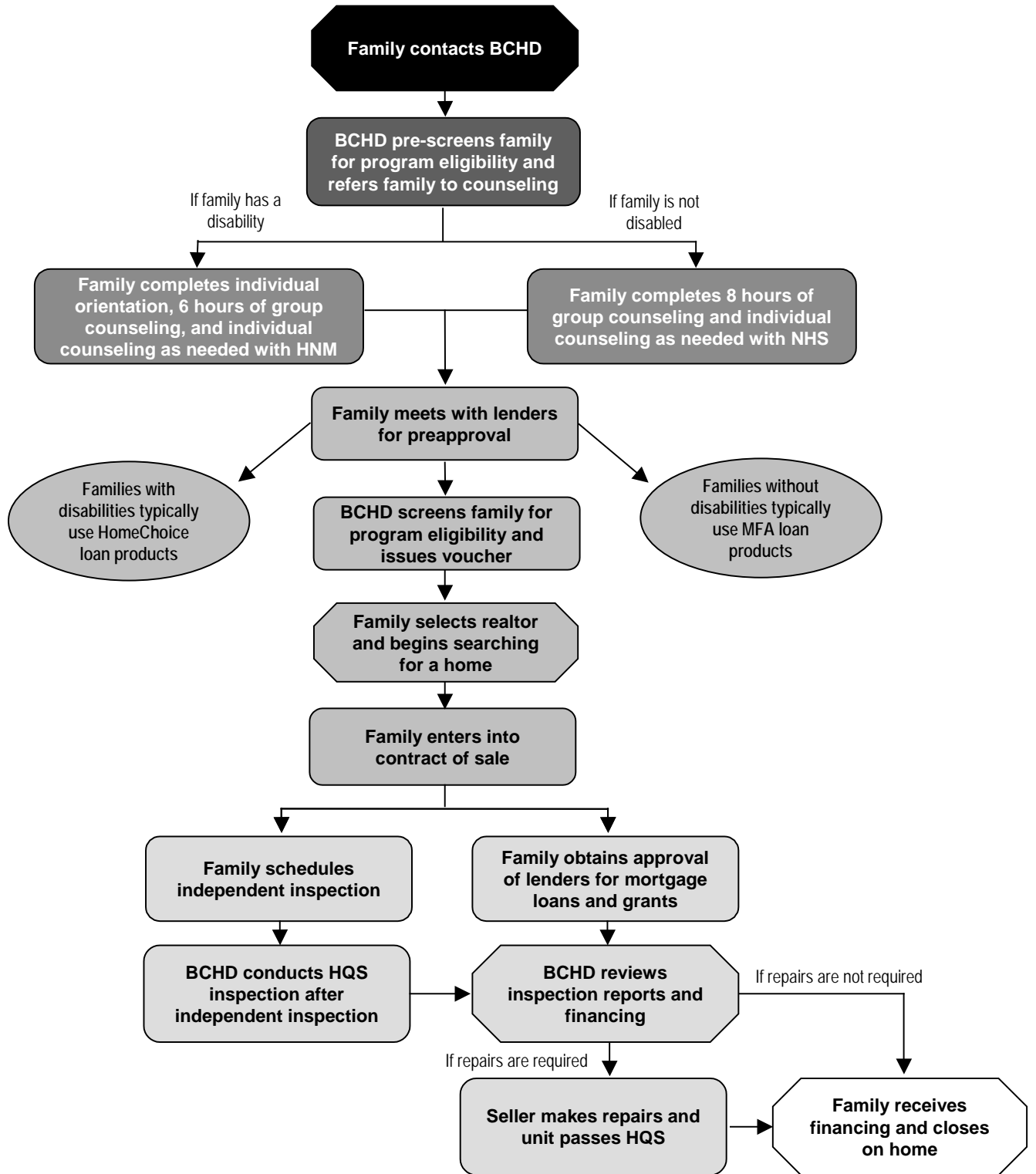
Homeownership Counseling

BCHD has partnered with two nonprofit agencies to provide pre- and post-purchase homeownership counseling. Neighborhood Housing Services (NHS) of Albuquerque, Inc. provides counseling to non-disabled program participants and HOME New Mexico (HNM) provides counseling to participants with disabilities. Representatives from both NHS and HNM reported that the voucher program participants they counsel have more severe credit issues and require more counseling than other first-time homebuyers with whom they typically work.

NHS requires voucher program participants to attend one eight-hour pre-purchase homebuyer education course. These sessions are held twice monthly on Saturdays. Voucher participants are grouped with other first-time homebuyers. NHS staff lead the sessions and guest speakers, such as lenders and realtors, make presentations. The topics covered include mortgages, budgeting, credit, maintenance and repair, predatory lending, homeowners insurance, and the home search process.

In addition to the group session, NHS provides one-on-one counseling on a case-by-case basis. In particular, NHS provides individualized credit counseling to participants requiring individualized attention in this area. NHS works with these participants to establish a detailed credit repair plan. As the Executive Director of NHS noted, "We prefer to give the families a few months to address just a few issues at a time to avoid overwhelming them. It makes the families feel better if they can see incremental progress." NHS uses a tracking system that includes sending a follow-up letter to

Bernalillo County Voucher Homeownership Purchase Process



families who have not purchased every three months for a year. Given that many voucher homeownership candidates are not ready to purchase when they complete the counseling, this provides participants with an ongoing connection to the program.

HNM provides homeownership counseling for voucher homeownership participants with disabilities. Founded in 1995, part of HNM's core mission is to provide specialized homeownership counseling to first-time homebuyers with disabilities. HNM requires all voucher homeownership participants to attend a one-on-one orientation. This one-hour meeting allows HNM staff to discuss the participant's particular situation as well as to review their income, credit, and goals. Poor credit does not preclude participants from attending the pre-purchase homebuyer education class.

Pre-Purchase Counseling

BCHD has partnered with two counseling agencies to deliver pre-purchase counseling to program participants. Persons with disabilities receive 6 to 8 hours of group and individual counseling through HOME New Mexico. Non-disabled participants receive 8 hours of group counseling and individual counseling as needed through NHS of Albuquerque, Inc.

After the orientation, HNM invites the participants to return for a mandatory six-hour pre-purchase homebuyer education class. These classes are held once a month on Saturdays and voucher participants are grouped with other first-time homebuyers. The pre-purchase curriculum covers the following topics: the benefits of homeownership, money management, home mortgages, home search, credit repair, home maintenance, and predatory lending. HNM's Executive Director reports that in addition to the homebuyer education class, nearly all voucher homeownership participants receive one-on-one counseling ranging from one to 100 hours depending on each client's need. "One-on-one counseling is the key to success because it allows you to customize the counseling to each individual situation. We teach participants how to use the tools to help themselves."

Home Search and Inspections

Both NHS and HNM include the home search process as part of their pre-purchase homebuyer education curriculum. However, neither organization provides any formal search assistance to voucher participants. BCHD provides participants with a list of realtors who have attended a BCHD-sponsored training session on the voucher homeownership program.

The Executive Directors of NHS and HNM, both former real estate brokers, have used their professional backgrounds and industry connections to educate the local real estate community about the voucher homeownership program. HNM's Executive Director believes it is critical that participants with disabilities have access to realtors who can help them find a suitable house. She also noted that it is vital for realtors to be well informed about the voucher homeownership program because it is a non-traditional transaction (requiring additional paperwork, the HQS inspection, and understanding of the voucher payment standards). With these concerns in mind, she recruited realtors to attend the training session on the voucher homeownership program referenced above. She conducts part of this training in conjunction with BCHD staff.

NHS's Executive Director has been sensitive to the needs of Bernalillo County's Vietnamese population. Thus far, one-third of the purchasers in the program have been Vietnamese immigrants. NHS's Executive Director connected these program participants to a real estate broker who speaks Vietnamese. While he is careful that participants are not "steered" to any particular broker, he notes that it is beneficial and comforting for program participants to have the option to speak to a broker who is fluent in their language.

There is no additional assistance with home inspections provided to participants beyond what is covered in the pre-purchase homebuyer education classes. BCHD staff report there is no major difference between the HQS inspection conducted under the homeownership voucher program versus the rental voucher program. However, the HQS inspections for the homeownership program are conducted by BCHD's most senior inspectors (including the Assistant Housing Director who is a certified inspector). The HQS inspection does not occur until after an independent inspection is completed. The drawback of this process, and why most PHAs conduct HQS before the independent inspection, is that families may end up paying for an inspection on a unit that will never pass HQS (either because it is in such poor shape or because the seller is not willing to make the repairs). The advantage (according to BCHD) of conducting the HQS inspection after the independent inspection is that it allows the BCHD inspector to review new repairs that the seller may have made following the independent inspection and to assess the quality of the unit just prior to the family moving in.

Financing Model

The financing model used in BCHD's voucher homeownership program varies based on the available loan products. Program participants must work with a lender that is approved by FHA and by the New Mexico Mortgage Finance Authority (MFA). At the time of the site visit, there were six MFA-approved lenders working with program participants.

BCHD participants have access to two main sources of financing. First, MFA provides mortgages with below-market interest rates and down payment assistance for program participants. MFA uses the proceeds from single-family revenue bonds sold to investors to reduce the costs of mortgages for first-time homebuyers throughout New Mexico. This pool of funds finances 30-year fixed rate mortgages for voucher homeownership participants. The interest rate available to program participants has averaged about 6.75 percent. For MFA loans, the HAP is considered as an addition to the participant's monthly income and is provided either to the lender or household depending on the preference of the particular lending institution. The loans are originated by MFA-approved lenders. However, as with all their other mortgage products, MFA requires the loans to be serviced by a master servicer who buys them from the originating lender and pools them for sale to the secondary market (e.g., Fannie Mae or Ginnie Mae).

In addition to first mortgage loans, MFA uses funds from HUD's HOME program¹ to provide down payment assistance to BCHD participants through its existing "Payment Saver" loan program. BCHD requires program participants to pay at least three percent of the sales price toward the down payment. Of this three percent, the higher of one percent or \$500 must come from the participant's personal resources. The MFA's "Payment Saver" program offers interest-free loans of up to \$10,000 (or eight percent of the purchase price) to be used for a down payment. Repayment of the loan principal is deferred until the property is sold, refinanced, or transferred. Program participants who purchase houses in the unincorporated portions of Bernalillo County (as opposed to the City of Albuquerque) are eligible to receive an additional \$20,000 in down payment assistance. The reason for this disparity is that the City of Albuquerque is an "entitlement" community, and Federal rules for

¹ HUD's Home Investment Partnership Program (HOME) provides grants to States and local governments to fund housing programs that meet local needs and priorities. HOME funds may be used for a broad range of eligible activities, including: providing home purchase or rehabilitation financing assistance to eligible homeowners and new homebuyers; building or rehabilitating housing for rent or ownership; and providing direct rental assistance.

disbursing HOME funds prohibit local jurisdictions from doubling the subsidy amount in “entitlement” areas.

The second source of financing is Fannie Mae’s HomeChoice mortgage program. This program is available only to people who have disabilities or have family members with disabilities living with them. The HomeChoice program offers 30-year fixed rate mortgages with below-market interest rates. HomeChoice mortgages also offer more flexibility than typical mortgages in the loan-to-value ratios, down payment sources, qualifying ratios, and the establishment of credit. The interest rates on the HomeChoice loans made to BCHD program participants have averaged about 6.25 percent. For HomeChoice mortgages, the HAP is applied as a direct offset to the monthly mortgage and is provided directly to the lender. HNM’s Executive Director noted that the voucher subsidy often adds \$20,000 to \$30,000 in purchasing power for program participants. She also suggested that without the voucher subsidy, a significant share of low-income households in Bernalillo County would not be able to purchase houses through the HomeChoice product alone.

Due to the specialized nature of this product, Fannie Mae has designated just one lender in Albuquerque to originate these loans. Fannie Mae also requires this lender to service the HomeChoice loans in-house. The lender requires that the monthly mortgage payments be made by automatic withdrawal from the participant’s bank account. The lender explained that servicing the loans in-house keeps the lender (and Fannie Mae) more closely involved and allows them to react quickly to loans that might be at risk for default. However, the performance of these loans to date was reported to be excellent.

In addition to the mortgage loans, program participants with disabilities also have access to down payment assistance from the following sources: 1) \$6,000 through MFA’s “Helping Hand” loan program; 2) \$5,000 from either the Land Title Trust Funds or from the State of New Mexico; and 3) \$5,000 through the Federal Home Loan Bank of Dallas. All three products are offered as zero percent interest loans due upon resale or refinancing. Participants may only use “Helping Hand” in combination with one of the other two products, so in practice the largest amount of down payment assistance available to any one participant is \$11,000.

One of the lenders interviewed had originated several loans to BCHD voucher homeownership program participants. He commented that from a business perspective, originating loans through the voucher homeownership program was attractive because the voucher subsidy allows the loan amount to be larger than it is in other first-time homebuyer programs where the down payment amount comprises a larger share of loan. The lender noted that the voucher subsidy allows his institution to generate “normal” fees on loans to BCHD program participants. However, a loan officer from this institution also noted that voucher homeownership candidates require more time and “hand-holding” than other first-time homebuyers.

Sample Purchase Transaction	
Buyer’s Annual Income:	\$17,514
Costs to Buyer:	
– Purchase Price:	\$84,500
– Closing Costs:	\$4,141
Sources of Financing:	
– 1 st Mortgage:	\$67,600 (MFA 6.75% 30 yrs.)
– Deferred Loan:	\$20,000 (MFA, 0% def until sale)
– Forgivable Loan:	\$3,500 (FHLB, 0%)
– Buyer Cash Down:	\$1,041
Monthly Mortgage Payments:	
– Total monthly PITI:	\$514
– Monthly HAP to offset PITI:	\$221
– Buyer’s share of monthly PITI:	\$293
– Buyer’s share of PITI as a percent of gross monthly income:	20%

BCHD staff review and approve each financing package prior to closing. BCHD does not permit balloon payments or adjustable rate mortgages. Because program participants are encouraged to work with MFA-approved lenders, it is less likely that they will be offered unaffordable financing. However, at the time of the site visit, program staff had just disapproved a financing package that included a first mortgage with an interest rate of 22 percent. (The participant had found a newly constructed home through a builder, who had led her to the lender offering this rate.) When reviewing the proposed financing of each purchase, program staff try, as a rule of thumb, to ensure that the participant's share of the monthly mortgage payment(s) does not exceed 40 percent of adjusted monthly income. However, they may permit higher payments on a case-by-case basis.

Post-Purchase Activities

At the time of the site visit, BCHD was still developing the post-purchase counseling component. At a minimum, BCHD intends to offer post-purchase counseling and specific intervention for program participants who run into difficulty making their mortgage payments. BCHD requests that lenders inform the housing agency as early as possible if participants have difficulty meeting their mortgage payments. BCHD plans to require participants in danger of default to develop a plan of action and obtain additional counseling. As BCHD's Assistant Housing Director noted, "In the event that a red flag goes up, we will require participants to go through additional counseling. If we see families getting into trouble we will work with them to create a plan they can follow to avoid future difficulties." The Assistant Housing Director also noted that BCHD will use the annual reexamination process to confirm that participants are keeping up with their mortgage payments. This is particularly important for non-disabled participants whose voucher subsidy will end after 15 years. To address this concern, BCHD plans to monitor the size of the HAP over time. Housing agency staff will use a three to five percent annual decrease in the HAP as a benchmark for tracking whether participants will be able to meet their mortgage payments at the end of the assistance term.

Post-Purchase Activities

BCHD intends to require post-purchase counseling and develop a plan of action for participants in danger of default.

BCHD will monitor the size of the HAP on an annual basis as a way of assessing participants' progress toward self-sufficiency.

Fannie Mae's HomeChoice program has a more formal early intervention component. HNM staff send voucher program participants with HomeChoice mortgages mailings informing them of the availability of post-purchase counseling and encouraging them to return to HNM for individualized assistance as necessary. In addition, Fannie Mae requires the lender servicing the HomeChoice loans to inform HNM about late payments within 30 days. The Executive Director of HNM believes this will be a powerful tool to prevent clients from going into default. HNM also has emergency funds available for clients who miss a mortgage payment. In general, the emergency funds can be used to cover only one missed mortgage payment and only if the missed payment is due to circumstances beyond the client's control (such as a death in family, loss of a job, or a medical crisis). This emergency assistance is provided as a zero percent interest loan repaid in monthly installments.

Program Management, Staffing, and Partnerships

Outside partners play a critical role in BCHD's voucher homeownership program. As BCHD's Assistant Housing Director noted, "The approach we have taken is to let each partner do what they do best. We let our partners play an active role." The key actors and their roles in the program are: BCHD for program administration; NHS of Albuquerque, Inc. and HNM for homeownership counseling; and MFA for mortgage loans and down payment assistance. BCHD attributes much of the program's success to these partnerships, but developing and sustaining the partnerships has also required considerable work by BCHD staff.

BCHD did not hire new staff to work on the voucher homeownership program. This was possible in part because there were several partner agencies in the community willing and able to fulfill key programmatic functions. Nevertheless, BCHD reports that planning, designing, and implementing the program has been labor intensive. The planning and design effort was led by BCHD's Assistant Housing Director and FSS Coordinator, who initially researched the operation of homeownership voucher programs at the HUD pilot sites. In particular, they looked closely at the program operated by Colorado's Department of Human Services, Supportive Housing and Homeless Programs (SHHP). BCHD spoke with SHHP staff about their program and downloaded copies of some of SHHP's policies and procedures documents from the Internet. BCHD was particularly attracted to SHHP's focus on persons with disabilities because HNM had expressed interest in making the voucher homeownership option available to this population.

In addition to drawing upon the experience of SHHP, BCHD called upon its previous experience in operating a homeownership program. In the early 1990s, BCHD administered a down payment assistance program for MFA, using HOME program funds. MFA provided BCHD with funds to provide up to \$15,000 in down payment assistance to households with incomes below 80 percent of the area median. Thirty-four low- and moderate-income households purchased houses on the private market through this program. BCHD's Executive Director believes the experience was helpful in developing the voucher homeownership option because, "our mentality was already programmed for homeownership."

This prior partnership with MFA also gave MFA confidence in BCHD's capacity to administer a homeownership program. In early 2001, BCHD approached MFA about accessing down payment assistance funds for voucher homeownership participants. After reviewing HUD's program regulations, MFA suggested that in addition to down payment assistance, MFA could adapt one of its existing mortgage products for use in the program. Given that MFA did not have much previous knowledge of the voucher program, BCHD reports it was important to spend time educating MFA staff about voucher program regulations and nomenclature.

During the program design and development phase, which took about four months, BCHD's FSS Coordinator spent about 75 percent of her time on the program. In addition, the Assistant Housing Director spent about 50 percent of his time on the program.

With the program fully operational, as of March 2002, the FSS Coordinator devotes approximately 25 percent of her time on the program and the Assistant Housing Director devotes five to 10 percent of his time. The FSS Coordinator handles the day-to-day management of the program and has the most

contact with program partners and participants. The total level of effort by BCHD staff is now approximately one third of one full-time equivalent staff.

Although 15 families have purchased through the program and the program's structure is firmly in place, interviews with BCHD staff and outside partners noted several program issues that may require ongoing monitoring. The first is a BCHD resource issue. Thus far, BCHD has funded its voucher homeownership activities entirely through voucher program administrative fees. BCHD's Assistant Housing Director believes that BCHD could "double or triple" the number of closings through the program if the housing agency had more resources to allow staff to work closely with program applicants with credit problems. He suggested that with additional staff time to devote to the program, BCHD could develop additional partnerships in the community. At the same time, he noted that BCHD cannot afford to allow the FSS Coordinator to spend more than 25 percent of her time on the homeownership program, at least in part because her normal duties are a SEMAP-rated area.

The program has also raised resource concerns for BCHD partners. Specifically, BCHD's reliance on other agencies to fulfill key programmatic functions runs the risk of placing an excessive burden on its partners. For example, HNM's Executive Director reported that there is a fine line between counseling voucher homeownership clients and taking on the roles of the housing agency. As she noted, "We are trying *not* to be everything to all people. We can't be expected to answer all the voucher-related questions such as portability or landlord matters. We try to route those types of issues back to BCHD." Furthermore, she noted that she would prefer that BCHD devote one staff person to work on the program full-time, as opposed to the FSS Coordinator's current commitment of one day a week.

Another management issue is related to BCHD's voucher utilization rate. At the start of the voucher homeownership program, BCHD staff were concerned that the homeownership program might jeopardize the agency's voucher utilization rate. In particular, staff were concerned that if homeownership applicants coming off the voucher waiting list would take much longer to "lease up" their vouchers (by buying a home) than families in the rental program. In order to mitigate this risk, BCHD decided not to issue vouchers to applicants until they are certified to be eligible for the program, have completed homeownership counseling, and have been pre-qualified for a mortgage by a lender. In addition, BCHD staff encourage families admitted from the voucher waiting list and interested in homeownership to rent for a year while they prepare to purchase. As a result of these efforts, most of the families who have purchased through the program have been existing rental participants, and BCHD's utilization rate has not been adversely affected.

Finally, HNM staff expressed concern about their perceived role in the program. According to HNM staff, at the start of the program HNM played a "middle man" role between the HomeChoice lender and BCHD because there was considerable confusion about how the mortgage amount would be calculated. For example, program participants would be quoted one loan amount from the lender and given a different figure by BCHD. Because of their close contact with program participants, HNM staff found themselves facilitating contact between the lender and BCHD. There has been much less confusion over this issue—and less need for HNM to step in—since the lender and BCHD created a form that they share with one another that gives a best estimate of the HAP and mortgage amount.

Program Staffing

BCHD devotes the equivalent of one third of one full-time staff person to administering the program. This includes daily management of the program and working with the outside agencies that provide counseling and financing to program participants. Given limited PHA resources, these partnerships are essential to BCHD's ability to offer the program.

Program Outcomes

As of April 2002, 15 program participants had purchased through the program. Although BCHD staff did not set an official target for the number of purchases, they are close to reaching their unofficial goal of 20 closings per year. In addition to the 15 purchasers, 68 households have completed pre-purchase homeownership counseling (including 30 persons with disabilities). At the time of the site visit, in March 2002, 16 of the 68 households who had completed counseling but not yet purchased had pre-qualified for mortgages and were searching for homes. The remaining 52 households have credit issues to address before they will be ready to purchase. BCHD staff reported that they would ideally like to complete more than 20 closings per year. However, the Assistant Housing Director noted that thus far, the people who have purchased or are purchase-ready are “the cream of the crop”—people who do not require major assistance to become homeowners. This pool of candidates is limited. The Assistant Housing Director suggested that BCHD *could* work with applicants who are less prepared for homeownership— “transforming renters into homeowners” as he put it—but he believes that this may require staff resources that the housing agency does not presently have.

The average annual household income of participants who have purchased through BCHD’s program is \$14,471. This is significantly higher than the average for participants in BCHD’s voucher program as a whole, which in May 2001 was \$9,725.² Five of the 15 purchasers are persons with disabilities. As might be expected, purchasers with disabilities had lower incomes than purchasers without disabilities. Thirteen of the 15 purchasers received some form of down payment or closing cost assistance. BCHD’s Assistant Housing Director noted that many of the purchases would not have been possible without this additional help. Six purchasers, all Vietnamese immigrants, also received gifts from family members. These gifts ranged from \$4,688 to \$27,467.

Program Outcomes

- Number of households counseled: 83
- Number of homes purchased: 15
- Average income of purchasers: \$14,471
- Average purchase price: \$98,008
- Instances of loan default: 0

All five of the purchasers with disabilities have accessed mortgages through Fannie Mae’s HomeChoice program. Combining the voucher subsidy with the HomeChoice program presents an attractive opportunity for persons with disabilities. As noted above, the voucher subsidy creates an additional \$20,000 to \$30,000 in purchasing power over what HomeChoice’s below-market interest rates can offer. On average, voucher purchasers with disabilities have been able to make down payments of five to 20 percent of the purchase price (including grants and subsidies), although HomeChoice only requires a three percent down payment.

BCHD program staff report that most voucher homeownership participants have been able to find suitable homes without difficulty. On average, purchasers take about two months to purchase once they begin homeownership counseling. However, the Assistant Housing Director noted that the relative scarcity of smaller houses in Bernalillo County makes it harder for elderly persons and persons with disabilities to find homes.³ The Executive Director of NHS noted that he believes the quality of the houses purchased through the program is good. Most of the houses are less than six

² Based on data collected by HUD’s Multifamily Tenant Characteristics System (MTCS).

³ For persons with disabilities, PHAs can request HUD approval for exception payment standards up to 120 percent of the local Fair Market Rent as a reasonable accommodation.

years old. However, many of these newer houses are “tract” houses in new subdivisions and, as a result, they may not appreciate as much as houses in more established neighborhoods.

BCHD data indicate that about 60 percent of the homes purchased through the program passed the initial HQS inspection. The Assistant Housing Director noted the repairs on homes that did not initially pass HQS have been relatively minor, such as replacement of electric outlets, adding smoke detectors, and tightening loose light fixtures. In all cases, the seller made the necessary repairs.

The program participants interviewed during the site visit expressed a great deal of satisfaction with their homes and neighborhoods. One program participant with a disability commented, “I always wanted my own home but did not think it would ever be possible. This program changed that and now I live in an area where I have always wanted to live.” Prior to the voucher homeownership program, this participant had applied for a first-time homebuyer program that only qualified her for a \$35,000 mortgage, which precluded her from purchasing in Bernalillo County. However, with the voucher subsidy, this participant qualified for a \$65,000 mortgage and was able to buy a house in the neighborhood of her choice.

“I always wanted my own home but did not think it would ever be possible. This program changed that and now I live in an area where I have always wanted to live.”
- BCHD program participant

According to BCHD’s FSS Coordinator, many of the houses purchased by the Vietnamese program participants border a neighborhood of Albuquerque with a reputation for high crime. Nevertheless, the windshield survey conducted during the site visit revealed that homes in this area were well maintained and desirable. Furthermore, BCHD staff reported they were careful to counsel these participants about the reputation of this area before the participants made their final decision.

Lessons Learned

BCHD has been successful in assisting households to purchase houses through the program with a relatively low level of PHA staff effort devoted to ongoing program management. BCHD staff emphasize the role that outside partners have played in fulfilling key programmatic functions and providing attractive financing options for program participants. As BCHD’s Executive Director put it, “A lot of housing authorities think they have to do all the work in-house. I think you have to be willing to give up some control. Letting go and having partners play key roles in certain programmatic functions has been a good thing for us.”

Thus far, the households who have been able to purchase through the program have had relatively high incomes and good credit standing. In addition, they have shown initiative in seeking out the program. BCHD staff suggest that the households who have completed counseling but have not yet purchased are not as prepared for homeownership and typically have poor credit. Serving these households—who require more counseling—will put additional pressure on BCHD’s limited staff resources. As BCHD’s Assistant Housing Director noted, “At some point we will hit a plateau in the number of families that are able to purchase homes through the program. We won’t be able to make the impact we would like to without additional resources.” He argued that additional resources from HUD would allow BCHD and its partners to deliver more intensive counseling to this segment of voucher participants and help more households purchase homes. The Assistant Housing Director also suggested that additional down payment assistance funds would be helpful to ensure that voucher homeownership participants can afford to purchase in the local housing market.

BCHD staff and partners offered the following advice to PHAs considering the voucher homeownership option:

- **Partnerships allow PHAs to outsource key program roles, reducing the burden on PHA staff.** PHAs must be willing to give some control to their partners, including lenders. Building strong relationships with lenders through open and frequent communication is critical to reducing the amount of work required by PHA staff and other partners over the long-term. Lender confusion or lack of support for the program can present a major obstacle for everyone involved.
- **Open and continuous communication among partners is key to smooth and efficient program implementation.** Confusion among the program partners about how the mortgage would be calculated using the voucher subsidy caused some confusion in the early implementation of BCHD’s program. As HNM’s Executive Director summarized, “communication between lenders and the PHA is *critical*.”
- **It is not necessary for PHAs to “reinvent the wheel.”** BCHD drew from the example of an agency that was already offering the homeownership option and adapted the model to serve local circumstances. In designing their programs, PHAs should also try to keep the programs as flexible as possible so as not to preclude potential partnership opportunities. For example, BCHD has been open to using different financing models (HAP as direct mortgage offset and HAP as income) with different lending partners.

Bernalillo County Program Summary	
Number of homes purchased:	15
Average income of purchasers:	\$14,471
Average purchase price:	\$98,008
Average monthly HAP payment:	\$234*
Financing models:	HAP as Offset, HAP as Income
PHA program staffing:	0.3 full-time staff equivalent

**Based on a sample of 10 purchases.*

State of Colorado

Department of Human Services, Supportive Housing and Homeless Programs

Introduction

Colorado's Supportive Housing and Homeless Programs (SHHP), a division of the State Department of Human Services, administers approximately 2,600 housing choice vouchers statewide, primarily to persons with disabilities. The homeownership option is available to persons with disabilities throughout the state who have rented through SHHP's voucher program for at least a year. As of May 2002, 21 voucher households had purchased through the program. SHHP has been involved in providing homeownership opportunities to persons with disabilities since 1993, when it received HUD HOPE 3 funds to provide down payment assistance to clients with mental disabilities. Prior to the HOPE 3 program, SHHP had helped establish a task force of nonprofit organizations, lenders, and city and state agencies to increase homeownership opportunities for persons with disabilities. This task force, now known as the HERO (Homeownership Education and Resource Opportunities) Alliance, saw the proposed voucher homeownership option as a good opportunity for this population. SHHP received permission from HUD in January 2000 to offer the voucher homeownership option under the proposed rule as a pilot site.

The main challenge for SHHP's voucher homeownership program has been the tight housing market in the Denver metropolitan area, where 10 of the 21 program participants have purchased. The high cost of housing in many parts of Colorado, together with the extremely low incomes and special needs of SHHP's voucher participants, has influenced the implementation of SHHP's homeownership program. In particular, SHHP and its partners have been able to make a high level of subsidy available to program participants in addition to the monthly voucher subsidy, including below-market mortgages and down payment and closing cost assistance.

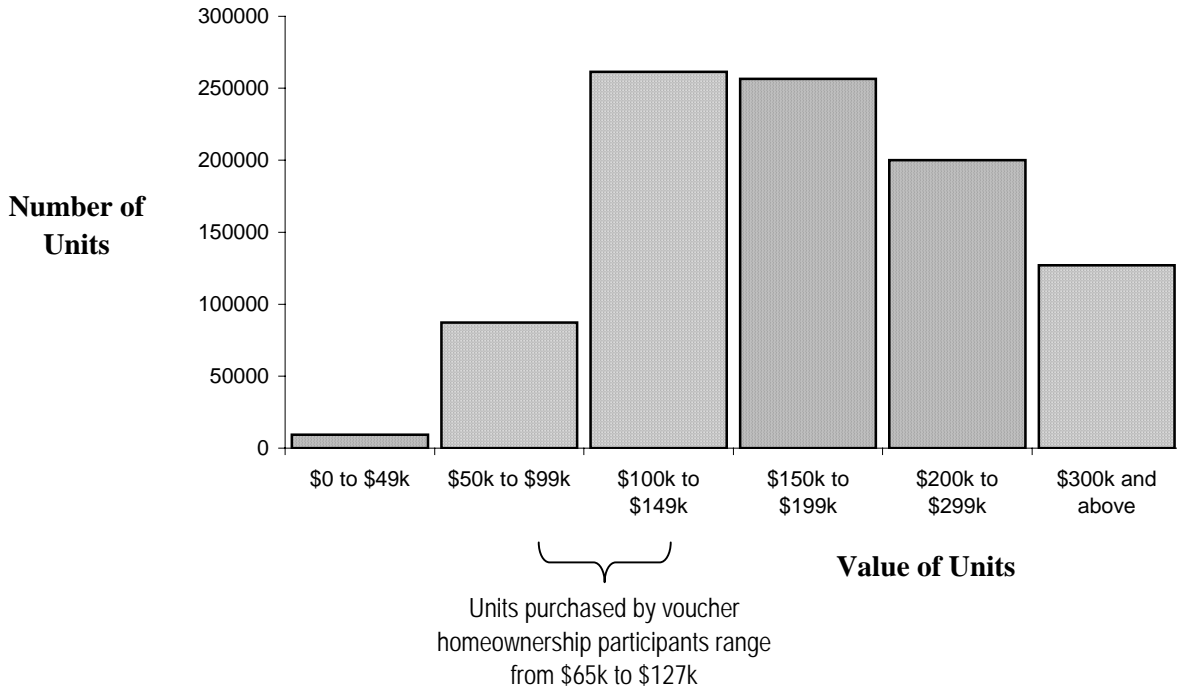
Housing Market Conditions

The state of Colorado includes some of the most expensive housing markets among the 12 sites in the study. According to the 2000 Census, the median house value for the state as a whole was \$168,896, more than 40 percent higher than the national median. The housing market in the Denver area is particularly tight. According to the National Association of Realtors, the median sale price of existing homes in the Denver metropolitan area in the first quarter of 2002 was \$223,800, up 3 percent from 2001 and 14 percent from 2000. In contrast, the purchase prices of the homes purchased through SHHP's voucher homeownership program range from \$65,000 to \$127,000, with an average purchase price of \$95,238.

The chart below presents data from the 2000 Census on the number and value of owner-occupied housing units across the state of Colorado. Just over a third of the units in the state (38 percent) are valued below \$150,000, within the potential price range of voucher program participants (although it is unlikely that participants will be able to purchase units for more than \$130,000). The majority of housing units in Colorado (62 percent) are valued at \$150,000 or more. In the Denver metropolitan area, 68 percent of housing units are valued at \$150,000 or more. The relative scarcity of housing

within the price range of program participants suggests that the housing market—particularly in the Denver metropolitan area—presents a potential barrier to the growth of SHHP’s voucher homeownership program.

Value of Owner-Occupied Units in Colorado, Based on 2000 Census



Program Design

Targeting and Outreach

The homeownership option is available to persons with disabilities who are existing participants in SHHP’s rental voucher program. Operating under the proposed rule as a pilot site, SHHP was not covered by the HUD minimum income threshold established in the final rule, and typically serves families with incomes below the HUD minimum income amount. SHHP chose to restrict its program to households who have participated in the rental program for at least a year and are in good standing with the agency, but not to impose other eligibility requirements. In particular, there is no minimum income requirement. Households who meet the basic eligibility criteria and who report that they have good credit are invited to attend homebuyer education and pursue homeownership. SHHP encourages applicants who think that poor credit or lack of credit may prevent them from obtaining a mortgage to request a credit report and pursue credit counseling as needed. SHHP’s Program Coordinator provides information on credit counseling to program applicants both verbally and as part of a packet of information sent out to program applicants.

SHHP’s Program Coordinator noted that the program would have fewer participants if it were operating under the final rule, which requires that households admitted to the program have an annual income equal to at least 2,000 hours of annual full-time work at the Federal wage (currently \$10,300). Ten of the 21 households that have purchased homes to date have annual incomes below \$10,300.

Moreover, analysis of SHHP program data from May 2001 suggests that approximately four-fifths of all persons with disabilities in SHHP’s rental program have incomes below \$10,300.

SHHP has a preference in its homeownership program for participants in the FSS Program. Thus far, however, FSS participation has not been a big factor. SHHP’s FSS program is relatively small (approximately 40 participants) and to date only one voucher homeownership purchaser has been an FSS participant.

SHHP administers its rental voucher program statewide by delegating certain aspects of program administration—including intake, HQS inspections, and annual reexaminations—to a network of residential coordinators. The residential coordinators are typically staff from local service agencies that serve persons with disabilities (such as mental health centers, independent living facilities, and agencies serving persons with developmental disabilities).

When SHHP began offering the voucher homeownership option, SHHP staff encouraged the residential counselors to market the program to potential homebuyers across the state. After the first few closings, however, SHHP staff decided that they did not need to market the program aggressively in order to meet their target of 10 closings per year for the first two years. SHHP now relies primarily on referrals by the residential coordinators and word of mouth. SHHP currently receives about four new applications a month. SHHP’s Program Coordinator processes voucher homeownership applications at SHHP’s central office in Denver, but the residential coordinators have primary contact on a day-to-day basis with program applicants outside the Denver area. The residential coordinators also conduct the pre-purchase HQS inspection and annual reexaminations for homeownership program participants.

Target Population and Outreach Methods

SHHP’s voucher homeownership option is available to persons with disabilities who have participated in the rental voucher program for at least a year and are in good standing with the agency.

SHHP has not marketed the program aggressively but has relied primarily on word of mouth and referrals by the staff administering the voucher program to reach out to potential homebuyers.

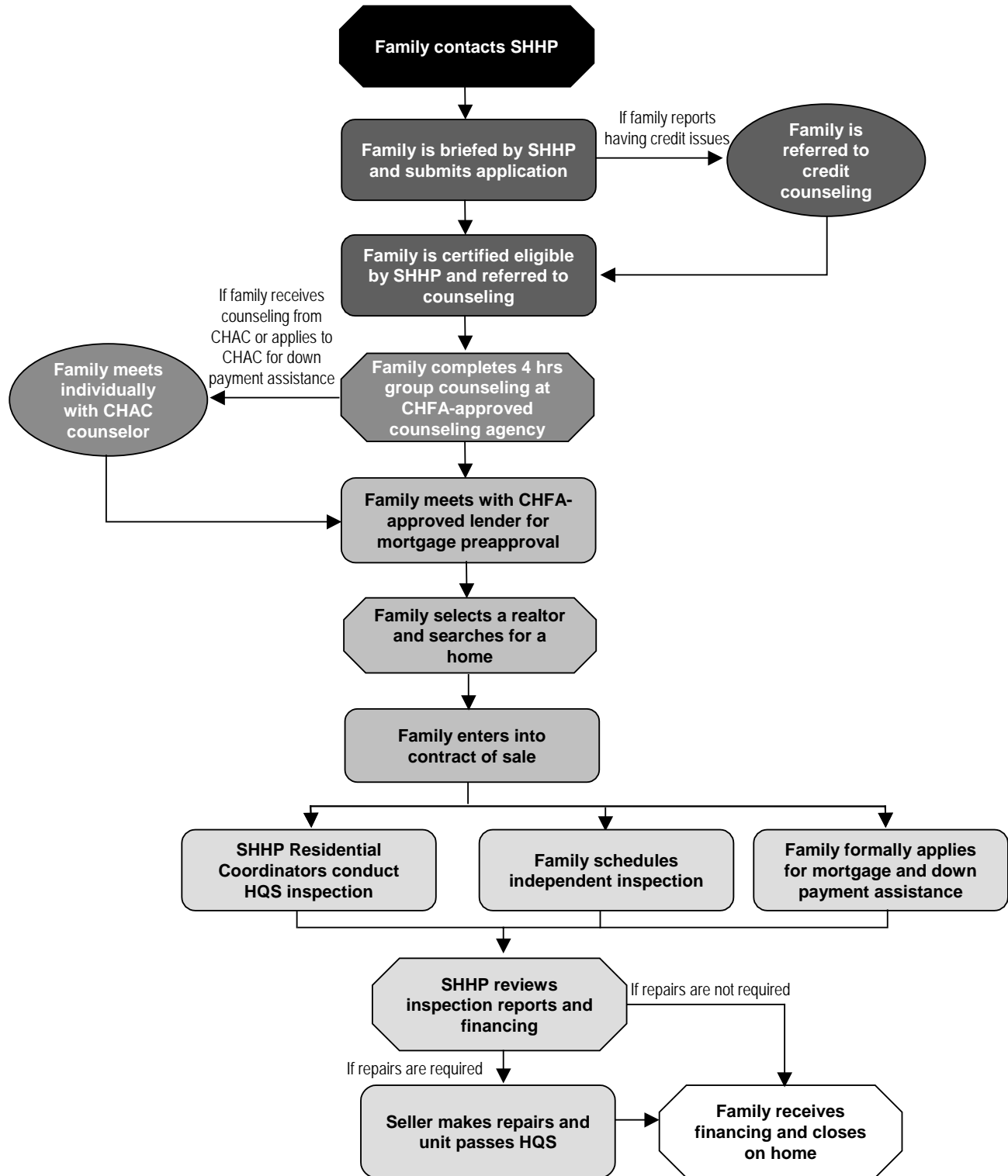
Homeownership Counseling

SHHP believes that providing quality pre-purchase counseling is critical to the voucher homeownership program’s success, particularly given the very low incomes of program participants and the challenges associated with their physical and mental disabilities. However, ensuring that good quality counseling is available statewide is a challenge. Through the HERO Alliance, SHHP has developed a close relationship with the Colorado Housing Assistance Corporation (CHAC), a Denver-based nonprofit agency that provides down payment assistance and homeownership counseling to first-time homebuyers. CHAC also provides specialized homeownership counseling for persons with disabilities. However, given the size of the state, SHHP has had to partner with multiple agencies to provide the mandatory counseling. Program participants may attend any homebuyer education class provided by a counseling agency approved by the Colorado Housing and Finance Authority (CHFA). CHFA subsidizes the counseling, which is free for program participants.

Pre-Purchase Counseling

SHHP requires that participants complete a homebuyer education class taught by one of 31 counseling agencies across the state that have been approved by the Colorado Housing and Finance Authority. Participants who apply for down payment assistance may also receive an additional one-on-one counseling session and credit assessment.

Colorado (SHHP) Voucher Homeownership Purchase Process



There are currently 31 CHFA-approved counseling agencies statewide. CHFA monitors the quality of the counseling provided by these agencies by auditing every class and instructor on a periodic basis. The length of the homebuyer education class varies from agency to agency, but is typically about four hours and covers budgeting, credit, homeownership financing (including predatory lending), working with a realtor, the inspection process, and post-purchase home maintenance. SHHP participants typically take the class alongside other low-income, first-time homebuyers who are not receiving voucher assistance and may or may not have disabilities. Twelve of the 31 agencies offer specialized counseling for persons with disabilities. SHHP encourages its participants to attend these specialized classes and to have a service provider or family member accompany them if necessary.

In addition to the mandatory homebuyer education class, some participants in SHHP's voucher homeownership program also receive one-on-one counseling (including a credit assessment) from CHAC, which provides first-time homebuyers access to down payment assistance in the form of deferred and forgivable loans. A one-on-one counseling session with CHAC's homeownership counselor is required for purchasers who receive down payment assistance through CHAC. Of the 21 families that have purchased to date, 13 have received down payment assistance from CHAC. CHAC's counselor is experienced in working with persons with disabilities and knowledgeable about the voucher program. She travels throughout the state to meet with individual program participants.

SHHP's Program Coordinator believes that program participants generally receive high quality pre-purchase counseling—either through the mandatory homebuyer education class or through one-on-one meetings at CHAC. However, he sees pre-purchase counseling as an area of the program that warrants continued attention. Most of SHHP's purchasers have little income to spare after paying the monthly mortgage and other expenses. In addition, Medicaid has an asset limitation of \$2,000, which makes it difficult for the many program participants who rely on Medicaid for health insurance to set aside funds for home repairs or other needs. Given these challenges, it is imperative that the pre-purchase counseling, particularly on budgeting, be effective.

Home Search and Inspections

Beyond the homeownership counseling, SHHP does not provide program participants with any additional housing search assistance. Program participants are encouraged to work with a realtor, and some of the counseling agencies provide lists of recommended realtors. Thus far, finding homes has been difficult for some participants purchasing in the Denver area; one participant looked for 11 months before finding a house that met her needs. On average, however, program participants have taken just over four months to find and purchase a home after completing the counseling.

SHHP works through its network of residential coordinators to conduct the pre-purchase HQS inspections on voucher homeownership units. SHHP tries to coordinate the HQS inspection so that it happens at roughly the same time as the independent inspection—this way SHHP can present the seller with a single list of required repairs. Seventy percent of the purchased units sampled for this study passed HQS on the first inspection. SHHP's Program Coordinator suggested that thus far, the repairs required have been minor and he has not encountered a situation where the independent inspection revealed flaws that prevented the sale from going through.

Financing Model

SHHP worked closely with CHFA to develop the financing model for the voucher homeownership program. CHFA offers two 30-year fixed rate loan products for persons with disabilities, known as HomeAccess and HomeAccess Plus. HomeAccess is targeted to very low-income borrowers (typically with incomes less than \$20,000) and offers a three percent interest rate. HomeAccess Plus is geared toward borrowers in the \$20,000 to \$40,000 income range and offers the same below-market interest rate as CHFA's other affordable mortgage products (as of April 2002, 6.25 percent).

Acceptable first mortgage loan types for CHFA's HomeAccess and HomeAccess Plus products include FHA-insured, Rural Development-guaranteed, Rural Development-leveraged, and Conventional Uninsured. Although SHHP anticipates that all voucher homeownership participants will use either the HomeAccess or HomeAccess Plus loan products because of their favorable interest rates, participants may use other affordable loan products, provided that they follow FHA's loan-to-value ratio guidelines and have a fixed interest rate.¹ All program participants must pay at least \$750 of their own funds toward the purchase, regardless of the loan product used.

In addition to the first mortgage loans, CHFA also provides a second mortgage of \$10,000 at a 1.5 percent interest rate to assist with the down payment. Unless the home is sold, at which point the full amount of the loan is due, principal and interest payments on this second mortgage are deferred until year 30 (when the first mortgage has been paid off) and then amortized over 10 years. CHFA buys and services all first and second mortgage loans made to voucher participants through the HomeAccess and HomeAccess Plus programs.

SHHP participants can also access additional loans for down payment and closing costs through CHAC. For example, participants may borrow up to \$3,500 from the Federal Home Loan Bank in the form of an interest-free loan that is forgivable after five years. Alternatively, participants may access up to \$6,000 in down payment assistance through CHAC funded by the State Division of Housing (DOH). These loans are deferred for 30 years, at which point the participant can either pay the loan in full or the loan can be amortized over a number of years to avoid a balloon payment.

CHFA gives preference for its HomeAccess and HomeAccess Plus loan products to SHHP voucher homeownership participants. However, competition for the three percent loans is stiff, despite the fact that CHFA has tripled the funding available for these loans in the past year. The funding for the loans is allocated to four lenders with experience serving persons with disabilities. SHHP program participants wishing to access CHFA loans must work with one of these lenders. Participants may in theory get a non-CHFA loan from another lender, but thus far none have done so. Most participants need CHFA's low interest rates to purchase. In addition, the experience that CHFA's lenders bring to the table in working with persons with disabilities (they are also members of the HERO Alliance) is an advantage for program participants.

¹ Seller financing and balloon payments may be permitted on an exception basis at the discretion of SHHP and CHFA. In one case, a participant purchased with a down payment assistance loan that required repayment in full at the end of 10 years (a balloon payment). SHHP discussed the loan terms thoroughly with the participant, pointing out the risk, and allowed the sale to proceed only after the participant submitted a written request for the loan to be allowed.

SHHP and CHFA together determined that they would use the HAP as offset model because it gives program participants the most buying power. In the HAP as offset model, the amount of the first mortgage is calculated by adding the full amount of the HAP to the monthly principal, interest, taxes, and insurance (PITI) that the participant could afford on the basis of his/her own income. SHHP determined that most voucher participants could not afford to buy homes, particularly in the Denver area, if the HAP were applied in any other way. Moreover, because all of SHHP's participants are persons with disabilities, and therefore entitled to receive the voucher subsidy for the full term of the mortgage, the risk typically associated with the offset model (that households will face a excessive housing cost burden when the subsidy runs out) is mitigated.

At the start of the pilot program, SHHP and CHFA received approval from the local HUD Homeownership Center, in conjunction with the HUD Field Office, to use the HAP as offset model. In September 2001, however, FHA issued a letter to lenders stating that the HAP should be treated as income in determining the homebuyer's qualifying ratios.² This has presented a major stumbling block for SHHP's program, because FHA policy does not permit underwriters to use treat the voucher subsidy as a direct mortgage offset for FHA loans. SHHP has asked FHA for a waiver and, with CHFA's assistance, is exploring private mortgage insurance alternatives. In the absence of a change in FHA policy or a mortgage insurance alternative, program participants must qualify for conventional uninsured loans in order to purchase with the HAP applied as a mortgage offset.³

Two of SHHP's 21 purchasers have bought houses in rural areas and have combined CHFA loans with loans from the U.S. Department of Agriculture's Rural Housing Service (RHS)'s Section 502 Direct Loan Program, commonly known as Section 502 loans. In these cases, CHFA provides first and second mortgages and RHS provides a third mortgage. The use of SHHP's program in rural areas may be limited, however, by the lack of public transportation in rural areas of the state, which presents challenges for people whose disabilities (and incomes) prevent them from owning a car.

SHHP and CHFA encountered some initial resistance from the four lenders chosen to participate in the program. The lenders were concerned that they would not be able to sell the loans on the secondary market and did not want to service separate mortgage payments from program participants and SHHP. CHFA's commitment to buy and service the loans was crucial to securing the lenders' support for the program. The loan officers interviewed stated that their institutions would not have participated in the program if CHFA had not agreed to purchase the loans because they did not think that Fannie Mae or Freddie Mac would buy the loans. CHFA also agreed to allow the lenders to

Sample Purchase Transaction	
Buyer's Annual Income:	\$8,105
Costs to Buyer:	
– Purchase Price:	\$105,051
– Closing Costs:	\$2,130
Sources of Financing:	
– 1 st Mortgage:	\$10,000 (3% 30 yrs., CHFA)
– 2 nd Mortgage:	\$82,800 (1% 33 yrs., RHS)
– Deferred Loan:	\$10,000 (1.5% def 30 yrs, CHFA)
– Forgivable Loan:	\$3,500 (0%, FHLB)
– Buyer Cash Down:	\$881
Monthly Mortgage Payments:	
– Total monthly PITI:	\$342
– Monthly HAP to offset PITI:	\$227
– Buyer's share of monthly PITI:	\$115
– Buyer's share of PITI as a percent of gross monthly income:	17%

² HUD Mortgagee Letter 2001-20, September 7, 2001.

³ Among the 12 study sites, FHA's policy has also been a problem for Missoula.

charge a one percent origination fee for these loans, making them slightly more profitable than other CHFA loans.

The lenders are now strongly committed to the program, but the loan officers interviewed reported that the loans are more time-consuming to process and less profitable than other loans that they make to low-income borrowers. The loan officers explained that the underwriting process is more time-consuming because it is done manually and the underwriting staff need to be trained in the specifics of the program. In addition, the loan officers commented that the closing process for voucher program participants was more challenging than usual because of the need to coordinate additional paperwork, because of lead-based paint requirements, and because some participants are bringing four or five different sources of financing to the table.

Post-Purchase Activities

SHHP has two strategies to help voucher homeownership participants be successful over the long term. First, CHFA established a procedure for servicing the loans that allows CHFA and SHHP staff to respond quickly if a participant is delinquent in making a monthly mortgage payment. CHFA buys all of the loans from the originating lenders and services them. At the time of purchase, program participants authorize CHFA to withdraw their share of the monthly mortgage electronically, from their bank accounts, on the fifth of each month. One of CHFA's servicing staff then manually matches these payments against the HAP amounts, which are wired from SHHP to CHFA on the first of the month, to ensure that each borrower has made the full payment. This process is labor intensive, but ensures that CHFA can respond to delinquencies in a timely manner. In the event of a late payment, CHFA would immediately notify SHHP. SHHP would then work with the participant's residential coordinator to resolve the issue. SHHP believes that the involvement of three entities—SHHP, CHFA, and the residential coordinators—in post-purchase monitoring of program participants will help prevent instances of delinquency from escalating into default. In particular, the residential coordinators are likely to learn either directly from participants themselves or through the case management staff at the participant's service agency if the participant is having a problem meeting his or her mortgage payments. As of May 2002, none of the loans has defaulted or incurred any late fees.

Post-Purchase Activities

- SHHP does not require any additional counseling or HQS inspections once participants have purchased.
- Participants receiving down payment assistance from CHAC agree to one post-purchase home visit as a condition of receiving that assistance.
- Participants' mortgage payments are monitored on a monthly basis by CHFA's servicing staff.

SHHP chose not to require any formal classroom post-purchase counseling. This decision was based on feedback that SHHP received from housing counselors across the state who had attempted to implement post-purchase counseling programs and had found it very difficult to compel homebuyers to participate in additional counseling after they purchased. Voucher homeownership program participants who receive down payment assistance through CHAC, however, are required to have a home visit from a CHAC counselor within two years of purchasing. This visit provides an opportunity for the counselor to meet with purchasers one-on-one and note any obvious maintenance or repair problems. In addition, CHAC invites all of its clients (including families that purchased through the HOPE 3 program) to attend an annual reunion. During the reunion, CHAC holds an informal group counseling session to revisit the information on budgeting, maintenance, and

predatory lending provided in the pre-purchase class. The reunion is also an opportunity for SHHP to check in with program participants.

SHHP does not conduct post-purchase HQS inspections. SHHP felt that without recourse against participants whose units fail, the inspections would not be effective. SHHP's Program Coordinator considered having the residential coordinators conduct less formal home visits to program participants, but ultimately decided that this was not consistent with helping participants to become more independent. Instead, SHHP plans to maintain contact with participants after purchase through mechanisms such as post cards and calendars with tips on home maintenance and other reminders of the resources available should participants have difficulty making their mortgage payments. SHHP has also built a maintenance and replacement allowance equal to one percent of the purchase price per year into the monthly subsidy.⁴

Although SHHP's program does not require post-purchase counseling or post-purchase HQS inspections, SHHP devotes staff resources to tracking participant's progress after they purchase. This involves maintaining active communication with CHFA staff—who monitor the mortgage payments—and with the residential coordinators—who interact with participants on a day-to-day basis and are responsible for interim and annual reexaminations.

Program Management, Staffing, and Partnerships

Developing a voucher homeownership program required an intensive effort by SHHP and its partners. The proposed rule gave the pilot sites wide discretion, but relatively little guidance, in designing their programs. In addition, SHHP was the only pilot site focusing on persons with disabilities. SHHP's Housing Director, Program Manager, and Program Coordinator each played a key role in planning the program. In its early stages, SHHP's Program Coordinator, who also has primary responsibility for SHHP's FSS program, spent approximately 75 percent of his time working on the voucher homeownership program. Creating a new set of policy documents and forms was highly labor intensive. In addition, SHHP struggled with how to apply the voucher subsidy to the mortgage and how to make the program attractive to the private lending community. In resolving these key issues, the partnership with CHFA was crucial. SHHP's Program Coordinator suggests that without CHFA it might have been impossible to get the program started.

Program Staffing

SHHP devotes the equivalent of one full-time staff person to administering the program. CHFA staff also devote a significant amount of time to the program. Homeownership counseling is provided by partner agencies free of charge. SHHP believes this level of staff effort is the minimum required to operate a successful program.

Since becoming fully operational, the program continues to require significant staff resources from SHHP, although the level of effort is less intensive than it was during the start-up phase. SHHP's Program Coordinator, who acts as a lynchpin between all of the partners involved in the program, now spends about 60 percent of his time on the program. He is intimately involved with each purchase transaction and maintains a computer database that helps him to monitor participants' progress at each stage of the program, both pre- and post-purchase. He has also become a resource

⁴ The maintenance and replacement allowance increases the amount of the monthly subsidy, thereby reducing the family's share of the monthly mortgage payment and (in theory) freeing up funds that the family can set aside each month for maintenance and replacement.

for other voucher program administrators across the country seeking to develop voucher homeownership programs. In addition to SHHP's Program Coordinator, two senior staff and a clerk each spend about two days a month working on the program. The combined level of effort required by SHHP staff to run the program is roughly equivalent to one full-time staff person.

In addition to the functions performed by SHHP staff, the residential coordinators play a role by conducting the pre-purchase HQS inspections and income reexaminations (as they do in the rental program) and by acting as the first point of contact with program participants. SHHP staff have to make sure that the residential coordinators understand the homeownership program well enough to be able to respond effectively to participants should any issues come up related to their ability to pay the mortgage. Training the residential coordinators on the homeownership program and keeping them informed as to changes in program policies and procedures is a particular challenge that SHHP faces in administering vouchers statewide.

Staff resources for the program have been funded primarily through administrative fees earned through the housing choice voucher program. Given the level of staff effort required to get participants into homeownership, SHHP argues that the cost of administering a homeownership voucher exceeds the administrative fee earned. Because the program is relatively new, most of the staff resources thus far have gone to "up front" activities—helping program participants to purchase homes. It may be that SHHP will begin to recoup some of these up front costs of administering the program by not having to deal with rent increases or annual HQS inspections once participants purchase. The level of effort that the program has required thus far, however, is an ongoing concern for the agency. SHHP believes that it will need to devote at least one full-time equivalent employee to the program, assuming that the program continues to grow by 10 to 20 families a year and that buyers continue to need the subsidy for most if not the entire term of the mortgage.

Program Outcomes

SHHP set a goal of 10 closings each year for the first two years of the pilot program. With 19 closings through April 2002, the program is on target. (Three additional households had purchased as of May 2002). Of the 19 households that had purchased through April 2002, 11 had a mental illness, six had developmental disabilities, and two had physical disabilities. In addition to the 19 purchasers, 52 individuals and families had completed pre-purchase homebuyer education. Of these, 26 were working toward homeownership and 26 had dropped out of the program. SHHP staff are satisfied with both the number of applicants to the program and the proportion of participants who have succeeded in purchasing and do not plan to alter their marketing strategy or make major changes to program administration. SHHP believes that the majority of families who drop out of the program discover during homebuyer education that they are not prepared for homeownership. Some families also get discouraged at having to wait for CHFA's three percent loans, which are in high demand. Poor credit has not been a major problem for the program, as most SHHP clients have had little discretionary income for their entire adult lives and, therefore, were not able to get into debt. Lack of credit history, however, has been a problem for some participants, who have worked with the CHAC counselor to develop alternative records of on-time payment.

Program Outcomes

- Number of households counseled: 71
- Number of homes purchased: 21
- Average income of purchasers: \$10,623
- Average purchase price: \$95,238
- Instances of loan default: 0

SHHP homeownership participants have purchased houses throughout the state. All 19 participants have purchased using the below-market loan products that CHFA offers specifically for persons with disabilities. Participants who purchase outside the Denver area generally have a range of housing options, while purchasers in the Denver area usually are limited to condominiums and town homes. Based on a sample of 10 purchase transactions, participants appear to be buying homes that are in good condition. Five of the homes purchased were single-family homes, four were condominiums, and one was a duplex. Seven of the 10 homes passed HQS on the first inspection. Eight of the sellers of the homes were individual owners, one was a nonprofit, and one was a management company. The individual who purchased from the management company purchased the condominium she had been renting; the others moved to purchase. Participants took between four and five months on average to find and purchase a unit once they completed the homebuyer education class.

Of the 19 housing units purchased to date, one was newly built and one had been rehabilitated to add accessibility features. The ability to purchase newly constructed homes is important for SHHP's program, because the cost of making existing units handicap accessible can be prohibitive.

SHHP has not imposed a limit on the percentage of income that participants can spend on monthly homeownership expenses. Instead, the agency relies on the lenders' underwriting guidelines to keep the purchases affordable. Based on the sample of 10 purchase transactions, the monthly PITI on the mortgage, less the subsidy provided by SHHP, represents, on average, approximately six percent of purchasers' gross monthly income. However, as part of the program requirements, SHHP also develops an estimate of monthly homeownership expenses for each program participant. Monthly homeownership expenses include the allowance for maintenance and repairs set by SHHP (equal to one percent of the purchase price annually), an allowance for utilities (based on the utility allowance schedule used in the rental voucher program), and other required expenses. When these additional costs are factored in, total monthly homeownership expenses represent, on average, approximately 42 percent of purchasers' gross monthly income. Given their low incomes and limited savings, unanticipated homeownership expenses are likely to be difficult for participants. Thus far, however, there have been no instances of late payments.

One of the two program participants interviewed during the site visit provided insight into the challenges that purchasers may face in managing their expenses. The participant, who has physical disabilities, was thrilled to be a homeowner after twelve years of renting through the voucher program. Her first year of homeownership, however, had not been easy financially. She found that she had a lot of minor repairs to make on her condominium, and the Homeowners' Association had recently imposed a special assessment. She receives \$895 a month in Supplemental Security Disability Income, but has unreimbursed monthly medical expenses of close to \$700. With \$200 a month to spend on "everything," including her share of the monthly mortgage, she says that she has become adept at budgeting. She expressed some concern, however, that other participants may be less well equipped to deal with the expenses of homeownership, and she suggested that in addition to the current pre-purchase education, SHHP should offer a very practical class on budgeting, focused on "how to get by when you are poor."

"I think if you don't have savings or family members to help with expenses, this program can be real scary."

-- SHHP program participant

Lessons Learned

SHHP attributes the success of its voucher homeownership program to three factors:

- the availability of first-mortgage loans at very low interest rates;
- the availability of down payment and closing cost assistance; and
- the use of the full HAP as a direct offset to the mortgage.

The major challenge facing the program is the high cost of housing in the Denver area. For participants who wish to buy in Denver, the availability of CHFA's three percent interest rate and use of the HAP as a direct offset to the monthly mortgage payment is critical to the ability to purchase. For this reason, FHA's policy that the HAP be treated as income threatens the growth of SHHP's program. Thus far, all of the families who have purchased since the publication of the FHA letter have been able to obtain conventional mortgages, but this is not expected to continue.

The other ongoing challenge for SHHP is the level of staff effort that the program requires. SHHP has to balance the costs of the program against the benefit of expanding homeownership opportunities for persons with disabilities. The latter is a central component of SHHP's mission, and the success of the program in assisting longtime rental voucher participants to purchase homes has been highly gratifying to SHHP staff. However, the administrative burden that the program creates continues to be a concern.

SHHP's Program Coordinator believes the following lessons are relevant for PHAs considering the voucher homeownership option, whether or not they are serving persons with disabilities:

- ***The program is labor intensive, both in the start-up phase and in day-to-day operations.*** It is important that the program fit closely with the agency's mission and its menu of housing options. PHAs should track the program's effect on the agency's budget—in particular, comparing per unit staff costs and HAPs for the PHA's homeownership and rental programs.
- ***Partnerships play a critical role in program start-up and ongoing management.*** In SHHP's case, CHFA, CHAC, and the other lenders and realtors in the HERO Alliance have been invaluable. SHHP's Program Coordinator recommends that PHAs offering the homeownership option develop a similar support network within their communities, particularly if they plan to serve persons with disabilities. For all PHAs, regardless of the client base served, recruiting a group of committed lenders is a great asset in resolving the challenges that each purchase transaction presents. In SHHP's case, CHFA played the lead role in getting private lenders involved.
- ***A computer database of voucher homeownership program participants is helpful for efficient program management.*** SHHP has developed a database that includes detailed data on program participants and can generate forms, letters, and statistical reports. Although time-consuming to create, SHHP has found the database to be a valuable management and tracking tool.

- ***A very high level of subsidy (below-market mortgages and down payment and closing cost assistance) is needed to make the voucher homeownership program work for extremely low-income people with disabilities.*** In Colorado, the subsidy comes in the form of mortgage loans with below market interest rates, second mortgage loans that do not need to be paid back until the first mortgage is paid off (or the house is sold), and no-interest loans that are fully forgivable if the participant stays in the house for five years.

Colorado Program Summary	
Number of homes purchased:	21
Average income of purchasers:	\$10,623
Average purchase price:	\$95,238
Average monthly HAP payment:	\$359*
Financing model:	HAP as Offset
PHA program staffing:	1.0 full-time staff equivalent

**Based on a sample of 10 purchases.*

Danville, Virginia

Danville Redevelopment and Housing Authority

Introduction

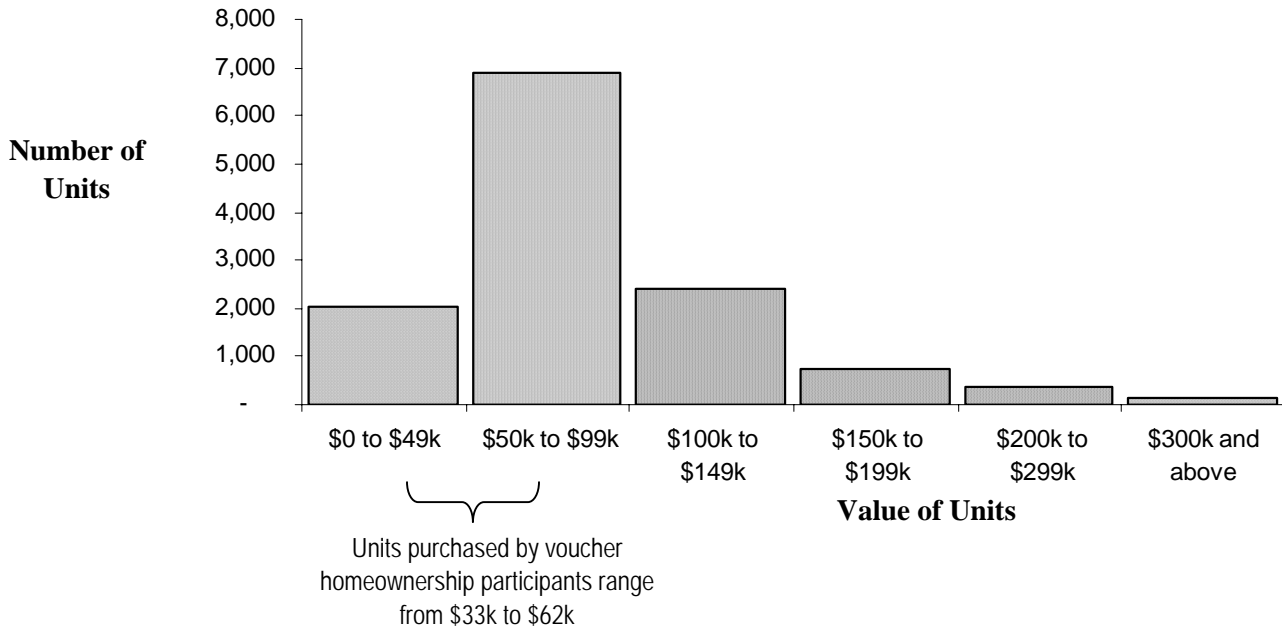
The Danville Redevelopment and Housing Authority (DRHA) manages 722 housing choice vouchers in Pittsylvania County, Virginia, near the North Carolina border. In 1999, DRHA received permission from HUD to offer the voucher homeownership option under the proposed rule as a pilot site. DRHA was attracted to the program as a way to build its homeownership capacity, because homeownership had become an increasingly important part of DRHA's plans to revitalize its public housing developments through the HOPE VI program. In addition, DRHA received a new allocation of vouchers in 1999 that the agency wanted to use for homeownership. DRHA partnered with the City of Danville's Housing and Development Department and with the Telamon Corporation, a nonprofit Community Housing Development Organization, to develop the program. As of April 2002, 10 households had purchased homes through DRHA's voucher homeownership program, and DRHA anticipated another 10 closings by the end of the year. Despite this success, the poor credit of program applicants and reluctance of private lenders to finance mortgages have limited the number of closings to date.

Housing Market Conditions

Pittsylvania County has one of the most affordable housing markets among the 12 sites in this study. According to the 2000 Census, the median house value in Pittsylvania County in 2000 was \$80,300. In the city of Danville, the county's main population center, the median house value in 2000 was \$71,900. Danville has a larger concentration of low-income households and a lower homeownership rate than the county as a whole and has lost population and jobs in recent years, contributing to a loose housing market. DRHA staff observed that there is plenty of housing stock for sale in the price range of voucher program participants. Thus far, DRHA voucher homeownership participants have purchased units ranging from \$32,500 to \$62,000, with an average purchase price of \$46,532.

The chart below presents data from the 2000 Census on the number and value of owner-occupied housing units in Pittsylvania County. The vast majority of units (90 percent) are valued below \$150,000, with approximately 71 percent valued below \$100,000. More than half of the units in Pittsylvania County are valued between \$50,000 and \$99,000.

Value of Owner-Occupied Units in Pittsylvania County, Based on 2000 Census



Program Design

Targeting and Outreach

From the program’s inception, DRHA has made the voucher homeownership option available to existing voucher program participants, households on the voucher program waiting list, and public housing residents. DRHA has not targeted the program to a specific subgroup of its client population because the agency wants to keep the program open to as wide a pool of applicants as possible. As a pilot site approved to operate under the proposed rule, DRHA’s initial minimum income criteria for non-elderly, non-disabled households is equal to two times the payment standard. DRHA established a lower threshold for elderly and disabled households. However, DRHA now follows the income guidelines set forth in the final rule, which require an annual household income equal to at least 2,000 hours of annual full-time work at the Federal minimum wage (currently \$10,300).

Target Population and Outreach Methods

The voucher homeownership option is currently open to existing voucher program participants, households on the voucher program waiting list, and public housing residents. The program is marketed primarily through word of mouth.

When it began offering the program in early 2000, DRHA ran advertisements in the local newspaper to market the program to potential participants. The advertisements generated a lot of interest and DRHA staff note that word of mouth is now largely sufficient to ensure a steady flow of applicants. DRHA also sends a letter describing the homeownership option to households nearing the top of the voucher program waiting list. The letter encourages interested households to attend a briefing about the program. In addition to notifying applicants on the waiting list, DRHA’s Housing Choice Voucher Program (HCVP) staff inform rental voucher participants about the homeownership option during annual reexaminations.

DRHA conducts credit checks and income verifications for all interested applicants who appear to meet the basic program requirements. Eligible applicants are then invited to begin the required 15 hours of homeownership counseling. DRHA refers clients who are not eligible due to poor credit to Consumer Credit Counseling Services before allowing them to pursue homeownership counseling.

Homeownership Counseling

Program participants must complete 15 hours of pre-purchase homebuyer education provided by DRHA. The 15 hours of group instruction are divided into 60- to 90-minute classes and cover topics such as mortgage readiness, money management, consumer credit, home selection, legal rights and responsibilities, and home maintenance. The classes are led by DRHA's Voucher Homeownership Specialist or HCVP Coordinator and each class is supplemented with a guest speaker, such as a lender, credit counselor, or realtor, and a video produced by the Virginia Housing Development Authority (VHDA). Participants also receive manuals for independent study outside of class.

Because the housing agency pre-qualifies all participants before they begin homebuyer education, all voucher homeownership candidates follow the same counseling track. In addition to the classes, DRHA provides one-on-one support and counseling to all clients. The intensity and degree of this one-on-one support is tailored to individual family circumstances. As the Voucher Homeownership Specialist noted, "We believe that establishing one-on-one rapport with participants is preferable to just meeting with them in large groups." This individual attention also allows DRHA staff to ensure that participants are reviewing the manuals distributed during the group sessions and, as a result, building on their knowledge of homeownership.

Once they have completed the required pre-purchase counseling, DRHA homeownership candidates may begin searching for a mortgage and a home. The lenders involved in the program each have their own pre-qualification process, which includes a separate credit check and income verification.

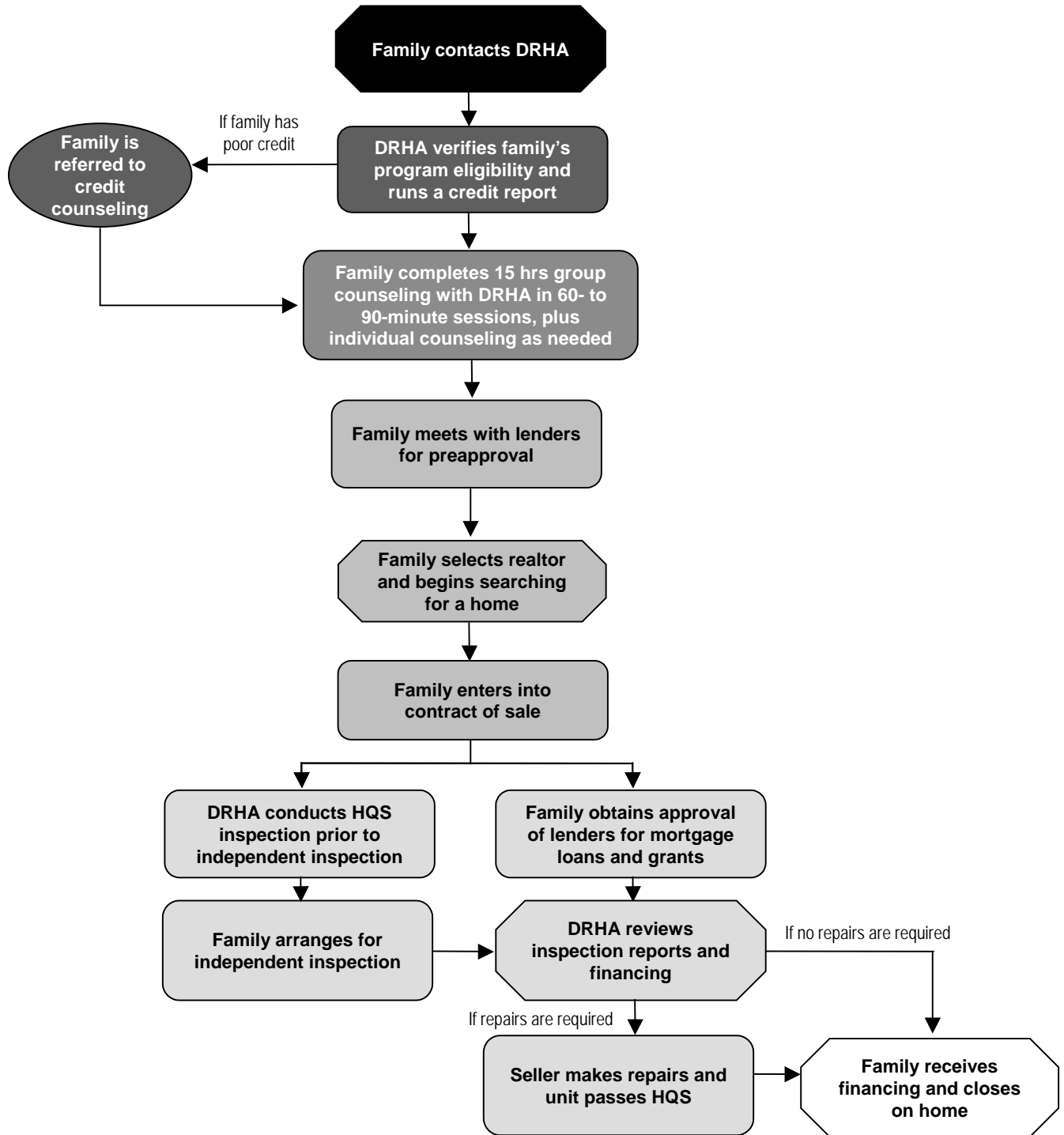
The Telamon Corporation provided pre-purchase counseling to program participants during the initial phase of the program. Telamon is a HUD-certified counseling agency as well as a nonprofit Community Housing Development Organization. Telamon has extensive homeownership counseling experience and provided counseling to the first three participants to purchase homes through the program. However, DRHA began offering the pre-purchase homebuyer education in-house in January 2001. Offering the counseling in-house appealed to DRHA staff because they knew that many voucher participants face transportation barriers and would have an easier time getting to the DRHA's Danville office. (Telamon's office is about 15 minutes by car from Danville.) In addition, DRHA's HCVP Coordinator believes that providing the counseling in-house is preferable because it gives the program staff an opportunity to work with clients on a one-on-one basis and to be

Pre-Purchase Counseling

DRHA requires that participants complete 15 hours of pre-purchase counseling. The counseling takes place over several group sessions led by DRHA staff and guest speakers. DRHA also use videotaped material in the counseling sessions. In addition to the group sessions, DRHA provides one-on-one support and counseling to all clients.

"We wanted to be in a good position to deal with participants on a one-on-one basis. Homeownership is a big step for them, so we wanted to be able to hold their hands when necessary."
-- DRHA HCVP Coordinator

Danville Voucher Homeownership Purchase Process



available for “hand holding” if necessary. Finally, DRHA thought that doing the counseling in-house would keep program costs down, as DRHA would eventually have had to pay for some portion of the counseling services provided by Telamon to voucher homeownership participants.

The DRHA staff members who conduct the homeownership counseling became certified through the Virginia Housing Development Authority (VHDA). The certification is valid for two years and requires participation in follow-up workshops to maintain the certification. DRHA paid a modest fee to VHDA for the certification.

Home Search and Inspections

DRHA gives homeownership voucher candidates up to one year to purchase once they have been issued a voucher. DRHA and its partners report that the relatively loose housing market in Danville allows participants to find units to purchase without much difficulty. DRHA explains the home search process to homeownership voucher candidates during the pre-purchase homebuyer education classes. DRHA staff provide participants with a list of realtors but make no recommendations about specific realtors.

Beyond what is covered in the pre-purchase homebuyer education, DRHA provides no assistance to participants with home inspections. DRHA has assigned responsibility for all HQS inspections in the homeownership program to the HCVP Coordinator and the Voucher Homeownership Specialist. The HQS inspection is done before the independent inspection and the results of the two inspections are then compared. DRHA staff reported it has imposed no licensing requirements for independent home inspectors used by program participants because the state of Virginia has no such requirements for private real estate transactions.

Financing Model

The DRHA has worked with public, private, and nonprofit entities to create financing mechanisms for the voucher homeownership program. To date, the single-mortgage model has been used to finance all purchases made through the program, but the structure of the mortgage and the treatment of the HAP depends on the type of institution originating the mortgage. Loans originated by the Telamon Corporation and City of Danville’s Housing and Development Division (HDD) consider the HAP as a direct offset to the monthly mortgage payment. By contrast, the HAP is counted as income by the private lenders working with the program.

The City of Danville’s affordable homeownership program provided the financial model for the mortgages originated by both the Telamon Corporation and HDD. The Telamon Corporation offers loans with 10-year terms at 4.75 percent interest. In addition, participants can borrow up to \$12,000 at zero interest to be paid back over a five years at the end of the term of the first mortgage (i.e., in years 10 to 15). HDD offers below-market interest rate loans to Danville residents with incomes at or below 80 percent of area median. For the voucher homeownership program, HOME and Community Development Block Grant (CDBG) funds provide the capital for the loans, which are paid back by the purchaser and the HAP. HDD’s loans to program participants have been at six percent interest, with 5- to 10-year terms.

DRHA requires that participants make a minimum down payment of \$500 from their own resources. Program participants can also access up to \$8,500 as an interest-free, forgivable loan to assist with

down payment or rehabilitation costs through the Federal Home Loan Bank’s (FHLB) Affordable Housing Program. However, these funds may only be used for homes purchased in one of the three neighborhoods targeted for revitalization by the City of Danville. These “targeted” neighborhoods have housing stock that is in need of rehabilitation and a high concentration of low-income households. In addition to the FHLB loan, participants who purchase homes in one of the targeted neighborhoods can access forgivable loans of up to \$15,000 to cover rehabilitation costs through HDD (using HOME and CDBG funds).¹ The three targeted neighborhoods are Camp Grove, Green Street, and Liberty Hill (the location of DRHA’s future HOPE VI revitalization project called Liberty View).

While the Telamon Corporation and HDD have proven a reliable source of mortgage finance for voucher homeownership participants, there are limits to the amount of mortgage assistance they can each provide. The Coordinator of HDD reports that the City’s affordable homeownership program is limited to \$1 million in business annually. As a nonprofit Community Housing Development Organization, the Telamon Corporation also has a limited amount of funding available for mortgage assistance.

With these limitations in mind, DRHA has developed relationships with private sector lenders to ensure additional sources of mortgage finance for program participants. However, DRHA officials report local lenders have been reluctant to provide mortgage financing for the voucher homeownership program. According to the housing agency, the HAP is an unfamiliar concept to the lending community and many lenders are wary of incorporating this unconventional funding source into mortgages. Despite these objections, as of April 2002, three private lenders had closed mortgages for program participants. DRHA has not set a cap on the percentage of income that program participants can spend on their monthly mortgage payments, but does not allow balloon mortgages or variable interest rate loans, and will only consider seller financing on a case-by-case basis.

Sample Purchase Transaction	
Buyer’s Annual Income: \$12,547	
Costs to Buyer:	
– Purchase Price:	\$32,500
– Closing Costs:	\$2,282
Sources of Financing:	
– 1 st Mortgage:	\$26,781 (7.3% 30 yrs.)
– Forgivable Loans:	\$7,500 (FHLB, 0% 5 yrs forgivable)
– Buyer Cash Down:	\$500
Monthly Mortgage Payments:	
– Total monthly PITI:	\$245
– Monthly HAP to offset PITI:	\$128
– Buyer’s share of monthly PITI:	\$117
– Buyer’s share of PITI as a percent of gross monthly income:	11%

The private lending institutions participating in DRHA’s voucher homeownership program include traditional banks and mortgage companies. As noted above, these lenders have employed the single-mortgage model with the HAP counted as income because they originate FHA loans. In assessing the efficacy of counting the HAP as income, one loan officer commented that deducting the HAP directly from the monthly mortgage, “would be better because it opens up the program to more participants. It would ensure people with lower incomes a better chance at meeting the qualifying ratios.” However, FHA guidelines provide that the HAP be treated as income in determining participants’ qualifying ratios, and local lenders remain committed to this model for the time being.

¹ If additional repairs are needed, the homes purchased in the target areas are also eligible for an additional \$15,000 loan for rehabilitation at four percent interest.

Loan officers participating in the program expressed concerns about loan defaults under the program but reported that the voucher homeownership mortgage loans have performed as well as other affordable mortgage products. As one loan officer noted, “Our underwriters are pretty rigorous no matter who is applying for a loan. We are pretty confident when we make a loan that the borrower will fulfill their obligations.”

Lenders also expressed some reservations about the temporary nature of the HAP. With a measured degree of caution one lender noted, “The bet is that participants’ incomes will increase fast enough to afford the entire mortgage payment within 15 years.” The DRHA Executive Director expressed more confidence in the single-mortgage model noting that, at least initially, all first-time homebuyers face rather large mortgage payments, but over time increased household income should lessen their debt burden.

The poor credit of many applicants was a concern to the lenders involved in the program. One official from the Telamon Corporation noted that, “The biggest challenge to the program was trying to make these deals work given the credit issues facing many of the applicants.” One notable example was a participant with \$8,000 in outstanding debt to a local hospital. DRHA staff negotiated with the hospital administrators to forgive the participant’s debt. Otherwise, the participant’s debt-to-income ratio would have been prohibitively high. The private lender with the most involvement in the program to date noted that poor credit is the biggest difference between the voucher homeownership participants and other low-income first-time homebuyers.

All the mortgages originated through the program are serviced by two separate checks with the HAP sent to the participant first and then to the lender. The private lenders require the check backed by the HAP to include both the lending institution’s and participant’s name. (This practice is only permitted because Danville is operating under the proposed rule. Two-party checks to the family and lender are not authorized under the final rule.) In order to meet the lenders’ servicing requirement, the participant is required to enclose both a personal check and the HAP from DRHA in one envelope, sent to the lender.

Post-Purchase Activities

DRHA will not require post-purchase counseling, but anticipates providing post-purchase counseling on an as-needed basis. In particular, DRHA staff believe that in addition to post-purchase homeownership counseling, participants may need job search assistance in the event they are laid off to ensure they continue to improve their economic circumstances. This is particularly important in the context of the 15-year time limit on the HAP for non-elderly, non-disabled households. As the HCVP Coordinator notes, “The thought always stays in your mind about what will happen to these families over the long term since the HAP will eventually phase out. Although purchasers are okay right now, more counseling in the interim will ensure they are in a good position in 10 years.”

Post-Purchase Activities

DRHA does not require post-purchase counseling but plans to provide it on an as-needed basis. DRHA does not require or plan to conduct post-purchase HQS inspections.

DRHA does not require or plan to conduct post-purchase HQS inspections.

Program Management, Staffing, and Partnerships

DRHA received approval from HUD in December 1999 to be one of 15 voucher homeownership pilot sites. In early 2000, DRHA formed a “Homeownership Committee” to plan and design their voucher homeownership program. This committee included DRHA staff as well as staff from the Telamon Corporation and from the City of Danville’s Housing and Development Division (HDD). DRHA staff note that they relied heavily on the homeownership and real estate experience of the Telamon Corporation and HDD in drafting the program guidelines. The “Homeownership Committee” met on a regular basis (ranging from once a week to once a month) over a period of approximately four months. By Spring 2000, DRHA completed a draft of the program guidelines.

From the outset, the voucher homeownership program has been housed within DRHA’s HCVP department. Although no new staff were hired to work on the program, DRHA officials report that running the voucher homeownership program has been a labor intensive effort, particularly in the planning and initial implementation phase. According to the HCVP Coordinator, “It was a difficult program to get off the ground because we had to talk with lenders, realtors, and bank officials. The majority of them had no idea what the voucher program is about.” During the planning and design phase, DRHA’s HCVP Coordinator spent approximately 80 percent of his time on the program.

Once the program was up and running, DRHA designated a Voucher Homeownership Specialist to handle the day-to-day management of the program. This person has the most contact with program partners and participants. As of April 2002, she spends about 50 percent of her time on the program. However, during the first year of the implementation she spent nearly full time on the program. DRHA’s HCVP Coordinator currently spends approximately 25 percent of his time on the program, while the Executive Director spends less than 10 percent of his time. As of April 2002, DRHA staff estimated the combined level of staff effort required to run the program to be approximately 80 percent of a full-time staff person’s time. This staff time is funded entirely through voucher program administrative fees. DRHA’s Executive Director reports that the agency has no additional resources to devote to the program. DRHA staff would like to see HUD create funding for a voucher homeownership specialist in order to relieve the pressure on current staff.

Program Staffing

DRHA’s Homeownership Specialist spends 50 percent of her time managing the program, although the HCVP Coordinator reports that with sufficient resources he would prefer this person to work full-time on the program. Overall, DRHA devotes approximately 0.8 in full-time staff equivalents to the voucher homeownership program.

HDD provided key input on the financial model for the program. In particular, the City’s pre-existing affordable homeownership program provided a template for the program’s financial structure. At the suggestion of HDD’s Coordinator, the housing agency also partnered with the Telamon Corporation.

The partnership with the Telamon Corporation was crucial because Telamon had extensive homeownership counseling and housing development experience. In partnership with DRHA, the Telamon Corporation financed the construction of three single-family homes targeted to first-time buyers near DRHA’s Liberty View public housing development. Participants in the voucher homeownership program were considered a potential pool of buyers. The Telamon Corporation used HOME funds to finance the construction of the single-family homes while DRHA donated the land and served as the project manager. These were the first houses purchased by voucher homeownership

participants in Danville. Two of the homes are manufactured homes and the third is a site-built (non-manufactured) home.

As noted previously, DRHA officials reported considerable reluctance from the private lending community to finance mortgages through the voucher homeownership program. Outreach conducted by DRHA staff to local lenders in 2000 indicated that there was little interest in an income source that was viewed as “outside of the box.” However, as the program evolved private lenders began to show more interest. The lenders interviewed who are now participating in the program note that they have become involved for a variety of reasons including Community Reinvestment Act (CRA) credit, business expansion into new markets, and general support for first-time homebuyer programs. One of the most active lenders in the program had no prior relationship with DRHA and became aware of the voucher homeownership program through HUD’s Field Office in Richmond in early 2000. This lending institution had extensive experience with HUD programs as well as a desire to expand their business into the Danville area. Both of these factors led the lender to be proactive about getting involved in the program. With the encouragement of the lender’s corporate office in Richmond, the Danville branch contacted DRHA and closed its first mortgage in early 2001.

Program Outcomes

As of April 2002, DRHA staff reported that over 500 households had expressed interest in the program; however, only a small percentage was eligible for the program. For example, at DRHA’s most recent homeownership briefing, only two of the 25 attendees met the program’s income criteria. Nevertheless, 10 households had purchased through the program as of May 2002. Five of the houses were purchased in “targeted” city neighborhoods, while the other five were in non-targeted areas (including two outside of Danville). DRHA has set a target of 20 closings per year over the next four years. Given that 13 additional participants have completed the pre-purchase homebuyer education and are searching for homes, the housing agency has a reasonable chance of reaching 20 closings in 2002. As of April 2002, five participants have obtained financing through private lenders, three have financed their homes through the Telamon Corporation, and two have purchased through the City of Danville’s Housing Development Division (HDD).

Program Outcomes
• Number of households counseled: 23
• Number of homes purchased: 10
• Average income of purchasers: \$11,209
• Average purchase price: \$46,532
• Instances of loan default: 0

The 10 homes purchased through April 2002 include four manufactured homes, two recently rehabilitated homes, and four existing homes that required no rehabilitation. One lender involved in the program expressed some concern with the quality of the housing stock available in the neighborhoods targeted by the FHLB affordable housing program. However, the Coordinator of Danville’s HDD noted, “I have no reservations about the quality of the homes that we rehabilitate in those areas. The homes are better than new when we finish them because they were built in the 1920s or 1930s using solid construction techniques and materials.” The most common repairs that HDD makes to homes in the targeted neighborhoods are replacing roofs, upgrading bathrooms, and updating central heating. DRHA’s Executive Director reported that the manufactured homes purchased through the program are of good quality as well. As he noted, “there is no difference between stick built and modular homes except for the time to construct them. A modular or manufactured home can be delivered in just four weeks. The quality is just as good.” The lenders

interviewed did not express concern that the manufactured houses would lose value—or not appreciate in value as quickly—as non-manufactured houses.

Five of the ten homes purchased through the program failed their first HQS inspection. Three of these homes were in neighborhoods targeted for redevelopment by the City of Danville. The sellers financed all of the required repairs.

Although the site visit revealed that the success of revitalization efforts in the “targeted” neighborhoods varied by area, the homes purchased through the program in these locations appeared to be in good condition. The Coordinator of HDD reported that the revitalization of the Green Street neighborhood (where one voucher homeownership participant had purchased a home) had not been as successful as other areas. He attributed this in part to a lack of community participation as well as to historic preservation laws in effect in the neighborhood that make repairing the aging housing stock time-consuming and complicated. Nevertheless, he was confident in the rehabilitation work his agency had completed on individual homes in the area, including one home purchased by the homeownership voucher participant. An interview with this participant revealed she was quite satisfied with her home, “I fell in love with it when I first saw it. I loved the front porch and that it had a backyard for my child to play in.”

Lessons Learned

DRHA attributes the success of its program to date to Danville’s relatively affordable housing market, the homeownership experience of its program partners, and the commitment of PHA staff to making the program work. Nevertheless, the program faces several challenges going forward. Finding a pool of qualified applicants has been a labor-intensive effort for DRHA staff and partners. Although less staff time is required now than during early program implementation, the HCVP Coordinator noted that ideally he would like to have at least one person dedicated to the program full-time. The Executive Director of DRHA observed that, “We spend a lot of time counseling the participants but perhaps we could do more. We would like additional resources to work intensively for a full year with these people to move them into homeownership, but we don’t have the resources to do that now.”

The following lessons were offered for other public housing authorities interested in implementing a voucher homeownership program:

- ***Build partnerships wherever possible in the design phase of the program.*** As DRHA’s HCVP Coordinator noted, “We had a good idea on how to design it. The challenge was trying to sell it to people who had never heard of it.” He recommends that other PHAs know their city’s leadership and establish contacts with local nonprofit agencies and lenders working with first-time homebuyers. DRHA’s Executive Director noted that dialogue with the City of Danville’s HDD Coordinator led his agency to contact the Telamon Corporation about the voucher homeownership program. Telamon provided mortgage financing for the first three homes purchased through the program.

- **Communication between the PHA and partners is critical.** During the early implementation of the program, one lender found he was screening large numbers of applicants who did not qualify for a mortgage. However, increased communication between PHA staff and the lender about the credit histories of program applicants has improved this situation. According to the lender, “The quality of the applicants has improved over time because the housing agency has a better understanding of the credit scores our underwriters require.”
- **The voucher homeownership is a great mechanism for helping people.** In reference to getting the homeownership option off the ground, DRHA’s Executive Director noted, “Some days can be really frustrating, so, on the tough days, I remember the people we have helped move into homes. Very often in public housing we don’t get to see the improvements in people’s lives. With this program, we get to see low-income people gain the benefits of homeownership.”

Danville Program Summary	
Number of homes purchased:	10
Average income of purchasers:	\$11,209
Average purchase price:	\$46,532
Average monthly HAP payment:	\$260
Financing Model:	HAP as Income, HAP as Offset
PHA Program Staffing:	0.8 full-time staff equivalent

Green Bay, Wisconsin Brown County Housing Authority

Introduction

The Brown County Housing Authority (BCHA) has an allocation of approximately 2,790 housing choice vouchers that are administered by Integrated Community Services (ICS) in the Green Bay area.¹ ICS is a nonprofit organization that administers the voucher homeownership program under BCHA's supervision. The voucher homeownership program in Brown County is run by a close partnership of several public and private agencies and organizations, with BCHA as the lead agency. The BCHA and ICS work closely with Neighborhood Housing Services of Green Bay (NHS), a nonprofit NeighborWorks organization that provides the counseling component of the voucher homeownership program. Other key partners include local banks and mortgage brokers and Options for Independent Living (Options), a nonprofit organization that provides assistance to persons with disabilities.

The homeownership option is available to voucher program participants throughout Brown County, including the city of Green Bay. As of March 2002, at the time of the site visit, four households had purchased homes through the program in Brown County. By the end of May 2002, a total of 11 households had purchased homes. Program staff report that they have faced relatively few challenges during program implementation. The limiting factors are the availability of affordable housing and, to a lesser extent, capacity at NHS.

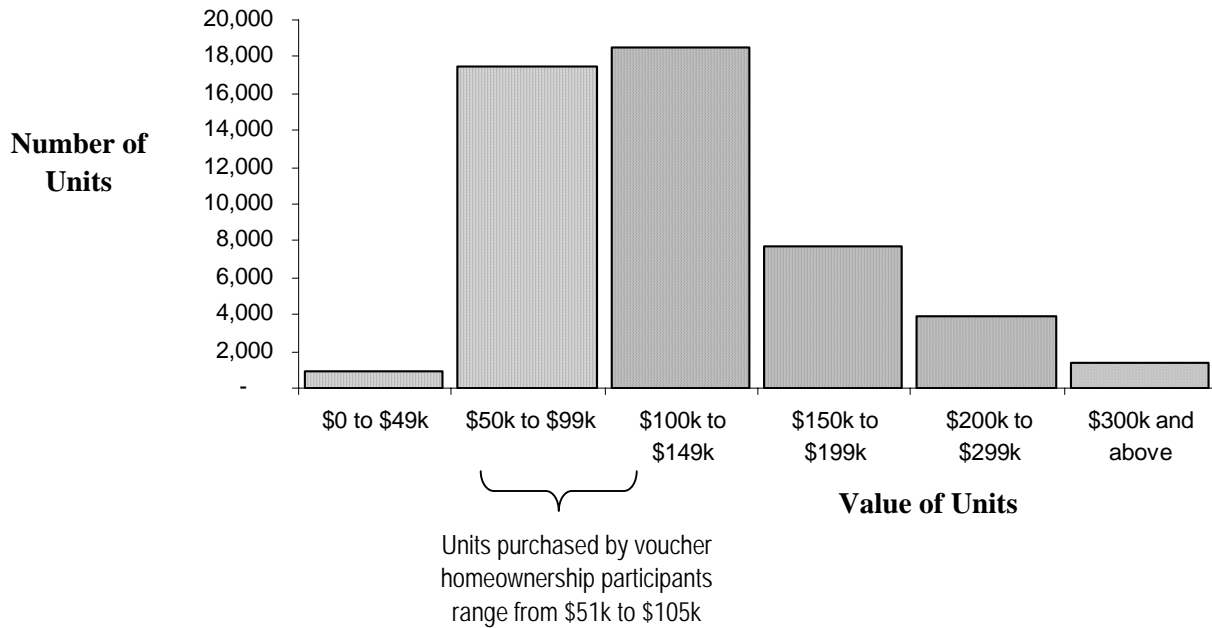
Housing Market Conditions

The housing market in Brown County, and the city of Green Bay, is moderately expensive. According to the National Association of Realtors, the median sales price of existing homes in the Green Bay metropolitan area in the first quarter of 2002 was \$125,600, up 4.1 percent since the first quarter of 2001 and up 6.4 percent since 2000. According to program staff, new homes in Green Bay are typically more expensive than existing homes, averaging about \$180,000. Thus far, Green Bay program participants have purchased homes ranging from \$51,000 to \$105,000.

Green Bay program staff consider the local housing market as a challenge for the voucher homeownership program, but not a major barrier to program growth. The chart below presents data from the 2000 Census on the number and value of owner-occupied housing units in Brown County. Almost three quarters of the units in the county (73 percent) are valued below \$150,000, and approximately 37 percent are valued below \$100,000. The largest share of units in Brown County are valued between \$100,000 and \$149,000.

¹ At the time of the site visit, 197 of these vouchers were technically allocated to the Green Bay Housing Authority (GBHA). GBHA's jurisdiction is limited to the city of Green Bay while BCHA serves both the city and county. The same person is the Administrator at both BCHA and GBHA, a management role akin to Assistant Executive Director. Although this case study will refer to BCHA going forward, BCHA and GBHA distinctions are not meaningful for this program as all vouchers are administered together by the same nonprofit contractor, ICS. As of July 1, 2002, the GBHA transferred all of its vouchers to BCHA.

Value of Owner-Occupied Units in Brown County, Based on 2000 Census



Program Design

Targeting and Outreach

The homeownership option in Green Bay is available to both new and existing voucher program participants. In addition to the minimum income and employment requirements in the final rule, Green Bay program staff require that participants are in compliance with their current lease and are able to secure a mortgage loan from a lender. Voucher homeownership candidates must pre-qualify for a mortgage before the household is enrolled in the program and begins intensive counseling at NHS. Limiting participation to households who are close to being able to purchase was a strategic choice motivated in part by staffing constraints.

Initially, BCHA and ICS staff discussed limiting participation in the program to participants in the Family Self Sufficiency (FSS) program and to those who had participated in the rental program for at least a year. In the end, it was decided not to limit the program to either of these groups. The ICS Homeownership Coordinator, who is also the FSS Coordinator, thought that the FSS population was generally unprepared for homeownership and thus would be an inappropriate population to target. In addition, the ICS homeownership and FSS Coordinator was concerned that voucher participants would join the FSS program just to gain access to the homeownership option and not to accomplish other important goals. As of May 31, 2002, two program purchasers had come directly from the voucher waiting list.

Target Population and Outreach Methods

Green Bay's voucher homeownership option is available to new and existing voucher program participants who can pre-qualify for a mortgage.

ICS staff have not marketed the program aggressively since word-of-mouth referrals are generating more than adequate interest in the program given current staff capacity.

The Green Bay program was initially publicized at a press conference held at NHS in August 2001 with BCHA, ICS, and Options staff in attendance and Congressman Mark Green speaking. There has been little additional publicity since the press conference. Although some housing organizations—including Options—mention the program in their newsletters and brochures, awareness of the program spreads predominantly by word of mouth. These basic marketing methods have been sufficient to generate a steady stream of inquiries (at least five phone calls per week, according to the ICS Homeownership Coordinator).

All households interested in the program must call the ICS Homeownership Coordinator for an eligibility assessment and to receive a packet of information. Once households have reviewed the materials and their eligibility is confirmed, they are referred to an optional “How to Buy a Home” seminar offered monthly by NHS. Interested households then meet with lenders to learn about financing options and pre-qualify for a mortgage. The informational materials initially sent out by ICS include the names of lenders and realtors for reference. Sometimes households meet one-on-one with NHS staff before meeting with lenders in order to become more informed and prepared. As of March 2002, neither ICS nor NHS had the ability to pull credit reports, so the visit with the lender is key to assessing households’ mortgage-readiness. In general, households need to be mortgage-ready to participate in Green Bay’s voucher homeownership program. The program does not provide assistance in long-term credit repair. There are several agencies to which both NHS and lenders refer clients in need of credit repair. However, clients in this situation cannot enroll in the homeownership program.

Homeownership Counseling

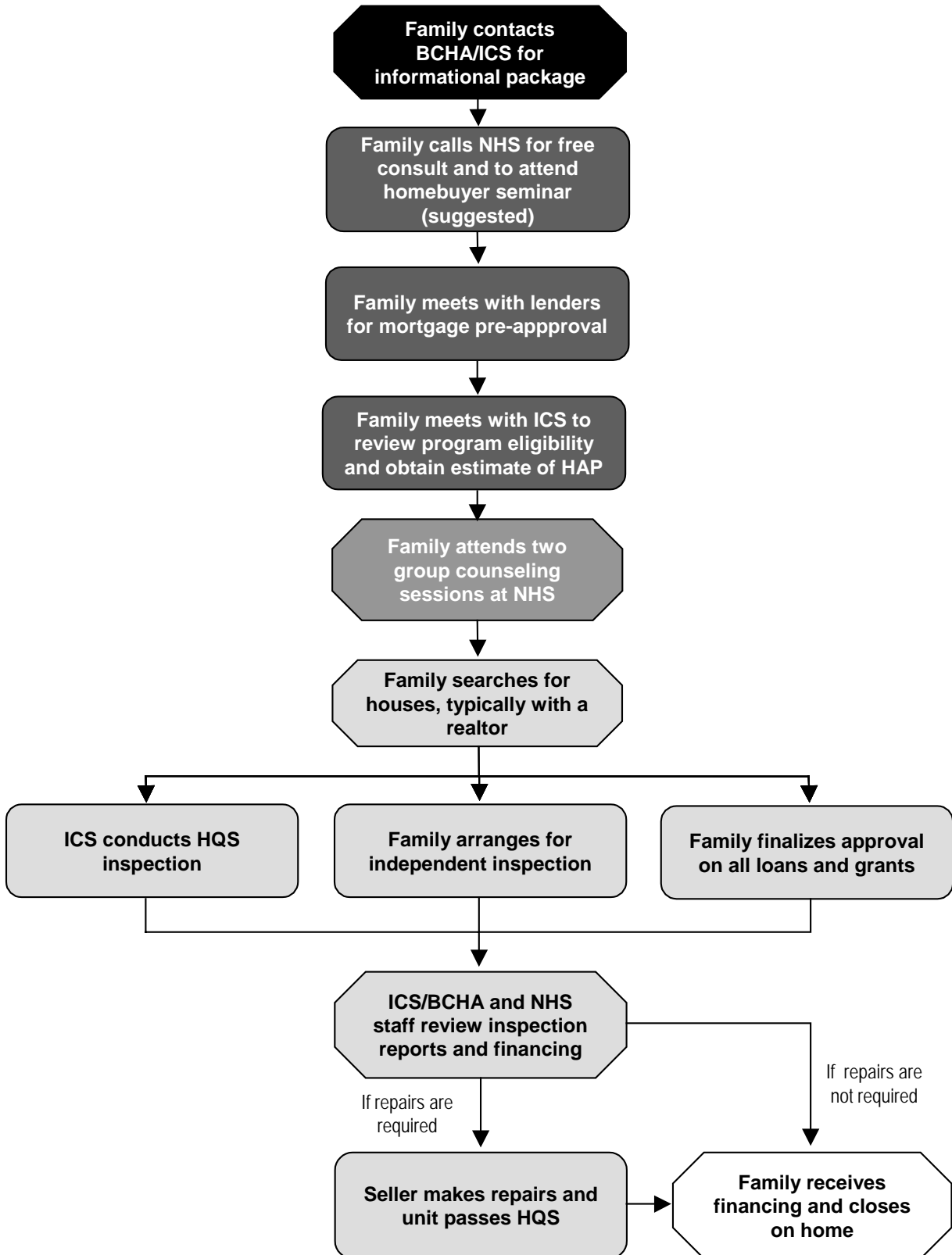
Households that pre-qualify for a mortgage are referred to NHS for intensive pre-purchase counseling conducted in two, three-hour sessions over the course of several weeks. NHS uses homebuyer training materials developed by the Neighborhood Reinvestment Corporation (NR) for this counseling. These comprehensive materials cover topics such as budgeting, credit, homeownership financing (including predatory lending), working with a realtor, the inspection process, and post-purchase home maintenance. NHS homebuyer training sessions integrate English-speaking voucher program participants with all other NHS clients and cost \$250 per client. For voucher program participants in the homeownership program, this cost is covered by a grant from BCHA to NHS.

The voucher homeownership program has successfully served a number of Hmong families—eight of the 11 families that had purchased as of the end of May 2002 are Hmong. Hmong-speaking clients receive training by watching a videotape on homeownership. This tape—approximately three hours in length—covers most of the material in the NHS sessions, but does not match the curriculum exactly. A Hmong purchaser interviewed for this study found the taped training to be thorough and informative. She thought that it did a good job preparing her for homeownership.

Pre-Purchase Counseling

The Green Bay program requires that participants complete NHS of Green Bay’s intensive homebuyer training classes. These classes are structured in two, three-hour sessions. Hmong-speaking participants receive homebuyer training from a three-hour instructional video.

Green Bay/Brown County Voucher Homeownership Purchase Process



Although binder materials on homeownership are also available in Hmong, literacy is an issue among many Hmong clients according to NHS staff. At the time of the site visit, NHS was in the process of also developing homebuyer training and materials in Spanish.

In addition to the mandatory homebuyer training, Green Bay program participants sometimes meet with NHS counselors for one-on-one counseling and follow-up. NHS staff reported that program participants have not needed any special attention or assistance greater than that given to other NHS clients. A counselor commented that NHS believes in exposing clients to lenders early on because “that’s what they have to learn to deal with.” The counselors do not want to coddle their clients and do not have the staff time available to do so.

Home Search and Inspections

When program participants are ready to begin the home search process, most seek out realtors on the referral sheet sent to them by ICS. NHS staff report that one of the challenges of the home search process is that affordable homes do not stay on the market very long. Realtors have helped clients identify new listings in their price range. Options staff are available to help persons with disabilities to find homes. This search assistance has helped program participants to find houses priced significantly below the local median sales price.

The majority of the Hmong purchasers have worked with a local Hmong realtor who has taken an active interest in the program. This realtor accompanies families to appointments with lenders and others to translate and assist them through the process of buying a home. Several ICS staff are Hmong and Hmong-speaking, which is helpful for overcoming language and cultural barriers, but no key voucher homeownership program staff speak Hmong.

Once a participant finds a home in his/her price range and makes an offer to purchase, the independent and HQS inspections are conducted, usually at about the same time. The program requires that independent inspections be carried out by state-licensed inspectors, a list of whom is included in the initial informational packet.

The participant and the ICS Homeownership Coordinator review the results of the independent and HQS inspections. While most homes identified by clients are in good repair, there are often minor repairs that need to take place for the unit to pass HQS. For example, in several cases the sellers have had to make minor lighting and railing repairs before the property would pass HQS. In addition, BCHA has adopted housing quality standards that are higher than HUD’s HQS. If a unit meets all of HUD’s HQS but fails on one or more of BCHA’s higher standards, BCHA may allow the buyer to make those additional repairs after closing. In such cases, which are the exception rather than the rule, BCHA provides the lender with the list of additional repairs prior to closing so that the lender is aware that the changes need to be made. The lender may require the buyer to secure funds for these repairs or establish an escrow account for the repairs before proceeding with the closing.

Financing Model

The Green Bay program is currently using the mortgage offset model, in which the mortgage amount is calculated by adding the full amount of the HAP to the monthly mortgage payment the participant can afford. The details of the financing model were developed with input from local lenders and representatives from the Wisconsin Housing and Economic Development Authority (WHEDA),

which is the Wisconsin State Housing Finance Agency. The mortgage offset model seemed to be the obvious choice for lenders as it maximized buying power. When asked if the expiration of the voucher after 15 years was a concern, one lender responded that the issue had not been extensively discussed and that it was not a significant concern.

Mortgages have been made to program participants using conventional as well as below-market lending products. Several banks and several mortgage brokers have made loans to program participants thus far. As shown in Exhibit 1, the loan products available to program participants vary in terms of restrictions on neighborhood of purchase, fixed versus adjustable interest rates, rate amounts, loan terms, down payment requirements, and private mortgage insurance requirements. The loans made through this program include both fixed and adjustable rate mortgages, typically with terms of 30 years.

A loan officer interviewed during the site visit noted that different loan products (both conventional and below-market) have varying down payment thresholds and that these differences are critical for low-income borrowers with modest savings. Selecting the best loan product involves balancing tradeoffs between the down payment requirements, private mortgage insurance requirements, and the borrower's income and credit.

Green Bay program staff have not set a limit on the percentage of income that participants can spend on monthly homeownership expenses. Instead, the program relies primarily on the lenders' underwriting guidelines to keep the purchases affordable. Program staff explained that all interest rates and terms on the loans made to program participants are reviewed by NHS of Green Bay staff. Current NHS lending guidelines place a cap on acceptable interest rates for loans made through this program. The BCHA Administrator, also an NHS board member, explained that only loans with an interest rate up to 1.5 percent above the current WHEDA lending rate are acceptable, so acceptable interest rates in this program are capped at the treasury securities rate plus 4.25 percent.² In addition, NHS has adopted Fannie Mae's predatory lending guidelines and uses these guidelines when reviewing all loans made through this program. One NHS counselor said that they have sent clients to different lenders when the initial offers were not good enough. ICS's Program Coordinator further explained that both balloon payment and prepayment-penalty mortgages are strongly discouraged and would require specific justification to be used.

The site visitor asked one of the loan officers who had made several adjustable rate mortgages (ARMs) to program participants whether she or her bank had any concerns that borrowers would not be able to afford their mortgage payments if interest rates increased significantly. She responded that the major benefit of her bank's ARM product is that it does not require private mortgage insurance, which increases the borrower's buying power. The bank also has mechanisms in place to deal with situations where the interest rate has increased significantly and borrower incomes have not kept pace. First, borrowers can convert to a fixed rate mortgage at any time. There is a fee for this process, but the loan officer reported that if the fee was too much for the client, the bank could be flexible and lower or waive the fee. Alternatively, the bank may be willing to readjust the interest rate below their pre-set caps on the ARMs to make sure that payments stay affordable.

² The WHEDA lending rate equals the current treasury securities rate plus 2.75 percent (see Exhibit 1 below), so the current WHEDA lending rate plus 1.5 percent equals the current treasury securities rate plus 4.25 percent (= 1.5 + 2.75). The WHEDA lending rate fluctuates with the treasury securities rate, but the rate is "locked" for 45 days at the time a borrower qualifies for a WHEDA loan.

Several purchasers in Green Bay's program have used the statewide below-market loan product offered by WHEDA. As of May 31, 2002, two purchasers have used FHA loans, but none have used Federal or state VA loans, which are available to qualifying borrowers. The lender interviewed during the site visit commented that thus far FHA loans have generally not been as attractive for program purchasers because of the relatively high down payment and mortgage insurance required. Rural Housing Service loans are also available for small portions of Brown County.

The regional Fannie Mae office in Wisconsin pledged \$1 million to buy voucher-backed mortgages from banks for the voucher homeownership program, but so far no bank or mortgage broker from this site has sold a loan to Fannie Mae. During the design phase, BCHA staff thought that the commitment from Fannie Mae would be critical to lender participation. However, the lender interviewed during the site visit reported that Fannie Mae's commitment did not affect her bank's decision to participate in this program because the bank is happy to hold loans made to voucher program participants in portfolio. This is good news for program staff, who were concerned that banks would not want to keep such loans in portfolio. In addition, the bank is not set up to do business with Fannie Mae. In order to sell loans to Fannie, the bank needs new software. The lender further reported that the bank is willing to accept fewer lines of credit and somewhat more tarnished credit histories than Fannie is willing to accept. In general, that lender believes banks participating in the Green Bay program are able to offer more flexibility than Fannie when making loans.

Sample Purchase Transaction	
Buyer's Annual Income:	\$23,388
Costs to Buyer:	
– Purchase Price:	\$96,000
– Closing Costs:	\$1,044
Sources of Financing:	
– 1 st Mortgage:	\$92,500 (7% 30 yrs., private lender)
– Forgivable Loan:	\$3,500 (0%, lender)
– Buyer Cash Down:	\$1,044
Monthly Mortgage Payments:	
– Total monthly PITI:	\$824
– Monthly HAP to offset PITI:	\$357
– Buyer's share of monthly PITI:	\$467
– Buyer's share of PITI as a percent of gross monthly income:	24%

According to this same lender, a more significant challenge for her bank was setting up the servicing structure for these loans. Her bank deposits a monthly payment from the buyer and the monthly HAP from ICS into an account, cuts a check from that account, and sends the check to their affiliated mortgage company. While not an efficient process, this was the easiest way to service payments from multiple sources without incurring the cost of programming a new automatic payment transfer system.

The lender reported that voucher homeownership program participants appear prepared and well informed. She commented that loans through this program are always more time-consuming, but that her bank is happy to make them. She sometimes advises borrowers that they may qualify for better loan terms if they increase their savings, build new lines of credit, and repair prior credit blemishes. Most borrowers, however, do not choose to wait.

Exhibit 1**Summary of Loan Products Currently Available to Green Bay Voucher Homeownership Purchasers**

Product name	Limited purchase area?	Rate type	Interest rate	Loan term	Minimum down payment?	PMI required?
Impact area purchase	Yes	Adjustable: 5/1 ARM	6.9%	15-30 years	5% (2% gift ok)	Yes
Neighborhood home loan program	No	Adjustable: 3/1 or 5/1 ARM	6.4% - 3/1 ARM 7% - 5/1 ARM	30 years	Greater of 3% or \$1,000 (100% gift ok)	No
Alt 97 (alternative to FHA product)	No	Fixed	Slightly higher than market	30 years	3% (100% gift ok)	Yes, but lower rates
Conventional fixed rate	No	Fixed	Market	30 years	5% (no gifts)	Yes
Good Neighbor loan (max. loan is \$20K) ³	Yes	Fixed	4.9%	Max 10 years	No	No
WHEDA loan (max purchase price \$111K)	No	Fixed	Treasury securities rate + 2.75%	30 years	3%; if 3% gifted then 5% total required	Yes

³ Good Neighbor loans are available as second mortgages in amounts ranging from \$1,000 to \$20,000. Given that these loans, usually used for rehabilitation, are never in first position, there are no down payment or PMI requirements.

Several down payment and closing cost assistance programs are available to voucher homeownership participants. Both NHS and CDBG/HOME funds are used to fund a zero percent second mortgage of up to \$3,000 that does not have to be repaid until the home is sold. This program is available for homes purchased in one of Green Bay's "Original Neighborhoods." These neighborhoods include about 37 percent of the city population and are focused around the downtown area. Buyers must contribute two percent of the sales price from their own funds (gifts are acceptable) and the interest rate of the first mortgage cannot be more than 1.5 percent above the WHEDA rate. The counseling and inspection requirements of this program overlap those of the voucher homeownership program.

A Federal Home Loan Bank (FHLB) program offers \$3,000 in assistance with the same terms as the NHS and CDBG/HOME funds described above, except that the \$3,000 is a five-year forgivable loan that can be used in conjunction with the NHS and CDBG/HOME programs. The State of Wisconsin also offers a five-year forgivable loan called Downpayment Plus. This program provides \$3,500 and requires as a minimum down payment the higher of \$1,000 or one percent of the purchase price. Finally, Options helps to coordinate resources from programs that offer down payment assistance and resources for repairs or accommodating renovations needed for clients with disabilities. While these down payment and closing cost assistance programs are of significant help to program purchasers, program funds are limited on an annual basis and run out quickly each year.

Despite the availability of such assistance, affordability is often an issue for program participants. The ICS Homeownership Coordinator noted that a number of interested families qualify for a two-bedroom voucher, but the voucher payment standard for a two-bedroom unit (already set at 110 percent of the Fair Market Rent) adds relatively little to their buying power. Most families want to buy a house with at least three bedrooms (and this size is typical of the stock available). BCHA and ICS staff agreed that although the vouchers increase their clients' buying power, the voucher payment standards are not adequate for the cost of housing in Green Bay.

NHS is in the process of applying for NR administrative and capital funds to support voucher homeownership. This would allow the possibility of a two-mortgage model, and BCHA and NHS staff expressed interest in trying this. Both BCHA and NHS are experienced second mortgage lenders and are currently servicing a large volume of loans, so either would be able to make second mortgage loans.⁴

Post-Purchase Activities

The Green Bay program is in the process of developing a post-purchase counseling component. Eight hours of post-purchase counseling are required and all purchasers commit to this obligation when signing an agreement of participation. NHS will provide the post-purchase counseling.

BCHA/ICS is planning to conduct brief post-purchase inspections on an annual basis (with no stated limit on the number of years these inspections will be conducted). According to the ICS Homeownership Coordinator, inspection staff will drive by the purchased property annually to do a visual inspection of the exterior. If the unit exterior is in compliance, there will be no inspection of the interior. If the unit exterior fails this inspection, however, a full interior HQS inspection will then

⁴ NHS learned in June 2002 that they were not awarded any capital funds but received \$25,000 in operating funds from NR in the form of a "pre-development" grant.

be conducted. If the unit fails HQS and the homeowner does not address the HQS deficiencies, the homeowner can lose the voucher assistance.

There is currently no information system or database in place for tracking program participants. NHS and ICS staff only hear about participants' mortgage payments if there is a problem. Otherwise, they assume that all payments are being made on time. NHS staff are not in regular contact with clients after purchase. This "hands-off" monitoring of client financial obligations has worked thus far, but program staff acknowledge they need a more formal monitoring system. This may be particularly true for Hmong clients, with whom program staff have not developed personal relationships due to language barriers. Program staff would like to communicate more effectively with these clients rather than just hoping for the best.

Post-Purchase Activities

The Green Bay program requires eight hours of post-purchase counseling but is still in the process of developing this component. Annual inspections of unit exteriors are required after purchase, with full HQS inspections required if the unit exterior fails this inspection.

Program Management, Staffing, and Partnerships

BCHA and its partners have a history of providing homeownership opportunities to people with low incomes. In 1974, BCHA was one of the experimental housing allowance program sites, and ICS was created by BCHA to administer this program. The housing allowances offered were also available to qualifying homeowners. NHS has promoted homeownership by using CDBG and HOME funds to acquire, rehabilitate and market more than 100 affordable units for rent and purchase. In addition, NHS of Green Bay has a history of providing homeownership counseling to residents.

BCHA, ICS, NHS, city planning, city redevelopment and other local agencies and organizations also have a long history of working together. Under the mayor's leadership, all of these organizations are involved in the "Urban Partnership," an initiative to encourage reinvestment in Green Bay's city neighborhoods. Increasing levels of homeownership is a central goal of the Urban Partnership. All key players viewed the proposed voucher homeownership program as an opportunity to help achieve this greater goal.

Green Bay submitted an application to be one of the HUD's voucher homeownership pilot sites, but was not selected. Led by BCHA's Administrator, BCHA's Executive Director (who is also the Green Bay City Planner), ICS's Homeownership Coordinator, NHS's Executive Director, Options' Executive Director, and Fannie Mae representatives were all involved in program design discussions. BCHA staff were pleased at the PHA discretion allowed in the final rule for the program and generally believe that the requirements allowed them to design an effective program.

Program Staffing

The level of effort by BCHA and ICS staff is equivalent to one half of a full-time staff person. NHS devotes about the same amount of staff time. The total level of effort is thus roughly equivalent to one full-time staff person. Program staff reported that more clients could participate in the program if staff time were not so limited.

Since becoming fully operational, the program requires less staff resources than during the design phase. BCHA's Administrator reported that he only spends a couple of hours per week on this program. The Homeownership Coordinator spends 10 to 15 hours a week on the program, but would like to devote more time on it. ICS's Director of Rental Assistance spends about hour a week monitoring activities of this program. The two NHS counselors estimate that they each spend six to eight hours per week with clients, with some additional time for monitoring on the part of NHS's

Executive Director. The HQS inspections for the homeownership program are conducted by ICS inspectors. The combined level of staff effort required to run Green Bay's program is roughly equivalent to one full-time staff person.

To date, staff time has been funded in various ways. The BCHA Administrator's time is paid out of general BCHA administrative funds. Because ICS contracts with BCHA to administer the housing choice voucher program, ICS staff who work with homeownership program participants are funded primarily by voucher administrative fees. ICS's Homeownership Coordinator is also the FSS Coordinator, and is currently funded by FSS Coordinator funds from HUD. NHS charges \$250 per household for the two intensive homeownership counseling sessions, and this fee is currently covered by a \$6,000 counseling grant made by BCHA to NHS for the counseling of voucher program participants.

Program Outcomes

Green Bay staff set a goal of eight to 10 closings per year for the voucher homeownership program. Having closed 11 loans in 10 months, the program is doing better than staff predicted. At the time of the site visit, about 23 households had enrolled in the program and had begun counseling, including the four purchasers. Few people have dropped out of the program. Program staff are pleased with the number of applicants and the proportion of participants who have succeeded in purchasing. They do not plan to alter the marketing strategy or make major changes to program administration.

The four homes purchased through this program as of March 2002 were all located in well-maintained residential neighborhoods, three relatively close to downtown and one in a small town 25 minutes to the south. The homes purchased by program participants were in good condition and looked like any other homes in the neighborhood. None of the homes purchased thus far have been new construction. Commenting on the good condition of the purchased homes and surrounding neighborhoods, NHS and BCHA staff reported that Green Bay does not have severely distressed urban neighborhoods. An extensive drive through the city during the site visit bore out this observation. A few areas known locally as less desirable neighborhoods are situated near the train tracks and railroad yards in some parts of the city and along several streets that have reputations for higher crime. In general, however, housing conditions tend not to be a problem—affordability is the greater issue. Several program staff noted that for the values of the homes purchased, taxes are relatively high in Green Bay, thus reducing affordability.

Program Outcomes

- Number of households enrolled: 23
- Number of homes purchased: 11
- Average income of purchasers: \$19,818*
- Average purchase price: \$84,000*
- Instances of loan default: 0

*Based on data on four purchases available at time of site visit.

The two program purchasers interviewed during the site visit gave generally positive feedback about the program. Both were single mothers with four children who came into this program with focus and determination. For years they had wanted to purchase homes to help stabilize their families and build assets for the future. One participant reported that she thinks this program offers the assistance that motivated people need to help themselves. Owning a home has made her feel like she really belongs in the neighborhood and in the greater community.

The other participant interviewed reported that the training was informative and that program staff and others treated her well. She was less satisfied, however, with her financing terms. She also expressed some concerns about maintenance and was hoping that someone would teach her how to perform repairs herself because she thinks she cannot afford to pay others to do so. Lastly, this Hmong-speaking interviewee echoed the concern expressed by English-speaking program staff about language barriers: she has no contact with program staff right now, she does not feel connected to them, and does not know whom to call if there is a problem.

Lessons Learned

Green Bay program staff attribute much of their success to four factors:

- The receptiveness of both public and private housing assistance organizations to the benefits of homeownership for voucher program participants;
- The long-standing and very close partnerships among all involved agencies;
- The quality of counseling services available at NHS; and
- The use of the full HAP to offset mortgage costs.

Most program staff find the mortgage terms and down payment and closing cost assistance programs are adequate for borrowers in this program—others would like to see exclusively fixed rate mortgages for program participants rather than some adjustable rate mortgages. This program is not dependent on below-market financing or other deep layers of subsidy. Although the availability of WHEDA loans certainly adds to affordability, purchasers can finance a home without this below-market assistance. Still, program staff would appreciate any new below-market loan programs that would increase participants' buying power and minimize risk.

That eight of the 11 purchasers to date are Hmong, one is Hispanic and three are persons with disabilities suggests that advocates have played an important role in this program. In particular, the Hmong realtor has assisted the Hmong clients to purchase by helping them to work with English-speaking lenders and program staff. In addition, Options has provided search assistance to program participants with disabilities.

The major challenge facing this program is the availability of affordable housing. However, staff capacity is also an issue. Thus far, the program has been able to produce a significant number of closings without overextending staff capacity. Program staff are clear, however, that it would be easier if ICS's Homeownership Coordinator could focus exclusively on homeownership. The small number of staff at NHS also limits the number of counseling hours available for this program. BCHA's Administrator noted that if the program is to increase in scale, staffing changes will be necessary. As of March 2002, there were no plans for program expansion.

BCHA and ICS staff offered the following advice for PHAs considering the voucher homeownership option:

- ***Cooperative partnerships are key to the success of the program.*** In Green Bay, each partner organization has a wealth of homeownership experience and is well informed about the voucher program. Program staff feel strongly that it pays to trust each partner organization to do the job they are trained to do. All successes are seen as joint successes in Green Bay.
- ***It is helpful for the PHA to have or develop a close relationship with City and County planning and redevelopment agencies.*** In Green Bay, the mayor's support for investment in urban neighborhoods has created a civic environment ripe for this program. Single-family homes in Green Bay have been gaining about four percent in value per year and are widely seen as a good investment for people of all income levels.
- ***Sending interested households a thorough packet of background materials can lessen the burden on the program Administrator.*** ICS's Homeownership Coordinator noted that this has made her job much easier, because applicants' initial questions can usually be answered by referring to the information packet.

Green Bay Program Summary	
Number of homes purchased:	11
Average income of purchasers:	\$19,818
Average purchase price:	\$84,000
Average monthly HAP payment:	\$308
Financing model:	HAP as Offset
PHA program staffing:	0.5 full-time staff equivalent

Milwaukee, Wisconsin

Housing Authority of the City of Milwaukee

Introduction

The Housing Authority of the City of Milwaukee (HACM) began offering the voucher homeownership program in April 2001 under the final rule. HACM administers approximately 4,900 housing choice vouchers in the city of Milwaukee. Since 1994, HACM has assisted over 150 public housing residents to purchase houses—approximately 50 of these through HACM’s 5(h) program—which converts existing public housing rental units into homeownership units. HACM saw voucher homeownership as a natural extension of its existing homeownership programs and part of the agency’s broader strategy of contributing to economic revitalization in Milwaukee. HACM’s Board of Commissioners approved the implementation of the voucher homeownership program in October 2000, shortly after the publication of the final rule. Beyond assisting additional families to purchase houses, HACM’s leadership believes the program has the potential to increase city tax revenue and to assist voucher participants to address income and credit issues and reduce their need for housing assistance.

HACM’s voucher homeownership program has had somewhat of a slow start. As of May 2002, only three households had purchased through the program. HACM expected a greater number of closings in the first year of the program and attributes the lag in closings to a combination of factors, including the lack of lender participation in the early stages of the program and significant credit issues among the pool of homeownership applicants. In addition, HACM had to stop referring households to homeownership counseling as the agencies that had been providing the counseling did not have the funds to serve additional voucher program participants. As of March 2002, HACM staff felt that they had resolved the major lender issues and had a pool of eight to 10 homeownership candidates who would be able to purchase over the next six months. However, the lack of funding for counseling continues to restrict the number of households who can pursue homeownership through the program.

Housing Market Conditions

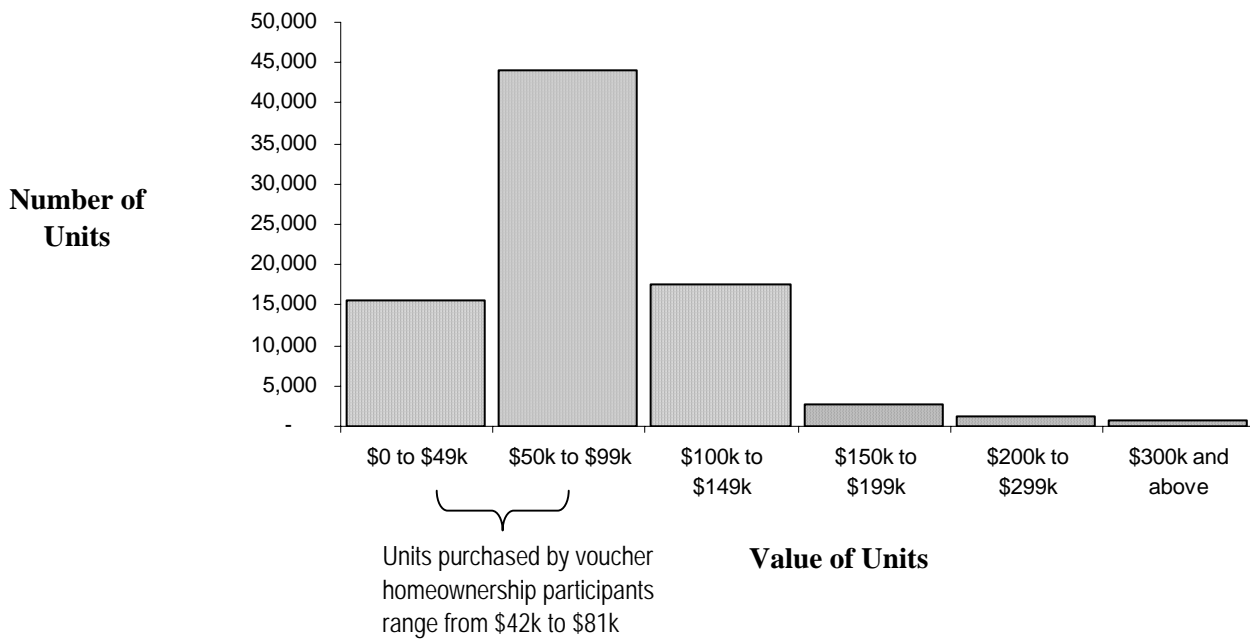
Milwaukee has one of the most affordable housing markets among the 12 sites in the study. According to the 2000 Census, the median house value for the City of Milwaukee as a whole was \$80,400, approximately 48 percent less than the national median house value. Prices in the Milwaukee metropolitan area have increased over the past year. According to the National Association of Realtors, the median sales price in the Milwaukee metropolitan area increased by 12 percent between the first quarter of 2001 and the first quarter of 2002, from \$142,400 to \$159,000. Houses are generally less expensive within the city limits. For example, house prices in North Milwaukee range from \$40,000 to \$70,000. South of downtown, houses typically sell for over \$100,000. The two most recent voucher homeownership participants to close purchased homes for \$61,525 and \$81,000.

HACM staff report that the voucher payment standard is adequate for purchasing existing homes in the City of Milwaukee, although new construction units are generally unaffordable unless they have been subsidized for the low-income market. Both HACM and Wisconsin Housing and Economic Development Authority (WHEDA) have been involved in the construction of new affordable housing

through neighborhood revitalization programs. The first voucher participant to purchase bought a house in a neighborhood where WHEDA has built single-family homes as part of a neighborhood revitalization plan.

The chart below presents data from the 2000 Census on the number and value of owner-occupied units in the City of Milwaukee. Approximately 73 percent of the units in the state are valued below \$100,000, within the potential price range of HACM voucher program participants. Ninety-four percent of Milwaukee’s housing units are valued below \$150,000.

Value of Owner-Occupied Units in the City of Milwaukee, Based on 2000 Census



Program Design

Targeting and Outreach

HACM makes the voucher homeownership option available to existing participants in its rental voucher program who are in good standing with the agency and who meet the homeownership program’s minimum income and employment requirements (as established by the final rule). Recognizing that poor credit may be a barrier to homeownership for many voucher participants, HACM did not want to limit applications to the homeownership program by imposing additional requirements or targeting a subgroup of voucher participants. In addition, HACM staff view the homeownership counseling as beneficial for clients even if they do not end up purchasing, because it offers clients an opportunity to learn about budgeting and to begin to address credit problems.

HACM announced the homeownership option in April 2001 through its Resident Advisory Board newsletter. The response to the announcement was overwhelming. HACM received 500 applications to the program, many more than anticipated. Because HACM did not target a particular population within its pool of rental voucher program participants, the incomes of the 500 applicants to the homeownership program varied significantly, ranging from \$11,000 to \$30,000. With 500 initial program applicants, HACM has not felt the need to conduct any further marketing of the program. However, during the annual reexamination process for the rental voucher program, HACM staff explain the homeownership option. In addition, HACM highlights new homeowners in its Resident Advisory Board newsletter.

Although the homeownership option is available to any current participant in HACM's rental voucher program who meets the program's basic income and employment requirements, HACM gives priority to persons with disabilities referred by its partner agency, Independence First (IF). IF is a nonprofit agency that assists persons with disabilities through referrals, training, and advocacy. HACM and IF had previously partnered to provide rental housing for persons with disabilities. For the case of the voucher homeownership program, they were able to negotiate a Memorandum of Agreement through which IF may refer up to 10 clients to the homeownership program.

Target Population and Outreach Methods

HACM's voucher homeownership option is available to existing voucher participants. In addition, HACM has partnered with a nonprofit agency serving persons with disabilities to refer clients to the homeownership program.

Since conducting initial outreach to about 500 rental voucher participants in April 2001, HACM has relied primarily on word of mouth to market the program.

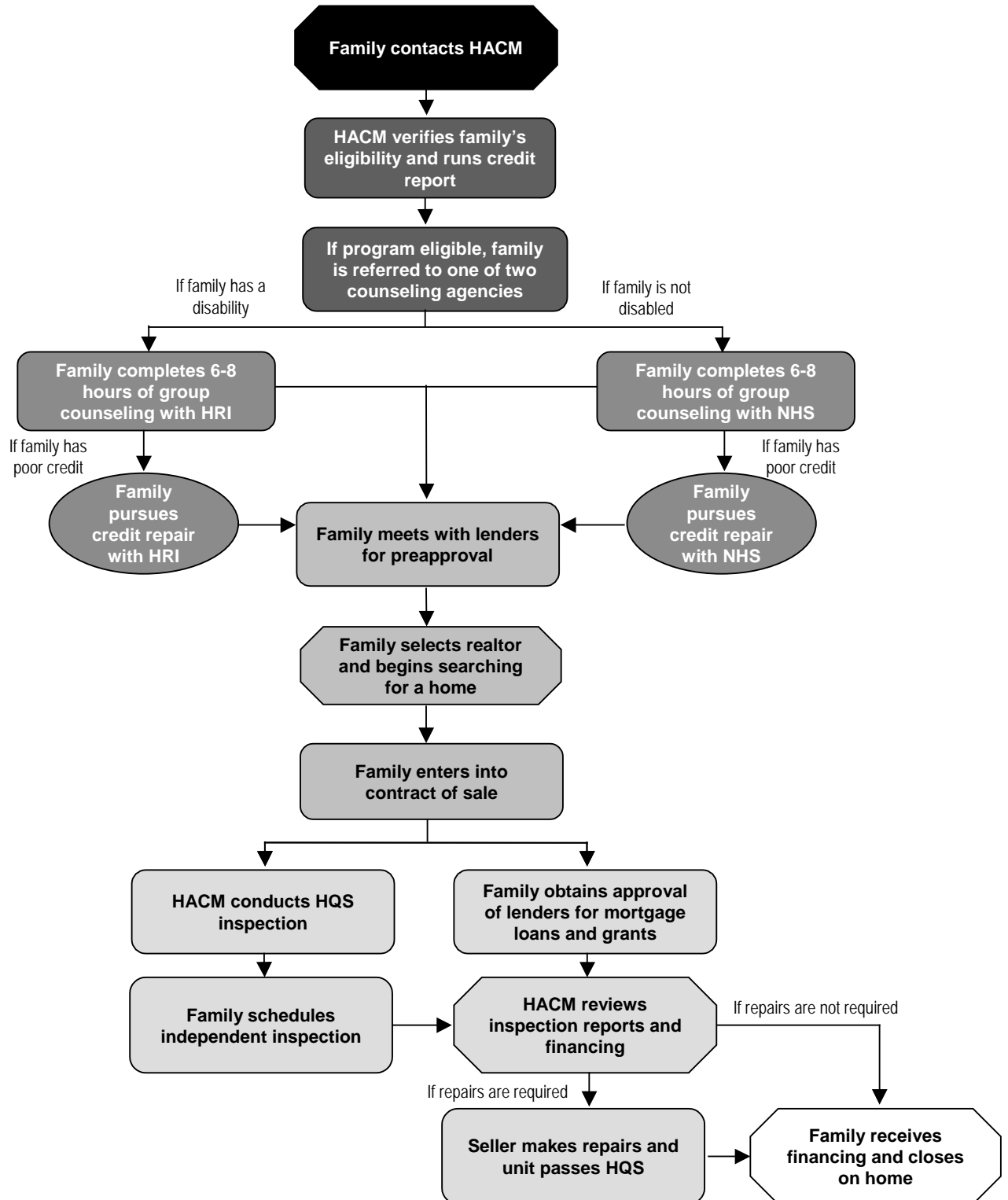
Homeownership Counseling

In developing the mandatory pre-purchase counseling component of the voucher homeownership program, HACM drew upon the existing relationships that it had developed with local nonprofit agencies through its 5(h) homeownership program. HACM had worked with two HUD-approved counseling agencies for the 5(h) program: Housing Resources Inc. (HRI) and Neighborhood Housing Services (NHS). These two organizations have provided pre-purchase homeownership counseling to participants in HACM's voucher homeownership program.

Both HRI and NHS are experienced agencies that have a track record of assisting low to moderate income families to purchase houses. With a six person staff, HRI operates a high volume counseling business, registering about 100 clients and "graduating" 50 each month. Both agencies receive funding from the City of Milwaukee through the CDBG program, from the State of Wisconsin, from private foundations, and from lender fees. HACM does not pay either agency for counseling provided to program participants.

Of the 391 voucher homeownership applicants that HACM has referred for homeownership counseling, approximately 40 have completed counseling through HRI and another 70 have completed counseling through NHS. (HACM does not track what happens to people who are referred to counseling but either do not begin or do not complete the counseling.) HRI and NHS offer a similar homeownership counseling curriculum, requiring clients to complete six to eight hours of counseling over three or four sessions. Voucher program participants complete the classes alongside the other low-income first-time homebuyers that HRI and NHS serve. NHS invites referred applicants to orientation sessions. Once the individuals attend the orientation, NHS pulls credit reports and tracks participants into two groups: those ready to buy homes within six months and those in need of more intensive credit counseling.

Milwaukee Voucher Homeownership Purchase Process



Voucher participants in need of credit repair work with counselors individually over a period of months or even years. HRI also assesses clients' credit standing and works out a long-term plan for those who are not yet able to obtain a mortgage. Although HACM does not pay for counseling provided to voucher program participants, HRI staff estimate that the basic pre-purchase education (for those who are more or less ready to purchase) costs about \$200 per person. For clients who require six to 12 months of counseling in addition to the homebuyer education classes, the cost of the counseling is about \$600. For clients requiring 12 to 18 months of counseling, the cost is about \$1,400. These costs are absorbed entirely by the counseling agency.

HACM provides a basic screening of program applicants before referring them to HRI and NHS. HACM checks that applicants are in good standing with the voucher program and meet the homeownership program's income and employment requirements. In addition, HACM staff run a credit report on each applicant. In theory, this procedure should provide good information on applicants' ability to purchase before they are referred to the counseling agencies. In practice, however, HACM staff have had difficulty interpreting the credit report and have found that the credit report that they request often conflicts with that used by the lender. As a result, HACM relies heavily on the counseling agencies to assess voucher participants' readiness to purchase and establish a plan of action to get them to that point.

Pre-Purchase Counseling

HACM has partnered with two counseling agencies to deliver pre-purchase counseling to program participants. These agencies provide six to eight hours of classroom sessions and individualized counseling for credit repair and other issues as needed.

Having initially received a large number of referrals from HACM, HRI and NHS are no longer willing to provide counseling to voucher participants without additional funding. As mentioned above, both agencies rely to a large extent on fees generated from lenders when their clients purchase houses. As of April 2002, only three of the nearly 400 voucher homeownership clients referred for counseling had purchased houses. In addition, due to clients' credit issues and HACM's still-evolving relationship with local lenders, it can take longer than usual for voucher clients to purchase once they have been through counseling. These factors have placed a financial strain on the counseling agencies. At present, HRI and NHS will only accept new voucher homeownership clients who were pre-approved for a mortgage and, therefore, very likely to purchase in the near term. As a result, homeownership applicants that have poor credit or are otherwise unable to qualify for a mortgage cannot proceed with the program at this time.

HRI and NHS have recommended that HACM conduct better screening of program applicants before referring them to counseling so as to ensure that a greater proportion of those referred end up buying homes. However, HACM has been resistant to the idea of limiting access to homeownership counseling, and has instead been working to access new sources of funding for the counseling component (for example, through the HOME program) as well as pursuing partnership agreements with additional counseling agencies to accommodate the large volume of applicants.

Home Search and Inspections

The two counseling agencies, HRI and NHS, discuss the home search process as part of the homebuyer education curriculum. However, neither counseling agency nor HACM provide any formal search assistance to voucher participants. Participants with disabilities may get some assistance in locating affordable and accessible units from IF.

HACM voucher program staff conducts the pre-purchase HQS inspection of voucher homeownership units. The inspection process is no different from that followed in the rental voucher program. The HQS inspection on homeownership units typically takes place before the independent inspection. If the unit does not pass the initial HQS inspection, the HACM voucher program staff sends a letter to the property owner outlining the repairs needed. Once the repairs are made, HACM will schedule a re-inspection of the home.

Financing Model

HACM staff has struggled to gain the support of local lenders for its voucher homeownership program. HACM announced the homeownership option to its voucher program participants prior to discussing the details of the program with lenders—HACM had assumed that the same lenders that had been working on the 5(h) program would also be willing to make loans to voucher homeownership participants. The number of applications that HACM received for the homeownership program forced the agency to act quickly to secure lender partnerships. Although they had expressed general interest in the program, most local lenders lost interest in the program when they reviewed its details and understood that the mortgage would be paid from two separate sources. In addition, lenders were concerned that the loans would not be able to be sold on the secondary market.

In the late Spring 2001, HACM met with members of NOHIM (New Opportunities for Homeownership in Milwaukee), a citywide consortium that encourages lenders to provide financing to low-income Milwaukee homebuyers, to garner support for the voucher homeownership option. The lenders continued to show reluctance until the Wisconsin Housing and Economic Development Authority, the State Housing Finance Agency, and Fannie Mae confirmed that their affordable loan products could be combined with the voucher subsidy. Since then, three lenders have agreed to participate in the program, using different methods of applying the subsidy to the mortgage. Interested, above all, in securing lender support for the program, HACM has not attempted to dictate the choice of financing model.

Sample Purchase Transaction

Buyer's Annual Income: \$13,773

Costs to Buyer:

- Purchase Price: \$42,000
- Closing Costs: \$6,713

Sources of Financing:

- 1st Mortgage: \$41,857 (FHA, 7.5% 30 yrs)
- Grant: \$10,000 (Independence First)

Monthly Mortgage Payments:

- Total monthly PITI: \$381
- Monthly HAP to offset PITI: \$254
- Buyer's share of monthly PITI: \$127
- Buyer's share of PITI as percent of gross monthly income: 11%

Central States Mortgage Company has made first mortgage loans to two of the three voucher homeownership purchasers. Central States primarily originates FHA-insured loans and sells all of its loans on the secondary market. Central States was reluctant to get involved with the voucher homeownership program until FHA published its mortgagee letter in September 2001, which indicated that the voucher subsidy could (and must) be treated as income in determining the

homebuyer's qualifying ratios. Central States has treated the voucher HAP as income for the two loans that it has originated through the program. Because of the two payments, the lender sets up a "dummy" account. Both HACM and the borrower deposit separate checks for the HAP and borrower portion into the account. The lender then sweeps the account to collect both payments as a consolidated payment.

The other lender that has made a first mortgage loan to a voucher homeownership participant is North Shore Bank. North Shore Bank has a close partnership with WHEDA and originates loans using WHEDA's affordable loan products. Specifically, WHEDA offers 30-year, fixed rate loans with below-market interest rates set at the current Treasury securities rate plus 2.75 percent. These loans have a maximum purchase price of \$111,000 and require a minimum down payment of three percent of the purchase price (or five percent if three percent is gifted). The loan can also be used to finance \$1,000 of the closing costs. WHEDA has agreed that the HAP can be applied as a direct mortgage offset for this loan product. Like Central States, North Shore Bank receives two separate checks for the monthly mortgage—one from HACM and one from the borrower.

A third lender—Mutual Savings Bank—has agreed to participate in the voucher homeownership program but at the time of the site visit had not yet originated a loan to a program participant. Mutual Savings has partnered with Fannie Mae to offer three Fannie Mae loan products to program participants. Mutual Savings has also set aside \$2.5 million to hold loans for low- and moderate-income buyers in portfolio and to service these loans in-house. However, Fannie Mae has pledged to buy the loans within 30 to 60 days and to provide a servicing consultant to assist in working through the two payments issue. At the time of the site visit, Mutual Savings was working with one voucher program participant who had found a house and was near closing. Mutual Savings was also reviewing an additional six applications to the program.

Participants in HACM's voucher homeownership program have access to several sources of down payment and closing cost assistance through state and Federal programs. In addition, IF provides grants of up to \$10,000 for the down payment and closing costs of purchasers with disabilities. The first purchaser in the program was a person with disabilities and received a \$10,000 down payment grant from IF. IF also provides grants to make homes accessible for purchasers with disabilities. The availability of these funds is critical to making the program feasible to persons with physical disabilities, because many of the existing homes in Milwaukee that are affordable to program participants are not accessible.

HACM's Special Projects Manager reviews the financing of each purchase transaction, including estimated closing costs, as a check against predatory lending. Although HACM does not set specific criteria for evaluating the loans, the Project Manager reviews the loans for features, such as balloon payments, adjustable rate mortgages, and unusually high interest rates. Beyond these basic criteria, however, HACM relies on the lenders to determine that the loan will be affordable to program participants. HACM does not provide any financing assistance for home repairs, but does provide referrals to other agencies, such as IF for persons with disabilities. In addition, lenders can refer the residents to resources that will allow them to meet their mortgage obligations in the event of significant changes in income or expenses.

Post-Purchase Activities

At the time of the site visit, HACM did not require post-purchase counseling. However, the agency had recently received a \$20,000 Local Housing Organization Grant through the State to provide post-purchase counseling to program participants. HACM plans to use the grant to offer a post-purchase inspection session, in which a home inspector will go to the home shortly after the purchase to advise the homeowner on home repair and maintenance issues. The inspector will also show the homeowners how the major systems operate in the home and how to make simple repairs.

The lenders interviewed for this case study offered differing opinions on the importance of post-purchase counseling. The loan officer for Central States Mortgage Company, who had worked with two program participants, did not believe that post-purchase counseling should be required but suggested that purchasers needed to take the initiative to call the lender, counseling agency, or HACM if they feel they need help making their mortgage payments. This loan officer expressed some concern about participants' ability to meet their payments at the end of the term of voucher assistance, but suggested it was likely that participants' incomes would increase over time, reducing the burden of the mortgage.

By contrast, the loan officer at Mutual Savings Bank was emphatic about the need for proactive post-purchase counseling in order to reduce the likelihood of loan default. He also suggested that the annual reexamination process should include a detailed review of participants' budget and of the possible repairs and maintenance needed in the following year.

HACM does not have a formalized tracking system to monitor participants' mortgage payment history and is relying on the lenders to intervene in the event of a late payment. However, HACM sees the annual reexaminations for the program as an opportunity to follow-up with purchasers who indicate that they are encountering problems with their houses or mortgage payments. HACM does not plan to conduct post-purchase HQS inspections.

Post-Purchase Activities

HACM does not require post-purchase counseling or HQS inspections. However, HACM offers a service to advise homeowners on repairs and home maintenance. HACM also plans to review budgeting and maintenance issues with homeowners as part of the annual reexamination process.

Program Management, Staffing, and Partnerships

HACM has taken an approach to the homeownership program that minimizes the amount of time devoted to the program by PHA staff. Outside partners fulfill program functions such as eligibility screening, counseling, and financing, with HACM essentially playing a coordinating role to assist program participants through the purchasing process. For example, although HACM staff review the final terms of the financing, they do not necessarily meet with individual participants during the purchase process or attend loan closings.

The principal HACM staff working on the homeownership program on a day-to-day basis are HACM's Special Projects Manager and a Clerk. These staff were hired to administer HACM's 5(h) homeownership program and fulfill other agency functions including managing HACM's risk control and insurance policies, safety issues, and other special projects. The Special Projects Manager currently spends approximately 15 percent of his time on the voucher homeownership program, while

the Special Projects Clerk spends about 75 percent of her time on the program, processing applications, making referrals, and answering phone calls. The salaries of both the Special Projects Manager and the Clerk are paid out of the 5(h) homeownership program budget.

The Special Projects Manager and Clerk communicate almost daily about the program on a case-by-case basis. Staff from HACM's Housing Choice Voucher Program (HCVP) Department fulfill specific functions in the program such as conducting the HQS inspections and initiating HAP payments. With only three closings thus far, however, the level of effort required of HCVP staff has been fairly minimal. HACM estimates that the total level of staff effort dedicated to the voucher homeownership program is slightly less than one full-time staff person. HACM believes that this level of staffing is appropriate at this stage in the program's development; however, a significant increase in the number of purchasers may entail additional staff resources and more sophisticated management procedures.

Program Staffing

HACM devotes slightly less than one full-time staff person to administering the program. Homeownership counseling is provided by partner agencies free of charge. HACM primarily relies on existing staff from its 5(h) and rental voucher programs.

Program Outcomes

Out of the initial 500 program applicants, HACM referred 391 applicants to HRI and NHS for homeownership counseling. As of April 2002, 40 voucher homeownership candidates had received counseling from HRI, and approximately 70 had received counseling from NHS. Out of these, three participants had purchased houses.

At the time of the site visit in March 2002, only one of the three program purchasers had closed on the purchase and moved into her house. This participant grew up in HACM public housing and wanted to purchase a house in the neighborhood where she had lived for most of her life. She joined the rental voucher program five years ago and learned of the homeownership option during her annual reexamination in 2001. She received counseling from NHS and was highly satisfied with the classes, commenting that she "learned a lot from those classes. Some things I forgot, but one thing stuck, 'pay the mortgage on time'." Her goal was to find a stable home where she and her daughter could stay for some time. She received some search assistance through IF and support and encouragement from her lender. She looked at several properties and ultimately purchased a house that HACM had rehabilitated in 1995. She was attracted to the unit because it is a single-family detached house in a nice neighborhood, with big windows, a driveway, and a large backyard. She obtained \$10,000 in down payment and closing cost assistance from IF to finance the purchase, which was finalized in December 2001.

The participant reported that she has been happy with her purchase and is beginning to think of decorating the house and yard. She also wants to get to know her neighbors and start a Neighborhood Block Watch. Based on the site visitor's assessment, the neighborhood appeared to be in fair condition. Most houses are well maintained, but about 10 percent of properties are seriously dilapidated or boarded up. Trash is visible in the streets but is not a major problem. HACM and the homeowner reported that the neighborhood was once thought of as a decaying "inner

Program Outcomes

- Number of households counseled: 110
- Number of homes purchased: 3
- Average income of purchasers: \$20,434
- Average purchase price: \$61,508
- Instances of loan default: 0

city” neighborhood but is now experiencing a turnaround. Several new homes have been built two blocks away and a new YMCA is under construction one block away.

In addition to the three closings through April 2002, HACM staff anticipate that another eight to 10 program applicants will purchase over the next six months. Ten to 15 voucher homeownership candidates have been pre-approved by a lender and are completing homeownership counseling or looking for houses. HACM reports that most of these pending applicants are single parents with children and incomes in the mid-\$20,000s. Most have been looking to buy older, existing homes in Milwaukee, some with assistance from IF.

The small number of closings to date reflects the credit issues facing most of HACM’s program applicants. HACM reports that it can take between six months and two years for homeownership candidates to address the unpaid judgments, bankruptcies, and poor payment histories that prevent them from qualifying for mortgages. Now that HACM has a pool of applicants actively working on repairing their credit, program staff expect closings each month. In addition, since HACM is currently referring applicants with high credit scores directly to lenders for pre-approval prior to sending them to counseling, the lag between application and purchase will likely continue to be shortened.

Lessons Learned

Although HACM had experience with homeownership programs for public housing residents, such as the 5(h) program, the housing agency found that the voucher homeownership program presented a different set of challenges, particularly in handling the volume of interest in the program and securing the support of the local lending community. HACM staff feel that they underestimated the amount of marketing required to partner agencies prior to program implementation. The housing agency announced the program before solidifying its partnerships with counseling agencies and lenders, and found that it could not rely on existing relationships developed through the 5(h) program but needed to create new partnerships (even with the same entities) specific to the voucher homeownership program. In particular, HACM has had to balance its desire to offer homeownership counseling to all program applicants against the limited capacity of its partners to provide the counseling. In addition, HACM is just starting to get commitments from local lenders to participate in the program—this can be expected to increase with the number of closings.

HACM continues to pursue partnership opportunities with lenders, counseling agencies, and other nonprofit organizations. For example, HACM is in discussions with a women’s organization that focuses on developing Individual Development Accounts. Because HACM’s partners have taken on key programmatic functions, the level of PHA staff resources required to run the program has thus far not been as much of a concern as it has been at other study sites. In addition, local housing costs have not been a primary barrier for HACM’s program.

HACM’s Special Projects Manager recommends the following for PHAs considering the voucher homeownership option:

- **Market the program to potential partners—particularly counseling agencies and lenders—during the program design and development phase.** Establish a clear referral process and continuously educate lenders, brokers, and counseling agencies about the program. Once the program is running, have the overall team (possibly through a Strategic Planning Committee) meet quarterly to discuss implementation issues.
- **Recognize the needs of the lenders.** Lenders are primarily concerned with risk mitigation and therefore have an interest in structuring loans so that they can be sold on the secondary market. Lenders are also interested in ensuring borrowers’ ongoing credit worthiness, which can be enhanced through programs such as post-purchase counseling.
- **The voucher homeownership program requires more ongoing monitoring and up-front assistance than the 5(h) program or existing voucher program resources may allow.** As a result, PHAs may have to depend heavily on the resources and commitment of an outside partner. HACM recommends having all of the partner agencies on board and the internal infrastructure in place before recruiting participants to the program.
- **Be clear with homeownership candidates about the reality of buying a house and the time it can take.** Most program applicants are interested initially, but may not realize the long-term commitment involved in becoming ready for homeownership as well as maintaining a home. Remind participants of the incremental steps such as clearing up credit and learning about new neighborhoods.

Milwaukee Program Summary	
Number of homes purchased:	3
Average income of purchasers:	\$20,434
Average purchase price:	\$61,508
Average monthly HAP payment:	\$254
Financing model:	HAP as Income
PHA program staffing:	0.9 full-time staff equivalent

Missoula, Montana

Missoula Housing Authority

Introduction

The Missoula Housing Authority (MHA) began offering the voucher homeownership program in April 2001 under the final rule. MHA administers 713 housing choice vouchers in the city of Missoula and within a 10-mile radius surrounding the city. As of May 2002, five households had purchased homes through MHA's program, with two additional households expected to close on homes by September 2002. MHA has set a goal of using 30 vouchers, or approximately four percent of its total voucher program, for homeownership.

The main challenge facing MHA's program is escalating house prices in the Missoula metropolitan area. To allow voucher participants to purchase in the current housing market, MHA's lender partners have chosen to finance the purchases using the voucher subsidy as a direct offset to the monthly mortgage payment. This allows purchasers to qualify for higher mortgages than would be possible using voucher subsidy as an addition to income. However, FHA's policy—announced in September 2001—that the voucher subsidy must be treated as an addition to income for FHA loan products has presented a stumbling block for MHA's program. MHA has sent a request to FHA for a waiver to allow the voucher subsidy to be applied as a direct offset to the monthly mortgage payment with FHA loans in Missoula. Preparing the request and awaiting a response from FHA has resulted in a slowdown of program activities. MHA staff report that had they been able to continue treating the voucher subsidy as a direct mortgage offset, as many as twice the actual number of participants would have purchased homes by May 2002.

Housing Market Conditions

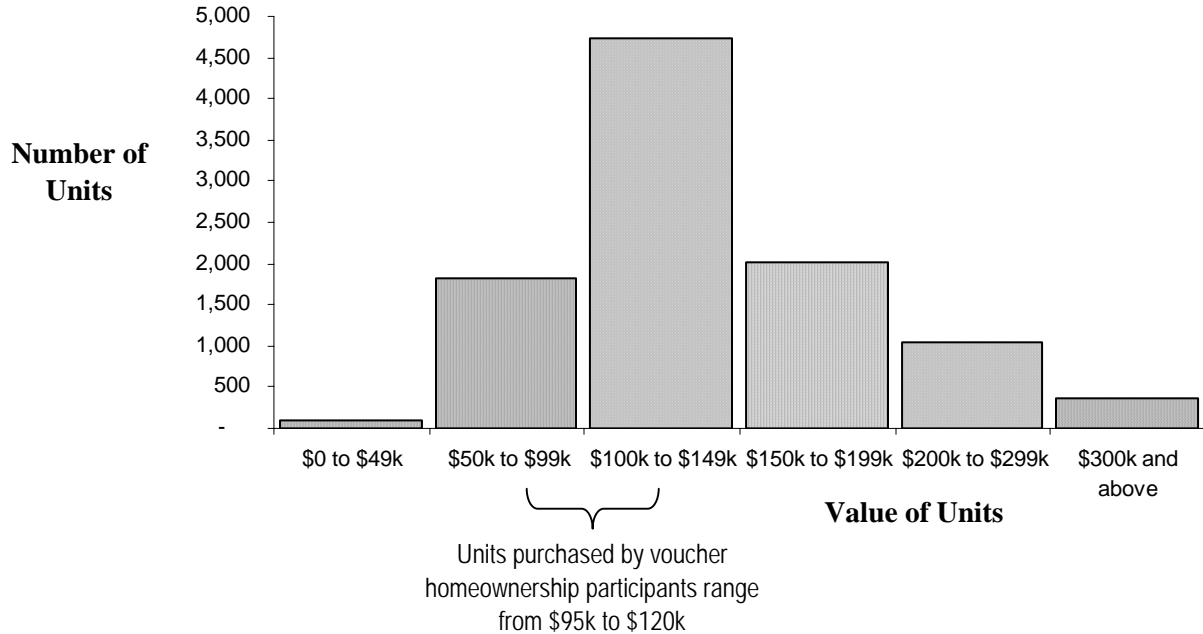
The City of Missoula has one of the most expensive housing markets among the 12 sites in the study, due in part to the presence of the University of Montana. According to a market study by Montana State University, the median sales price of new and existing homes in Missoula in 2001 was \$143,000, up six percent since 2000.¹ In the University area of the city, the median sales price was \$172,000, compared to the \$144,474 in the South Hills neighborhood and \$97,797 in the city's near west and north side.² The purchase prices of the five houses purchased by voucher homeownership program participants range from \$95,000 to \$120,000, with an average purchase price of \$105,780.

The chart below presents data from the 2000 Census on the number and value of owner-occupied units in the city of Missoula. A majority of units in Missoula (66 percent) are valued below \$150,000, within the potential price range of Missoula voucher program participants. However, only 19 percent of Missoula housing units are valued below \$100,000. Although at present there is sufficient housing stock within the price range of program participants, the local housing market in Missoula may present a barrier to the future growth of the program at this site.

¹ The Price of Housing in Montana, 2001. Compiled by The Center for Applied Economic Research, Montana State University—Billings. April 29, 2002.

² Realty Times website. Downloaded in February 2002 (www.realtytimes.com).

Value of Owner-Occupied Units in the City of Missoula, Based on 2000 Census



Program Design

Targeting and Outreach

The homeownership option is available to families in good standing with MHA who have been participating in the rental voucher program or have been living in MHA public housing for at least one year. Households are also required to pay one percent of the purchase price towards down payment and closing costs. MHA has chosen not to impose PHA eligibility requirements in addition to the HUD eligibility requirements in the final rule. In particular, MHA has not required that voucher homeownership participants participate in the Family Self Sufficiency (FSS) program. MHA staff believes that the one-year tenancy requirement allows the housing agency to track participant’s income and employment stability sufficiently to avoid setting families who are unprepared for homeownership up for failure. The housing agency resisted imposing additional eligibility requirements that would further refine the pool of eligible participants because they wanted to open the program as widely as possible, while viewing the lenders as the final decision makers during the loan approval step.

Target Population and Outreach Methods

MHA's voucher homeownership option is available to households who have participated in the rental voucher program or public housing for at least a year and are in good standing with the agency.

Initially, MHA sent letters to all voucher participants meeting the one-year participation requirement, inviting them to apply. Since then, outreach has been conducted primarily through discussions with eligible voucher participants at annual reexamination.

During the first two months of the program, MHA conducted a program-wide outreach by sending letters to all rental voucher program participants, Shelter Plus Care participants, and public housing residents who met the income, employment, and program tenure requirements of the homeownership option. The letters invited eligible families to attend an orientation meeting and if interested to complete a program application and meet with MHA's Homeownership Coordinator. MHA held two such group orientations (with about 45 people attending each one), plus one session designed especially for Russian-speaking program participants. There is a fairly substantial proportion of Russian-speaking families participating in MHA's programs and staff wanted to make sure that the homeownership option was presented to these families in Russian. A translator from a local nonprofit, The Refugee Assistance Center, worked with MHA staff to translate the orientation materials and to present the session in Russian.

This broad outreach generated interest in the program and resulted in several applications. In general, however, program staff believe it has been more effective to focus recruitment efforts on in-person contact with existing voucher program participants during annual reexaminations. Given the relatively small size of MHA's rental voucher program, the two voucher program staff who conduct reexaminations know many of the program participants personally and are well versed in the requirements of the homeownership option. The voucher staff report being able to identify good candidates for homeownership during this individual contact more effectively than through large-scale outreach. Another source of recruitment is word of mouth from existing homeownership program participants who have encouraged friends and relatives to apply.

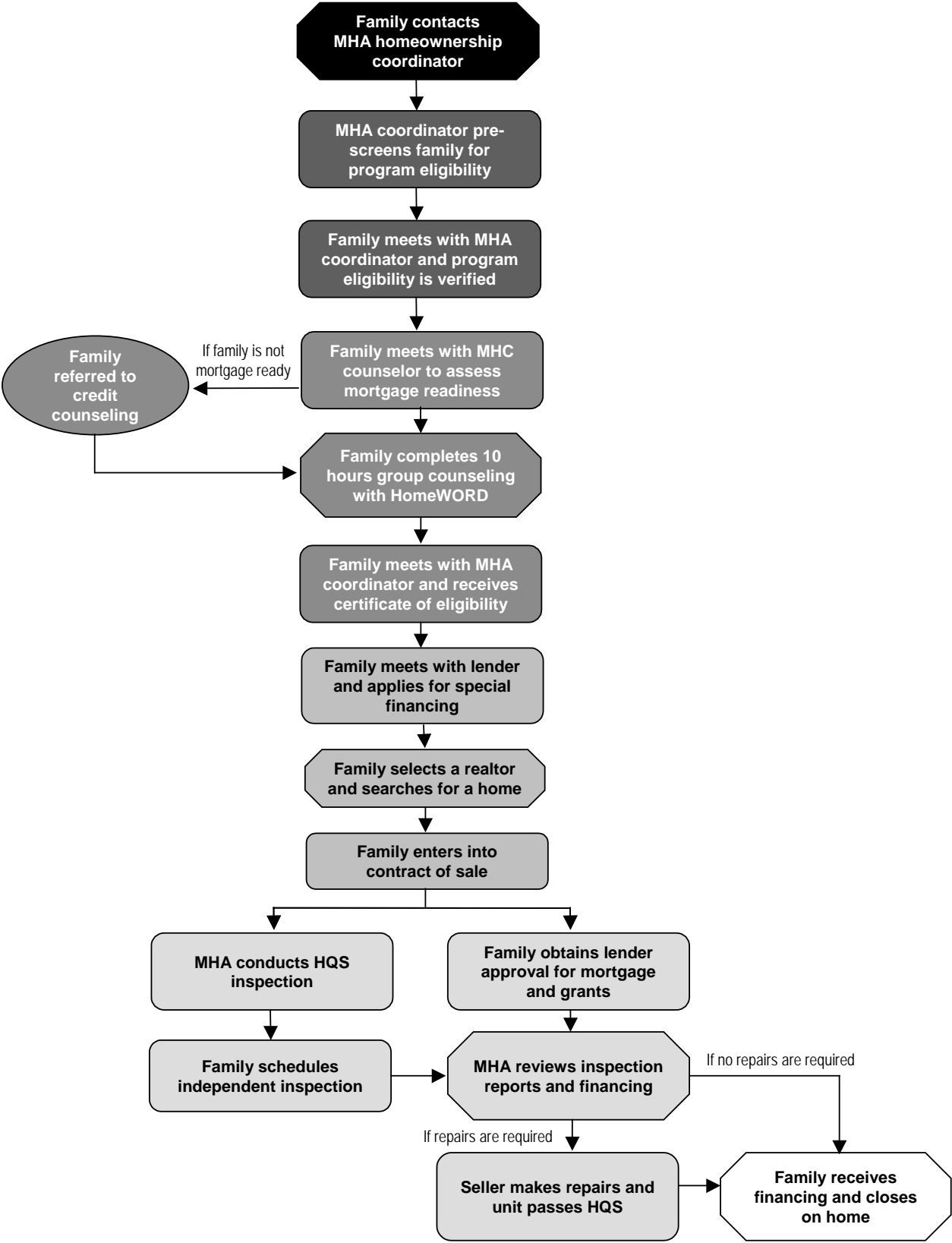
Program staff at the housing agency and partner organizations believe that there is a great deal of demand for the homeownership option among voucher participants and that it will not be difficult to achieve the desired 30 closings using individual marketing efforts by program staff and by word of mouth. MHA's Homeownership Coordinator processes applications for the homeownership program, verifies eligibility, determines the value of the voucher and approximate financing arrangements, and then refers clients to homeownership counseling.

Homeownership Counseling

MHA staff consider homeownership counseling to be an integral component of the program and one that will prove vital to the long-term success of homebuyers. MHA has entered into a partnership with Missoula Housing Corporation, an umbrella organization for all nonprofit housing activities in the city, to provide counseling to voucher participants. MHC is an affiliate of Neighborhood Housing Services of Great Falls. MHC in turn provides funding to HomeWORD to offer group homebuyer education sessions to homeownership program participants. HomeWORD is a nonprofit developer of affordable rental housing and HUD-approved counseling agency. Voucher homeownership candidates are required to attend a total of 10 hours of classroom training, offered in four separate evening sessions (twice a year HomeWORD offers sessions on weekends). The counseling is free for the program participants.

The HomeWORD counselor and a local realtor lead the sessions, with a recent first-time homebuyer also in attendance to give first-hand information to potential buyers. The counseling curriculum is based on the Neighborhood Reinvestment Institute's national class format and includes: the pros and cons of homeownership; understanding credit reports; establishing credit or repairing credit; homeownership financing terminology; how to look for a lender; the components of a buy-sell agreement; finding a realtor; home inspections; and preventing foreclosure.

Missoula Voucher Homeownership Purchase Process



Participants who need additional individual assistance with credit repair are either referred to consumer credit counseling agencies or meet individually with the HomeWORD counselor. HomeWORD offers the homebuyer education classes to any interested individual with income less than 80 percent of area median income, with a new four-session class beginning each month. Voucher homeownership participants attend the sessions along with other first-time homebuyers, and the session leaders often do not know which participants are enrolled in the voucher program. Future plans are to conduct separate homebuyer education for voucher participants so that the particular arrangements for financing the home purchase with the voucher assistance can be addressed in detail during the group sessions. At present, the unique financing arrangements for voucher participants are not explicitly addressed during the classes, because they are substantially different than for other buyers.

Pre-Purchase Counseling

MHA requires that participants complete a one-hour individual homeownership assessment and a 10-hour homebuyer education class taught by HomeWORD, a nonprofit HUD-approved counseling agency.

The classroom instruction includes an overview of the pros/cons of homeownership, advice on finding a lender and realtor, discussion of credit issues, and financing the home purchase.

Voucher program participants attend the homebuyer education classes *prior* to being pre-qualified for a mortgage by a lender, but *after* confirmation of their eligibility by the MHA homeownership coordinator. Another activity conducted prior to the homebuyer education classes is an individual homeownership assessment with a counselor from the Missoula Housing Corporation. The purpose of this one-hour session is to assess the individual's readiness for homeownership, based on credit situation, income, and knowledge of the purchase process. If the assessment reveals credit problems or other issues that will prevent the individual from obtaining a mortgage, he/she will be referred to credit counseling specifically designed for first-time homebuyers before homebuyer education. Program staff also expect that some people will screen themselves out of the program after the assessment once they have a better understanding of the responsibilities of homeownership.

After completing the homeownership assessment and the homebuyer education class, participants receive a certificate of completion and, after meeting again with the MHA coordinator, go to a lender to be pre-qualified for a mortgage. Participants may request additional assistance from the counselors at HomeWORD, but there is no formal arrangement for follow-up counseling. HomeWORD also offers foreclosure prevention counseling services.

MHA staff and program participants reported that the quality of the counseling is excellent and that it prepares participants well for the purchase process. In particular, program staff believe the timing of the counseling prior to loan pre-qualification is important because only participants who are good candidates for homeownership meet with lenders and this helps MHA to maintain good relations with participating lenders. The two program participants interviewed said that they found the counseling materials and instruction to be very helpful in preparing them to purchase.

Home Search and Inspections

Beyond the homeownership counseling, MHA does not provide program participants with any additional assistance as they search for a home to purchase. Program participants are encouraged to work with a realtor, but neither MHA nor HomeWORD provides referrals to specific realtors. Thus far, finding houses that are affordable has been difficult for participants. Two participants purchased the houses they had previously rented through the voucher program because they were unable to find other units. However, these purchasers reported that they are satisfied with the houses and with their

decision to purchase in place. MHA initially allows 120 days search time for homeownership participants, but extensions are available, up to a maximum of one year, to search for a home. Overall, most purchasers have found their homes in three to four months, with one participant looking for nine months before purchasing in place.

MHA uses its team of rental program inspectors to conduct the pre-purchase HQS inspections on voucher homeownership units. The HQS inspection is done prior to the independent inspection to save the participant the cost of the independent inspection if the unit does not meet minimum HQS requirements (and the seller is unwilling or unable to make the necessary repairs). Of the five homes purchased, only one passed HQS on the first inspection. MHA staff suggested that the repairs required have been relatively minor (addition of egress windows in two cases, addition of hand rails on steps, and minor repairs to sewer lines). There has not been a situation in which the independent inspection revealed flaws that prevented a sale.

Financing Model

During the program design phase, the MHA acting Executive Director worked closely with the Missoula Housing Corporation to develop the financing model for the homeownership program. It was also helpful that two members of MHA's board are vice presidents of local banks and were able to give insight into potential lender concerns about the program. MHA and its partners together determined that the mortgage-offset model would give program participants the most buying power. In the mortgage offset model, the maximum amount of the mortgage is calculated based on adding the full amount of the HAP to the monthly principal, interest, taxes, and insurance (PITI) that the participant can afford on the basis of his/her own income. MHA determined that most voucher participants could not afford to buy homes in Missoula if the HAP were applied in any other way. Although the offset model is typically associated with more risk than when the HAP is considered an addition to income because households potentially face a higher housing cost burden at the end of the term of assistance, MHA's emphasis on pre-purchase counseling and availability of assistance after purchase may help to mitigate this risk. In addition, MHA staff believe it is crucial that program staff screen voucher homeownership candidates carefully to avoid "setting them up for failure." In addition, it is important that homeownership candidates clearly understand the implications of the expiration of the voucher term before they purchase.

MHA began using the mortgage-offset model at the start of the program. In September 2001, however, FHA issued its mortgagee letter stating that the HAP must be treated as income (and not as a mortgage offset) in determining the homebuyer's qualifying ratios. This has presented a stumbling block for MHA's program. MHA has sent a request to FHA for a waiver to allow the mortgage offset model to be used with FHA loans in Missoula. In the meantime, program staff are exploring the possibility of qualifying participants using the HAP as an addition to income. However, approximately seven voucher homeownership candidates who originally pre-qualified for loans using the mortgage offset model can no longer qualify for a loan when HAP is applied as income.

MHA has placed some restrictions on the types of financing that families can use to purchase homes through the voucher homeownership program. Program participants must pay one percent of the purchase price from their own resources for the down payment and/or closing costs. This may include the cost of appraisals or earnest money but may not include the cost of the independent home inspection. MHA also requires the mortgage financing to comply with secondary mortgage underwriting requirements or with generally accepted private sector underwriting standards. The

agency has not placed any additional restrictions on the financing that participants use to purchase homes through the program. All of the purchases to date have been financed through one lender, Heritage Bank, and the agency developed a close working relationship with the loan officer at that institution (who has since left the bank to start her own mortgage company). This individual has become a sort of “financing advisor” to the program, offering her opinions about the types of loan products and additional assistance available to participating families. If future participants choose to use lenders other than Heritage Bank, MHA staff will likely seek the advice of the former loan officer to help ensure that families avoid predatory lending situations.

During the initial months of the program, MHA held information sessions with local lenders to explain the program. Three lenders expressed interest in the program several others took a “wait and see” approach. However, only Heritage Bank has made first mortgage loans to program participants. These have all been FHA loans. In addition, two of the five purchasers have used the U.S. Department of Agriculture’s Rural Housing Service’s Section 502 Direct Loan Program (commonly known as Section 502 loans) as second mortgages in combination with the FHA loans. The 33-year Section 502 loans are financed through the Montana Board of Financing, with interest rates ranging from one to six percent depending on the borrower’s income.³

In addition to the FHA and Section 502 loan products, there are several other sources of financing for closing cost and down payment assistance and second mortgages. MHC is a source of second mortgage financing in designated parts of the city, through its affiliation with Neighborhood Housing Services of Great Falls. First-time homebuyers can borrow up to \$20,000 from MHC for 30 years at a two percent interest rate. In addition, the Human Resource Council, which administers rental vouchers throughout the state of Montana, can provide up to \$25,000 in deferred, interest-free second mortgage loans (these are funded through HUD’s HOME program). MHC also operates a savings program called Homestart, in which homebuyers put earned income into a savings account that is then matched at a 3:1 ratio by the Federal Home Loan Bank of Seattle, and can be used for down payment or closing costs. (Homestart requires that buyers remain in the home for five years). To date, none of the homeownership voucher program participants has used the Homestart funding, but one has used Neighborhood Housing Services funding and one has used funding from the Human Resource Council (HOME funds).

Sample Purchase Transaction	
Buyer’s Annual Income:	\$22,270
Costs to Buyer:	
– Purchase Price:	\$100,000
– Closing Costs:	\$1,822
Sources of Financing:	
– 1 st Mortgage:	\$91,500 (FHA, 6.1% 30 yrs.)
– 2 nd Mortgage:	\$9,322 (NHS, 2% 30 yrs.)
– Buyer Cash Down:	\$1,000
Monthly Mortgage Payments:	
– Total Monthly PITI:	\$832
– Monthly HAP to offset PITI:	\$682
– Buyer’s Share of monthly PITI:	\$150
– Buyer’s share of PITI as a percent of gross monthly income:	8%

³ See the case study on Vermont for more detail on Section 502 loans.

One of the critical factors in the results achieved thus far is the personal relationship MHA has developed with Heritage Bank. One loan officer worked on all five purchase transactions, ensuring that the details about the voucher assistance, family contribution, and mortgages were well understood, and necessary information was shared with all parties prior to closing. Even with only five purchases to date, it is clear that each purchase is a custom transaction, requiring a high level of commitment and knowledge on the part of the lender. Heritage Bank contends that the voucher homeownership program fits extremely well into the bank's commitment to community development and its mission to increase homeownership opportunities for lower-income families. The bank has been willing to process two separate payments each month for the buyers (one from the buyer and one from MHA) and to provide MHA with up to date reporting if a buyer's payment is more than five days late in any month. Heritage Bank services all of the loans it originates and is therefore willing to take on these extra steps, perhaps because they do not have concerns about selling the loans on the secondary market. The Section 502 loan must be paid with only one payment, so either the family or MHA pays the entire monthly payment for those loans.

Post-Purchase Activities

MHA has worked with Heritage Bank to establish procedures for monitoring the payment of the mortgage loans so that MHA can respond quickly if any participants encounter problems meeting the monthly payments. If a payment is more than five days late in any month, Heritage will inform MHA and MHA will contact the family immediately to discuss the situation. Similar arrangements are in place with Rural Housing Service.

MHA does not require any formal post-purchase counseling for program participants. Annual post-purchase HQS inspections of the properties is offered as an option to buyers, and MHA staff believe that the annual reexamination process will allow MHA to monitor the participants' financial situations and to intervene if necessary with referrals to HomeWord or other sources of counseling. In addition, any voucher homeownership participant who receives down payment assistance loans through the Missoula Housing Corporation is contacted by telephone every three months for one year after purchase, according to MHC's regular follow-up process.

Post-Purchase Activities

- MHA does not require any additional counseling once participants have purchased
- Annual, post-purchase HQS inspections are optional
- Participants receiving down payment assistance from MHC are contacted every three months by telephone
- Heritage Bank's servicing staff monitor participants' mortgage payments on a monthly basis

Program Management, Staffing, and Partnerships

MHA had not operated a homeownership program prior to the voucher homeownership program. In recent years, the agency has sold several of its scattered site public housing properties and would have liked to be able to offer the right of first refusal for these properties to voucher participants or public housing residents. However, MHA did not have a resident council in place as required by HUD regulations for such housing disposition efforts. When the voucher homeownership option came along, MHA viewed it as an effective mechanism for the agency to pursue its goal of encouraging long-term self-sufficiency among its clients. MHA's leadership believes that homeownership benefits to individuals and families by giving them an asset and housing stability, and benefits communities by strengthening neighborhoods. Missoula program staff also noted that the homeownership program has given MHA an opportunity to strengthen its ties to local nonprofits and private sector lenders and to cement its role as a local leader in affordable housing issues.

The design of MHA's voucher homeownership program required an intensive effort by MHA and its partners at the Missoula Housing Corporation, HomeWORD, and Heritage Bank. MHA's Acting Executive Director and MHC's Director (also officially a staff member of MHA) each played a key role in planning the program. In its early stages, MHA's Deputy Executive Director and Housing Specialist, who is designated as the Homeownership Coordinator, each spent approximately 25 percent of their time working on the voucher homeownership program. In addition, a staff member from MHC, who is formally an employee of the housing agency, spent approximately 20 percent of her time on the program at the outset. Creating a new set of policy documents and forms was somewhat labor intensive, as was conducting outreach to potential lenders and developing the financing model. MHA staff attribute the strong network of housing nonprofits in Missoula, the willingness of lenders to sign on to the program, and the commitment of individuals in the partner organizations as critical to the success of the design phase. In addition, MHA relied on input from other homeownership programs (particularly the Colorado SHHP program) to help them settle on key design issues, as well as the knowledge and support from their board members.

Since becoming fully operational, the program has required a somewhat lower level of staff resources from MHA. MHA's Homeownership Coordinator continues to spend approximately 25 percent of her time on the program. She is responsible for client intake and monitoring all phases of the purchase process and is the key liaison between all of the partners involved in the program. She is also directly involved with each purchase transaction and maintains a computer database to monitor participants' progress at each stage of the program, both pre- and post-purchase. MHA's Deputy Executive Director, who worked intensively on the program during the start-up phase, now spends much less time on the program.⁴

Program Staffing

MHA devotes slightly more than one half-time staff person to administering the program. Homeownership counseling is provided by partner agencies free of charge. MHA believes this level of staff effort is adequate to operate a successful program.

In addition to the functions performed by the Homeownership Coordinator, other MHA voucher program staff play key roles in administering the homeownership program by conducting the pre-

⁴ A new Executive Director joined the agency in April 2002. During the planning phase, the Deputy Executive Director served as Interim Director of the agency.

purchase HQS inspections and income reexaminations (as they do in the rental program) and by acting as the first point of contact with potential program participants. Given the high degree of coordination among the MHA staff, the voucher program intake and inspection staff understand the homeownership program well and are able to respond to voucher participants who have questions, referring them to the Homeownership Coordinator as necessary. A staff person from MHA's Finance Department spends about 10 percent of his time on the program, and the two voucher program staff together spend about 25 percent of their time on the program. The total level of effort that MHA staff devote to the program (not including the work done by program partners) is slightly more than one half-time person (or 0.55 full-time equivalent, assuming a 40-hour work week). MHA does not view the level of staff effort required to run the program as a concern or limitation on the program's growth to its full target of 30 vouchers.

Because the MHA is currently undergoing a transition in leadership and may pursue new staffing arrangements and new priorities, the staffing level for the voucher homeownership program may shift in the coming months. Thus far, MHA staff resources for the program have been funded entirely through housing choice voucher program administrative fees. MHA has applied for FSS coordinator funds and for a grant from the Neighborhood Reinvestment Corporation, both of which would be used in part to offset administrative costs.

Program Outcomes

MHA has designated a total of 30 housing choice vouchers for the homeownership program.⁵ Through the first year of program operations, MHA has completed five closings. The program staff believe that if FHA allowed the voucher to be used as an offset to monthly mortgage payments, there would have been approximately 10 closings by this time. Supporting this observation, the loan officer reported that seven families had been pre-approved for a mortgage under the mortgage offset model but are no longer eligible if the HAP is counted as income. The program currently has two households who have completed homebuyer education, have been pre-approved for a mortgage, and are searching for homes. MHA expects them to close on purchases by September 2002. In addition, three households have completed homeownership counseling but are working to address credit issues before going to a lender for mortgage pre-approval.

Program Outcomes

- Number of households counseled: 14
- Number of homes purchased: 5
- Average income of purchasers: \$18,087
- Average purchase price: \$105,780
- Instances of loan default: 0

There are no other households currently "in the pipeline," although programs staff continue to identify potential program participants who meet the income, employment, and program tenure requirements during annual reexamination interviews. The agency would like to resolve the issues regarding the financing model before preparing a substantial number of families to obtain loan pre-approval, so they can be more certain as to the purchase price participants can afford. Given their ability to identify appropriate homeownership candidates on an ongoing basis, and the fact that homebuyer education can be completed within a four-week period, staff believe they can prepare additional families for loan approval and purchase relatively quickly, once their request to FHA to allow the voucher subsidy to be counted as a direct offset to the monthly mortgage is approved.

⁵ This is MHA's current goal for the life of the voucher homeownership program, but could be revised once the target is reached.

The units purchased to date have all been single-family detached houses. All except one are located within the Missoula city limits in residential neighborhoods. One participant purchased in a rural area at the outskirts of MHA's jurisdiction. Four of the five homes were purchased from individual sellers, while one property was a former public housing property sold as part of MHA's property disposition efforts. Based on a visual assessment of three of the five homes, all appear to be in good condition, with ample yards and garages, and located in quiet neighborhoods. Two purchasers purchased the units they had previously rented under the voucher program.

MHA has not imposed a limit on the percentage of income that participants can spend on monthly homeownership expenses. Instead, the agency relies on the lenders' underwriting guidelines to keep the purchases affordable. Based on the five purchase transactions, the monthly PITI on the mortgage, less the subsidy provided by MHA, represents, on average, 10 percent of purchasers' gross monthly income. However, as part of the program requirements, MHA also develops an estimate of monthly homeownership expenses for each program participant, which includes the maintenance and repair reserve, an estimated amount for utilities (based on the utility allowance schedule developed for the rental voucher program), and other required expenses. When these additional costs are factored in, total monthly homeownership expenses represent, on average, 58 percent of purchasers' gross monthly income. Thus far, however, there have been no instances of late payments. Most purchasers have been in their homes six months or less.

One of the participants interviewed during the site visit purchased a house through MHA's voucher homeownership program in November 2001. At the time of the interview, she was extremely pleased with her new home, both because it represents a substantial improvement over the conditions of her previous housing unit and because she feels she is building financial security for her son and herself. She considers the voucher homeownership program to have helped her provide a more permanent and stable living environment for her son, as well as the prospect of building a financial asset. She praised the personal commitment and involvement of all of the program staff—voucher program staff at MHA, the loan officer at Heritage Bank, and the homebuyer education counselors—and believes that everyone gave her personalized attention and assistance at every step in the process. She commented that this guidance and encouragement was crucial to her ultimate success in purchasing her house.

Lessons Learned

MHA's leadership and program staff consider the strength of the agency's relationships with partner organizations, including lenders and counselors, as the key ingredients to the success of the program thus far. The availability of first-mortgage loans and additional down payment, closing cost, and second mortgage financing are other key factors that have allowed participants to purchase through the program. The major challenge is the rising cost of housing in Missoula and the inability of participants to purchase if the HAP is treated as an addition to income in determining the maximum amount of the mortgage. According to program staff, the use of the HAP as a direct offset is critical to the ability of voucher homeownership candidates to purchase given their low incomes and the relatively high cost of housing in Missoula. For this reason, they believe that FHA's policy that the HAP must be treated as income threatens the future growth of MHA's program.

MHA's Deputy Executive Director and program staff offered the following advice to PHAs considering the voucher homeownership option:

- ***Develop a network of partners within the community.*** This is particularly important for small PHAs, for whom offering counseling in-house might be inefficient or impossible given limited staff resources.
- ***Recruit a group of lenders who are committed to the program.*** This is a great asset in resolving the challenges that each purchase transaction presents, regardless of the client base served.

Missoula Program Summary	
Number of homes purchased:	5
Average income of purchasers:	\$18,087
Average purchase price:	\$105,780
Average monthly HAP payment:	\$553
Financing model:	HAP as Offset
PHA program staffing:	0.55 full-time staff equivalent

Montgomery County, Pennsylvania

Montgomery County Housing Authority

Introduction

The Montgomery County (Pennsylvania) Housing Authority (MCHA) administers approximately 2,600 housing choice vouchers. MCHA was one of the first housing authorities authorized to pilot the voucher homeownership option under HUD's proposed rule. MCHA was primarily attracted to the homeownership option as an opportunity for innovation within the housing choice voucher program and to expand the housing options of its clients. MCHA also viewed the program as an opportunity to support some of the communities within the county that have suffered from declining homeownership rates. The homeownership rate for the county as a whole is high (74 percent) and has increased since 1990. Some parts of the county, however, have been steadily losing homeowners and today have homeownership rates under 50 percent.

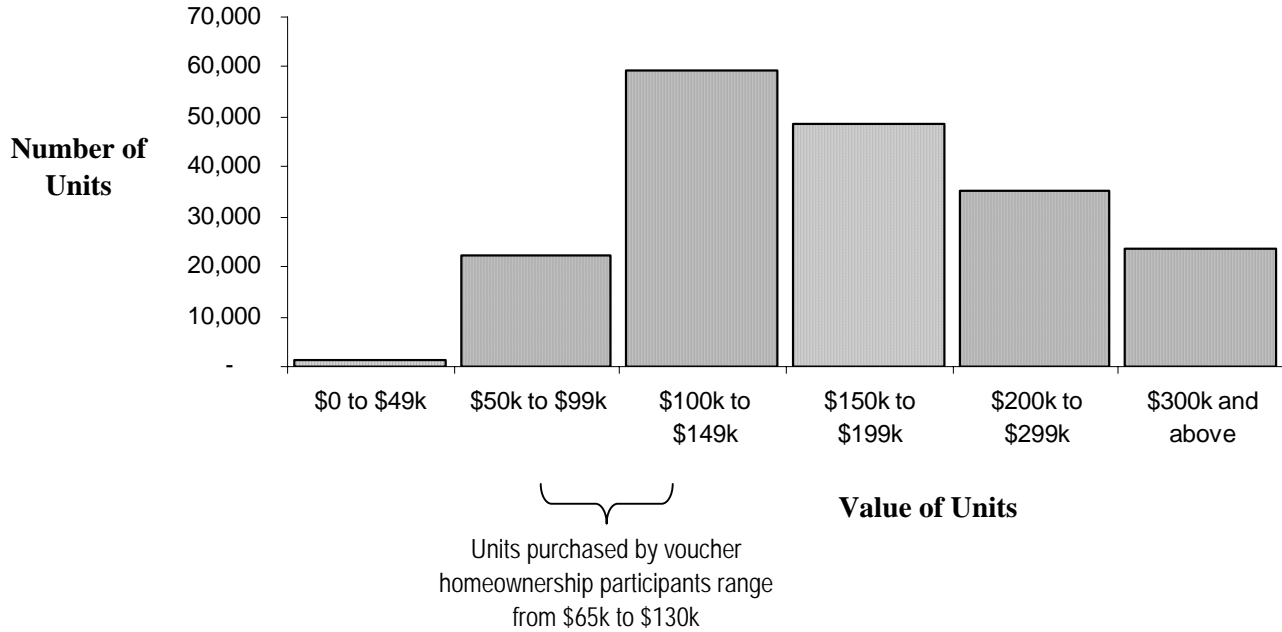
The homeownership option is available to existing participants in MCHA's voucher program and to households off the voucher program waiting list who meet the basic eligibility criteria established by the final rule. Although it was originally a HUD pilot site, MCHA operates the program under the final rule. As of April 2002, at the time of the site visit, 11 households had purchased homes through the program. A twelfth household purchased in May 2002. One of the distinctive features of MCHA's program is its pre-purchase counseling component, which includes five two-hour homeownership workshops led primarily by MCHA staff. Another noteworthy feature of MCHA's program is the relatively high degree of lender participation. As of April 2002, seven different lenders had made first mortgage loans to program participants. Close attention during the program design phase to the needs of private market lenders has facilitated lender participation in MCHA's program.

Housing Market Conditions

Montgomery County is a large county located 20 miles northwest of Philadelphia. The county as a whole is affluent, but it contains some very low-income communities. About half of the county's area is considered rural—most of the population lives in towns in the southeastern portion of the county. Housing costs are generally high in Montgomery County. According to the 2000 Census, the median house value in Montgomery County was \$160,700, approximately 34 percent higher than the national median.

The chart below presents data from the 2000 Census on the number and value of owner-occupied housing units in Montgomery County. Less than half of the units (44 percent) are valued below \$150,000, and only 13 percent are valued below \$100,000. The majority of units in Montgomery County are valued at \$150,000 and over, suggesting that this is a relatively difficult housing market for voucher program participants, especially without significant subsidies (such as down payment and closing cost assistance) in addition to the voucher. However, program staff report that there are parts of the county where good quality houses are available in the \$70,000 to \$100,000 range. These properties are generally located in the older, more urbanized areas of the county and are much less in demand than more expensive units. Thus far, MCHA voucher homeownership participants have purchased units ranging from \$65,000 to \$130,000, with an average purchase price of \$89,990.

Value of Owner-Occupied Units in Montgomery County, Based on 2000 Census



Program Design

Targeting and Outreach

The homeownership option is available to all participants in MCHA’s rental voucher program who are in good standing with the agency and meet the minimum income and employment requirements specified in the final rule. MCHA also makes the homeownership option available to households admitted to the voucher program from the waiting list. Households coming off the waiting list who express an interest in homeownership are given a total of nine months to purchase a home.

MCHA has not set any limit on the number of households that may attend homebuyer education or pursue homeownership through the program. MCHA anticipates that relatively few voucher participants will ultimately be able to purchase homes through the program; as a result, the agency does not want to set limits on which families could try to do so. For example, MCHA has a preference for, but does not require, participation in its FSS program. (The FSS program is discussed in the homeownership program briefing as a good way to begin saving toward a down payment and/or to access employment-related services.) Furthermore, MCHA does not formally screen participants for program eligibility on the basis of income and employment until after

Target Population and Outreach Methods

MCHA’s voucher homeownership option is available to existing participants in its rental voucher program in good standing with the agency and to households newly admitted to the voucher program from the waiting list.

To date, MCHA has marketed the program primarily by sending out mass mailings to new and existing voucher participants with incomes over \$10,000.

they have completed the third workshop. Households found to be ineligible for the program may nonetheless attend the additional workshops.

Thus far, MCHA has marketed the program primarily through direct mailings. When it first started offering the program in November 2000, MCHA sent letters to all participants in its rental voucher program inviting them to attend a briefing on homeownership. This mailing was expensive and time-consuming and ultimately yielded a modest response—out of 1,650 families contacted, 157 (10 percent) ended up attending a program briefing session. MCHA thought it was important, however, at the start of the program to let all voucher participants know about the homeownership option.

MCHA has since limited its mailings to voucher participants earning at least \$10,000, but has not achieved a much better response rate. Of the 649 households that received letters in June 2001, 77 (12 percent) attended a briefing. In November 2001, MCHA again sent letters to 922 households, of which 76 (8 percent) attended a briefing. Although these mailings may not be the most focused way of marketing the program, they ensure that MCHA is reaching out to all potential participants. Thus far, MCHA has attracted a sufficient number of households to the program to achieve its goal of 10 closings in the first year, with more purchasers in the pipeline.

Homeownership Counseling

MCHA conducts all of the homeownership counseling required for the program in-house. MCHA had originally planned to provide the counseling through an outside partner, but was unable to identify a HUD-approved counseling agency that MCHA's staff felt comfortable using for this purpose. In addition, MCHA's Deputy Executive Director and Homeownership Program Administrator felt strongly that they needed a way to develop a personal relationship with program participants and offer a pre-purchase counseling program tailored to meet participants' needs. As a result, MCHA opted to develop the counseling program in-house and include guest speakers where available at no cost to MCHA.

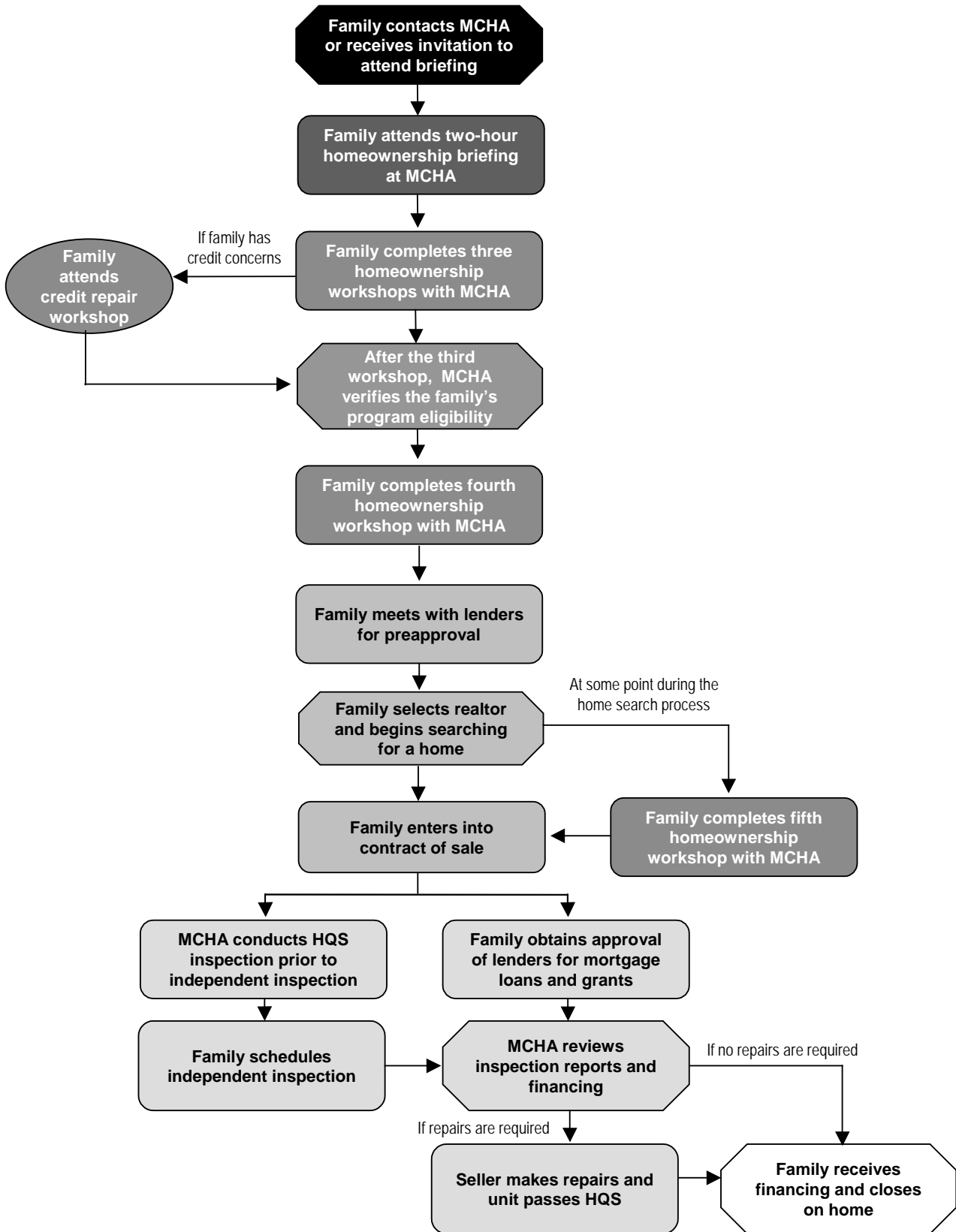
In addition to a preliminary briefing on the program, MCHA requires program participants to complete five two-hour homeownership workshops prior to looking for a home. The subjects of these mandatory workshops are: 1) Budgeting and Money Management; 2) Credit; 3) Fair Housing; 4) How to Buy a House; and 5) Home Maintenance. In addition, MCHA offers an optional credit repair workshop for households with poor credit. MCHA developed this workshop after it discovered that credit was a significant barrier preventing households from purchasing homes.

MCHA offers the homeownership workshops in cycles of one or two workshops per month over a four- to five-month period. MCHA offers each workshop three or four times over a two-week period with morning, afternoon, and evening times offered. Thus far, all of the workshops have been held at MCHA's central offices, although in the future, MCHA plans to hold program briefings in other locations around the county as well. All of the workshops are done as group sessions, although MCHA's Homeownership Programs Administrator and FSS Coordinator work with families on a one-on-one basis as needed. MCHA

Pre-Purchase Counseling

MCHA requires that participants complete five two-hour homeownership workshops. The workshops are provided by MCHA in-house and are taught by MCHA staff and guest speakers.

Montgomery County Voucher Homeownership Purchase Process



believes that group workshops generally work better because families motivate each other to stick with the program.

MCHA staff conduct the workshops on budgeting and money management, how to buy a house, and home maintenance. The mandatory credit workshop is conducted by TransUnion Credit Bureau, which runs a free credit report for program participants at the same time. Four nonprofit organizations offering credit counseling in the county conduct the optional credit repair workshop. Representatives from Fannie Mae and Freddie Mac conduct the workshop on Fair Housing. Each of these organizations contributes their time to the workshops at no expense to MCHA or to program participants.

MCHA's Homeownership Program Administrator believes that the five pre-purchase workshops give staff an opportunity to develop a personal bond with program participants, one that may become important should participants have difficulty meeting their mortgage payments. This bond was

"The workshops showed me that it was possible to purchase a home. The credit repair workshop was really helpful because my credit was bad. I started making payments on my credit in December 2000 and bought my home in October 2001."

- MCHA program participant

clearly apparent in the workshop observed for this study and in the interactions between MCHA's Homeownership Program Administrator and the individuals who had purchased homes through the program. Moreover, interviews with the purchasers revealed a high degree of understanding of the lending and home purchase process. The lenders interviewed also suggested that having been through the five workshops, program participants generally have a better understanding of the challenges of homeownership than other first-time homebuyers.

One of the most innovative aspects of MCHA's homeownership counseling is that program participants who have purchased homes are invited to share their experiences with prospective homebuyers during the "How to Buy a Home" workshop. In the workshop observed for this study, the program participant shared her experiences selecting a realtor, finding a home, interpreting the independent inspection, and working with a lender. The other participants in the workshop seemed to value this first-hand account of the process from someone who was in their position only a few months before.

Home Search and Inspections

Beyond the workshops, MCHA does not provide program participants with any additional assistance as they search for a home to purchase. Program participants are encouraged to work with a buyer's agent, but MCHA does not provide lists of recommended realtors. Thus far, finding homes has not been a problem for those program participants who have qualified for mortgages. Most program participants have taken eight to 10 months to complete the pre-purchase workshops (which can take five months or more), obtain financing, and purchase a home.

Given the age of the affordable housing stock in Montgomery County, the two required pre-purchase inspections are a key component of MCHA's program. MCHA conducts the HQS inspection within a week of receiving the participant's agreement of sale, prior to the independent inspection. The HQS inspection is conducted by one of MCHA's regular inspectors, accompanied by

"I was so excited about that first home I looked at, and if I hadn't had the inspection I definitely would have bought it. But then the inspection showed that it had asbestos and termite damage, and I knew it wouldn't work."

- MCHA program participant

the Homeownership Program Administrator. Participating in the initial HQS inspection familiarizes the Program Administrator with the property and helps her to interpret the results of the independent inspection. If the HQS inspection does not reveal any major flaws in the property, and the seller is willing to make the needed repairs, the participant arranges for the independent inspection. Participants purchasing in certain parts of the county may be required to have an inspection by the local Borough. In addition, the U.S. Department of Agriculture's Rural Housing Service (RHS) conducts a separate inspection on the property if the participant is purchasing with an RHS Section 502 loan.

MCHA's Homeownership Program Administrator reviews the independent inspection report and goes through it with the participant. Although most of the homes inspected thus far have required only minor repairs—participants learn in the workshops to look for houses in good condition—at least two participants have cancelled their agreements of sale as a result of major problems revealed by the independent inspection. The program participants interviewed said that in retrospect they were very grateful that the independent home inspection was mandatory because they would not have paid for it otherwise. Several participants also noted that they found the detailed independent inspection reports—which they kept for the homes they purchased—to be very useful as home maintenance reference guides.

Financing Model

MCHA's voucher homeownership program uses the single mortgage model in which the HAP is considered as an addition to the participant's monthly income. MCHA chose this financing model because it did not have access to a source of second mortgage financing and felt that using the HAP as a direct offset to the monthly mortgage payments was too risky. In addition, the agency believed that treating the HAP as income would be the simplest model for lenders to implement and therefore the most likely to gain their support. In most cases, MCHA sends the HAP payment directly to the participant in advance of when the monthly mortgage is due and the participant writes one check for the full amount of the mortgage. This eliminates the servicing concerns associated with receiving mortgage payments from two different sources. If a particular lender prefers to receive the HAP directly from the housing authority, however, MCHA will do so. This is the case with RHS, which had provided a first mortgage loan through its Section 502 Direct Loan Program to one MCHA purchaser as of April 2002.

MCHA does not require any minimum down payment (beyond what may be required by the lender) and imposes relatively few restrictions on the type of loan package that participants can obtain. However, MCHA does not allow balloon mortgages, adjustable rate mortgages, or prepayment penalties. In addition, MCHA's affordability criteria require that the monthly homeownership expenses minus the HAP be less than 50 percent of the participant's monthly adjusted income. The monthly homeownership expenses include the principal, interest, taxes, and insurance on the mortgage (PITI), a \$150 reserve for maintenance and replacement, the utility allowance appropriate to the size of the unit, and other required expenses. MCHA's Homeownership Program Administrator reviews the financing terms of each purchase transaction (running the numbers herself as a double check) and reserves the right to disapprove any transaction that does not meet the program's affordability criteria. MCHA's Homeownership Program Administrator was a realtor for many years prior to joining MCHA and has experience in banking, as well as title conveyance.

MCHA requires that participants obtain fixed rate loans, preferably with zero points and competitive interest rates. If the financing is affordable, MCHA may, on a case-by-case basis, approve a loan with a higher interest rate or a short-term prepayment penalty or allow seller financing with an independent appraisal. Of the 10 purchase transactions sampled at the time of the site visit, the interest rates on the first mortgage loans range from one percent (for the Section 502 loan) to 7.875 percent. The average rate of interest across the loans—not including the Section 502 loan—is 7.26 percent.

The lender interviewed during the case study reported that voucher homeownership program participants typically do not meet the credit criteria, reserve requirements, or down payment requirements to qualify for a conventional loan on their own. The lender reported that some of the participants he has seen have had low credit scores, with collection accounts, judgments, and late payments on their credit reports. As he put it, these are typically “very difficult loans that would largely be sub-prime loans were it not for the subsidy.” In addition, MCHA’s voucher homeownership purchasers typically need assistance from the seller to make the purchase affordable. Ten of the 11 program purchasers received some contribution from the seller toward their closings costs, ranging from \$500 to \$5,000.

As of May 2002, nine of the 11 purchasers in MCHA’s program purchased with FHA-insured mortgages. Thus far, the lenders participating in the program have found FHA loan products to be the best suited to voucher program participants because of the participants’ typically low credit scores and because of FHA’s allowance of seller contributions in excess of three percent of the purchase price.¹ MCHA’s Homeownership Coordinator reported that FHA’s mortgagee letter of September 2001 was critical to the willingness of local lenders to count the HAP as income in determining program participants’ qualifying ratios. Prior to FHA’s letter, three households had purchased homes with FHA-insured mortgages where the HAP was not treated as income but as a compensating factor. These participants were more limited in the homes they could purchase than subsequent FHA borrowers for whom the HAP was counted as income.

Thus far, seven different lending institutions, mainly mortgage companies, have provided first mortgage loans to MCHA program participants. Some of these lenders are holding the loans in portfolio, but others have sold the FHA-insured loans on the secondary market (one mortgage company has made a commitment to hold the loans in portfolio for one year). MCHA continues to work hard to expand the pool of lenders willing to work with the program, because the agency believes that program participants should have the same options as non-subsidized purchasers. In addition, two lenders that offer down payment assistance matching grants through the Federal Home

Sample Purchase Transaction	
Buyer's Annual Income:	\$26,993
Costs to Buyer:	
– Purchase Price:	\$92,500
– Closing Costs:	\$3,892
Sources of Financing:	
– 1 st Mortgage:	\$89,725 (7.25% 30 yrs.)
– Seller Contribution:	\$4,125
– Buyer Cash Down:	\$2,542
Monthly Mortgage Payments:	
– Total monthly PITI:	\$766
– Monthly HAP to offset PITI:	\$314
– Buyer's share of monthly PITI:	\$452
– Buyer's share of PITI as a percent of gross monthly income:	20%

¹ Fannie Mae and Freddie Mac guidelines limit seller contributions to three percent of the purchase price.

Loan Bank are not yet prepared to work with voucher homeownership participants, although they have expressed interest in the program.

This is a concern because program participants currently have few sources of down payment and closing cost assistance available to them. Some municipalities within the county offer down payment assistance grants to attract first-time homebuyers to purchase in their communities, and there are also some funds available at the county level for participants who meet certain eligibility criteria. Thus far, however, only three of the 11 purchasers have received down payment assistance from an outside source (two from Norristown Borough, and one from a nonprofit housing developer). In addition, as mentioned, 10 purchasers have required between \$500 and \$5,000 in assistance from the seller in order to make the purchase affordable. That sellers have been willing to contribute to the down payment and closing costs reflects the relatively loose housing market for homes in the price range affordable to program participants. MCHA is nevertheless concerned that the scarcity of down payment and closing costs assistance will ultimately limit the number of households able to purchase through the program.²

Post-Purchase Activities

MCHA does not require post-purchase HQS inspections or post-purchase counseling. On at least an annual basis, however, at the time of reexamination, program participants are required to provide MCHA with a statement from their lender saying that they have been making their payments on time, current utility bills, and a current tax bill. These documents, along with the standard income verifications, will help MCHA to recalculate the level of subsidy and to confirm that the monthly homeownership expenses continue to be affordable.

As part of the paperwork associated with the mortgage, MCHA has created a form that gives lenders permission to inform the housing authority if a program participant is delinquent on their payments. Should this happen, MCHA plans to bring the participant in for one-on-one counseling and may begin to send the HAP directly to the lender. Thus far, there have been no instances of delinquency; however, the lenders interviewed expressed some concern that if the process of notifying the housing authority of late payments is not automated, servicers may neglect to do it. Most of the lenders participating in the program thus far have been mortgage companies who sell their loans on the secondary market and do not retain the servicing component.

As the loans get sold and serviced by different entities, there is some concern that a given servicer may not know to get in touch with MCHA prior to the participant going into default.

MCHA is also concerned that program participants may become vulnerable to predatory lending as their equity increases. Participants may be especially vulnerable if they no longer receive the voucher assistance as result of increased earnings. This matter is addressed in the Fair Housing Workshop and MCHA has developed a brochure on the dangers of lending. The funding that MCHA received in July 2002 for down payment and closing cost assistance creates a second lien against the property that

Post-Purchase Activities

MCHA does not require post-purchase HQS inspections or post-purchase counseling. MCHA is relying on the lenders to track participants' mortgage payments and notify MCHA in the event of a late payment. MCHA will also review participants' mortgage status on an annual basis at the time of reexamination.

² In July 2002, Montgomery County approved a \$88,000 grant, through the Housing Trust Fund, for down payment and closing cost assistance for MCHA voucher homeownership program participants.

will mitigate the risk that predatory sales tactics result in future liens. MCHA would have to be contacted to subordinate new loans, requiring review of the lender's terms and intent of the proceeds. This will prevent some participants from being affected by predatory lenders, even if they are no longer receiving MCHA assistance, because the down payment assistance funds come with an eight-year lien.

Program Management, Staffing, and Partnerships

As one of the first sites authorized to pilot the voucher homeownership option, developing the program was a highly labor intensive process. As MCHA's Deputy Executive Director put it, "HUD told us what we had to do, but not how to do it." Beginning in 2000, MCHA went through a lengthy planning and design phase, during which MCHA's Deputy Executive Director and Homeownership Program Administrator worked closely with a staff person from HUD's Homeownership Center in Philadelphia to develop policies and procedures documents and to recruit lenders to the program.

One of the biggest challenges that MCHA had to overcome was the skepticism among local lenders about the concept of a subsidized mortgage. The HUD staff person had already spent a lot of time working with Fannie Mae and others to figure out how the program could be made attractive to the private lending community. He was therefore able to provide useful technical assistance to MCHA in developing a program that would satisfy the needs of private lenders. For example, he identified that lenders are mainly concerned with understanding the sources of borrower income and the risk that these sources will disappear before the loan is repaid. As a result, MCHA developed preliminary and final certification documents that tell the lender approximately how much monthly subsidy the borrower can expect to receive from MCHA, affirm that the subsidy is likely to continue for at least three years, and explain MCHA's right to disapprove any financing terms that do not meet its affordability criteria.

Another stumbling block that MCHA encountered in the early stages of the program was that the lenders, through the pre-approval process, were discovering income information that the participants had not revealed to the housing authority. The lenders were reluctant to proceed with the loan until the full information had been disclosed to MCHA. MCHA ultimately resolved the issue by requiring program participants to sign a form authorizing the exchange of financial information between lenders and the housing authority. If discrepancies are discovered, MCHA requires full income disclosure and resolves any inconsistencies prior to closing.

Program Staffing

MCHA devotes the equivalent of one and a half full-time staff to administering the program. This includes managing the homeownership counseling in-house, and actually conducting three of the five homebuyer workshops. The other workshops are provided by outside partners free of charge.

Even after overcoming these initial stumbling blocks, many lenders remained reluctant to participate in the program. Therefore, MCHA's Deputy Executive Director of Management and Administration, Homeownership Program Administrator, and the HUD staff person invited each of the major lenders, usually the CRA officer and a senior underwriter, to meet in person to discuss the program. These meetings ultimately helped MCHA to garner the support of a relatively high number of lending institutions. The extra work required to process the loans, however, together with their low profitability and concerns about servicing, continue to limit lender participation, such that program participants do not yet have the same range of options as unassisted borrowers.

Developing the policies and procedures documents for the program and recruiting lenders required an intensive staff effort. Now fully operational, the program continues to require significant staff time. MCHA estimates that it needs the equivalent of one and a half full-time staff to run the program (assuming a 40 hour work week). MCHA's Homeownership Program Administrator spends approximately 80 percent of her time on the program (the remaining 20 percent is spent managing MCHA's 5H Homeownership program).³ Her position is currently funded through the 5H program, but will ultimately need to be funded through the voucher program. A clerical staff person supports the Homeownership Program Administrator and spends approximately 60 percent of her time on the program. MCHA's Deputy Executive Director of Management and Administration, who worked intensively on the program in the startup phase, now spends an average of three to four days a month on the program. Finally, MCHA's FSS Coordinator and Deputy Executive Director for Maintenance each run one homeowner workshop, which requires about 10 percent of their time overall. Fannie Mae, Freddie Mac, and TransUnion Credit Bureau conduct their workshops on a volunteer basis.

In addition to the staff time required, MCHA also emphasizes the importance of the staff qualifications. In particular, MCHA believes that the person running the program on a daily basis—in MCHA's case, the Homeownership Program Administrator—should have a background in lending or real estate because of the complexity involved in calculating how much subsidy the participant can receive and in evaluating the affordability of a given loan package. Training in HUD regulations for income calculations and program eligibility are necessary if the Administrator has no prior PHA experience.

Program Outcomes

MCHA held its first program orientation in December 2000 and had its first closing in June 2001. As of April 2002, 11 households had purchased homes through the program, exceeding MCHA's goal of 10 purchasers per year. In addition to the 11 participants who had purchased, 69 households had completed all five homebuyer workshops, and 18 households have been pre-approved for mortgages. About 120 households have attended one or more homebuyer workshops but not completed the full five-part series. According to MCHA's Homeownership Program Administrator, many of these households dropped out after the first workshop on budgeting and money management, which acts as something of a "reality check" on what is expected of them. In addition, as of April 2002, 23 households were determined to be ineligible for the program and chose not to complete the workshops. Some of those determined to be ineligible have since met the income and/or employment requirements and have proceeded with the program.

Program Outcomes to Date

- Number of households counseled: 80
- Number of homes purchased: 12
- Average income of purchasers: \$26,004
- Average purchase price: \$89,990
- Instances of loan default: 0

Overall, MCHA has been satisfied with the number of applicants to the program and the proportion of participants who have succeeded in purchasing homes. The number of households who begin but do not complete the homebuyer workshops is high, but this largely reflects MCHA's desire to open the workshops to any voucher participant interested in pursuing homeownership, regardless of whether they will be able to purchase in the near term. According to MCHA's Homeownership Program

³ MCHA has a 35 hour work week.

Administrator, some families have completed homebuyer education but failed to find homes in the areas in which they wanted to live. For example, many families do not want to change school districts, which can limit their housing options. Thus far, however, MCHA's Homeownership Program Administrator has not had enough contact with qualified families who did not purchase to understand all of the reasons why families may not be successful in the program.

The incomes of the households who have purchased homes to date range from \$15,500 to \$31,600, with an average income of approximately \$26,000. This is significantly higher than the average income of participants in MCHA's rental voucher program, which in May 2001 was approximately \$11,700.⁴ Two of the purchasing households have been elderly or disabled, thus qualified to receive the voucher subsidy for the full term of the mortgage.

MCHA program participants have purchased homes throughout Montgomery County, with purchase prices ranging from \$65,000 to \$130,000. In general, MCHA believes that participants in the homeownership program are purchasing better quality homes in better quality neighborhoods than they lived in as renters, although two purchasers thus far purchased the units that they had previously been renting. Out of a sample of 10 purchase transactions, six of the homes purchased were in older, more urbanized parts of the county where the housing is generally most affordable. The average purchase price of the homes purchased in these areas was \$85,500. The homes purchased in the more rural parts of the county were slightly more expensive, with an average purchase price of \$96,700. Based on a tour of five homes conducted during the site visit, program participants appear to be purchasing in fairly good neighborhoods with no obvious negative features. However, given their incomes and the voucher payment standard, there are some parts of the county where program participants cannot afford to purchase.

Most of the homes purchased have been three-bedroom single-family homes, either detached or row homes. One participant purchased a condominium. Reflecting the affordable housing stock in Montgomery County, most of the homes were built before 1950. Among the 10 purchases examined in detail for this study, the average age of the homes was 81 years. As might be expected given their age, all of the homes failed the initial HQS inspection. The most common fail items were cracked ceilings, minor plumbing issues, the lack of ground-fault circuit interrupter (GFCI) outlets in the kitchens and bathrooms, and faulty smoke detectors. In all cases, the seller agreed to make the necessary repairs prior to closing. Of the 10 transactions sampled, eight of the sellers were private owners and one was a nonprofit organization; one participant purchased a HUD foreclosure.

Based on the sample of 10 purchase transactions, homeownership expenses represented, on average, 35 percent of the purchasers' gross monthly incomes, well within MCHA's affordability threshold of 50 percent. Interviews conducted with program participants, however, suggest that few purchasers have been able to set aside the \$150 for maintenance and replacement that MCHA has determined is necessary given the age of the homes being purchased and the fact that some may have maintenance issues that arise after purchase.⁵ For example, one program participant, a single mother of two, described herself as living "paycheck to paycheck," with very little money left over for unanticipated

⁴ Based on data collected by HUD's Multifamily Tenant Characteristics System (MTCS).

⁵ Based on the recommendation of the home inspector regarding future maintenance issues, program participants are required to sign a written acknowledgement that these issues will be planned and budgeted for.

expenses. She was confident, however, that her income would continue to increase over time, thereby reducing the burden of the mortgage. As she put it, “I have a lot less cash for now, and I haven’t been able to put aside anything. But it’s worth it every day that I come home. And every time I get a raise it will get better. I am thinking that this will be my last move in a long time.” Another purchaser interviewed had a similar attitude. When asked whether it was harder or more expensive to be a homeowner, she responded: “More expensive, maybe. Harder, no. It just pushes me more to do well in life.”

“I have a lot less cash for now, and I haven’t been able to put aside anything. But it’s worth it every day that I come home.”
– MCHA program participant

Lessons Learned

MCHA attributes the success of its program to date to the dedication of its staff and to its innovative approach to homeownership counseling. The agency believes that doing the majority of the counseling in-house has led program participants to be better prepared for homeownership than their counterparts in programs where the counseling is done only by outside agencies. Providing the counseling in-house also allows gives MCHA’s Homeownership Program Administrator an opportunity to develop a personal bond with program participants. Program staff believe that this bond may be especially valuable over the long-term if participants feel more comfortable notifying the housing authority (as they are required to do) if they fall behind on the mortgage. This is an important assumption given that MCHA does not yet have a reliable system for tracking loan delinquencies.

Program staff stress the level of staff effort that the program has required. MCHA’s Deputy Executive Director and Homeownership Program Administrator have put in a lot of hours to get the program off the ground and ensure that households continue to complete the workshops and purchase homes at a steady pace. These staff also spend time promoting the program to other housing agencies by sharing policies and procedures documents and speaking at conferences. The Deputy Executive Director suggests that the effort has been invigorating for agency staff and has strengthened the sense of teamwork among those staff that have participated.

As the program grows, however, the level of staff effort required and the lack of resources (in the absence of a special administrative fee for voucher homeownership) to compensate that effort might become an issue. Providing the homeownership counseling in-house requires a major staff commitment that few of the other sites in this study have been willing to make. Indeed, MCHA’s Deputy Executive Director anticipates requiring additional staff—beyond the one and a half full-time equivalents already in place—should the program expand to 20 or 30 closings a year.

Another issue for MCHA is the resistance that the agency has encountered in the community to affordable housing initiatives. MCHA has faced significant opposition over the years in some parts of the county to its rental voucher program. A vocal minority of county residents and political leaders has attempted to prevent additional voucher participants from moving to some communities. MCHA is concerned about similar resistance to the homeownership program. Thus far, the program has been well received by the community. MCHA, however, has felt the need to keep a low profile so as not to risk limiting the housing choices of program participants.

MCHA staff offered the following advice for PHAs considering the voucher homeownership option:

- ***The program is a huge undertaking in terms of staff effort*** and PHAs must have a strong desire to offer the program. There needs to be some dedication of staff—it will not work to fold the program into the duties of the Housing Choice Voucher Program Director. Moreover, this staff person must have, or be willing to acquire, knowledge of lending and real estate. This is not a skill set that PHAs typically have in-house, so it may be necessary to hire new staff or make an investment in staff training. PHAs may also want to consider identifying a partner in the community or mentor to help its staff work through the lender issues that inevitably arise with the program.
- ***The independent inspection is one of the keys to the success of the program***, particularly in housing markets where the stock is old and future maintenance may be a problem. It is important that PHA staff be familiar enough with the properties to be able to interpret the independent inspection correctly. Having the Homeownership Program Administrator participate in the HQS inspection is an efficient way to get to know the property.
- ***Providing the homeownership counseling in-house gives PHAs a greater degree of control*** over the content of the counseling, including the ability to modify the curriculum in response to emergent participant needs. Although it is time-consuming to develop the materials and deliver the training, providing the counseling in-house may also be an opportunity for PHA staff to develop a long-term relationship with program participants. The potential for developing a long-term relationship is likely to be stronger if the PHA requires multiple counseling sessions over a period of months.

Montgomery County Program Summary	
Number of homes purchased:	12
Average income of purchasers:	\$26,004*
Average purchase price:	\$89,990*
Average monthly HAP payment:	\$430*
Financing model:	HAP as Income
PHA program staffing:	1.5 full-time staff equivalent

**Based on a sample of 10 purchases.*

Nashville, Tennessee

Metropolitan Development and Housing Agency

Introduction

The voucher homeownership program in Nashville, Tennessee is run jointly by the Metropolitan Development and Housing Agency (MDHA) and Affordable Housing Resources (AHR), a Home Ownership Center and NeighborWorks Organization affiliated with and funded in part by the Neighborhood Reinvestment Corporation (NR). Nashville's voucher homeownership program began as a pilot approved by HUD and funded by NR in 1999.

MDHA, the lead agency for this program, administers roughly 4,600 housing choice vouchers in Davidson County, which includes the city of Nashville. For the voucher homeownership program, MDHA is responsible for recruitment, assisting with orientations, conducting HQS inspections, facilitating financing, and ongoing voucher administration. AHR's responsibilities for this program include running orientations, meeting with clients to create action plans, conducting pre- and post-purchase training, assembling financing components, and originating, underwriting and servicing second mortgages.¹

The voucher homeownership option is available to MDHA voucher program participants throughout Davidson County. At the end of May 2002, 33 families had purchased homes through the program. Nashville program staff expect a rate of roughly two closings per month for the foreseeable future. Their goal is to achieve a total of 50 closings by the end of 2002, and while a challenge, this goal appears within reach.

Nashville has a well-connected and well-seasoned program. MDHA and AHR staff have been involved with the national development of the voucher homeownership program since beginning the pilot program and remain in touch with a number of key HUD staff. For the past few years, MDHA and AHR staff have provided advice to many PHAs and nonprofits trying to develop voucher homeownership programs. They have hosted a number of visiting delegations that have come to learn about Nashville's program. AHR staff in cooperation with MDHA staff developed a two-day training curriculum and host training sessions for interested parties on how to create and run a voucher homeownership program.

The main challenges for the Nashville program are managing a large backlog of program participants with very limited staff, and, more generally, helping those with inadequate financial skills and credit problems prepare for homeownership. The availability of second mortgage capital is also a potential limiting factor for the program, but so far, the funds available for second mortgages have been sufficient to meet the demand.

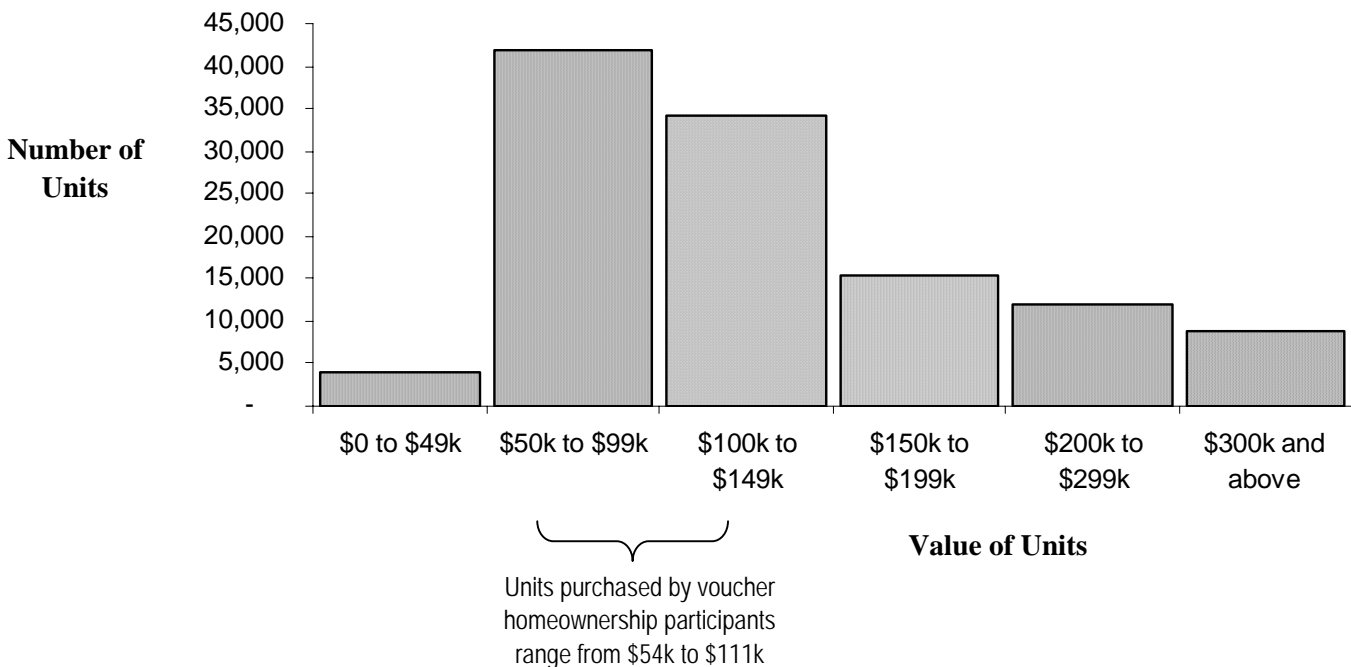
¹ Besides partnering with MDHA, AHR has started a new partnership with the Tennessee Housing and Development Agency (THDA) to offer the homeownership program to THDA voucher program participants in 10 counties surrounding Nashville. THDA voucher program participants go through the same program components at AHR that MDHA voucher program participants do, but MDHA only tracks participants in its voucher program.

Housing Market Conditions

Nashville program staff report that the local housing market is well suited for the voucher homeownership program. In general, the Nashville metropolitan area is growing and house prices are appreciating, but there is enough stock in the price range of voucher participants so that the housing market does not present a major barrier to program growth. According to the National Association of Realtors, the median sales price of existing homes in the Nashville metropolitan area in 2001 was \$130,000, up approximately 12 percent since 1999.² Program staff report that there are houses available in the \$70,000 to \$100,000 price range that are seen as good investments. The difficulty for program participants is not so much finding a home they can afford, but instead deciding what they want in terms of amenities, neighborhood, and existing housing versus new construction, among other factors. MDHA voucher homeownership participants have purchased units ranging from \$54,000 to \$111,000, with an average purchase price of \$84,590 (based on a sample of ten purchase transactions).

The chart below presents data from the 2000 Census on the number and value of owner-occupied housing units in Davidson County, where the voucher homeownership program is offered. More than half of the units in the county (69 percent) are valued below \$150,000, and approximately 39 percent are valued below \$100,000. As the chart suggests, the largest share of units in Davidson County are valued between \$50,000 and \$99,000.

Value of Owner-Occupied Units in Davidson County, Based on 2000 Census



² Comparable data were not available for 2000.

Program Design

Targeting and Outreach

When it began as a pilot program under HUD’s proposed rule, Nashville’s program was targeted to participants and graduates of its large Family Self Sufficiency (FSS) program. Over time, program staff made the requirements more stringent in order to give participants a better chance to obtain a mortgage and purchase. MDHA and AHR decided that voucher homeownership participants must have a minimum annual income of \$15,000, have been employed for three years, and be active in the FSS program *or* contribute at least \$300 towards monthly rent.³ (These income and employment requirements would not be permitted for PHAs operating under the final rule.) Staff report that now that FSS participation is not a requirement, the majority of people attending program orientations are not FSS participants.

When asked about their motivation to eliminate the FSS requirement, MDHA staff reported that although there were a number of FSS participants ready for homeownership, there was also significant untapped potential among non-FSS participants. Program staff analyzed data on all voucher program participants and learned that more than a third had relatively high incomes and a strong employment history, which made them good candidates for homeownership. Approximately 1,800 MDHA voucher program participants met the PHA’s revised eligibility requirements. When asked why a three-year work history was required, MDHA staff responded that it is important for lenders to see steady income because it is an indicator of income growth potential.

MDHA staff predict that the Nashville client pool is large enough for the program to continue at its current size for at least five more years without significant lags in the interest or preparedness of potential program participants. Because of the current backlog of program participants, MDHA is not actively marketing the program. At this point, MDHA’s voucher program caseworkers identify interested and qualified candidates during annual reexaminations. MDHA then refers qualified candidates to AHR, and AHR compiles a list of candidates in order of their referral. AHR continues to receive self-referrals from interested parties who have heard about the program from friends, family members, loan officers, or other sources, but everyone needs to pass through MDHA first. Most people hear about the program by word of mouth.

Target Population and Outreach Methods

Nashville's homeownership option is available to voucher program participants who:

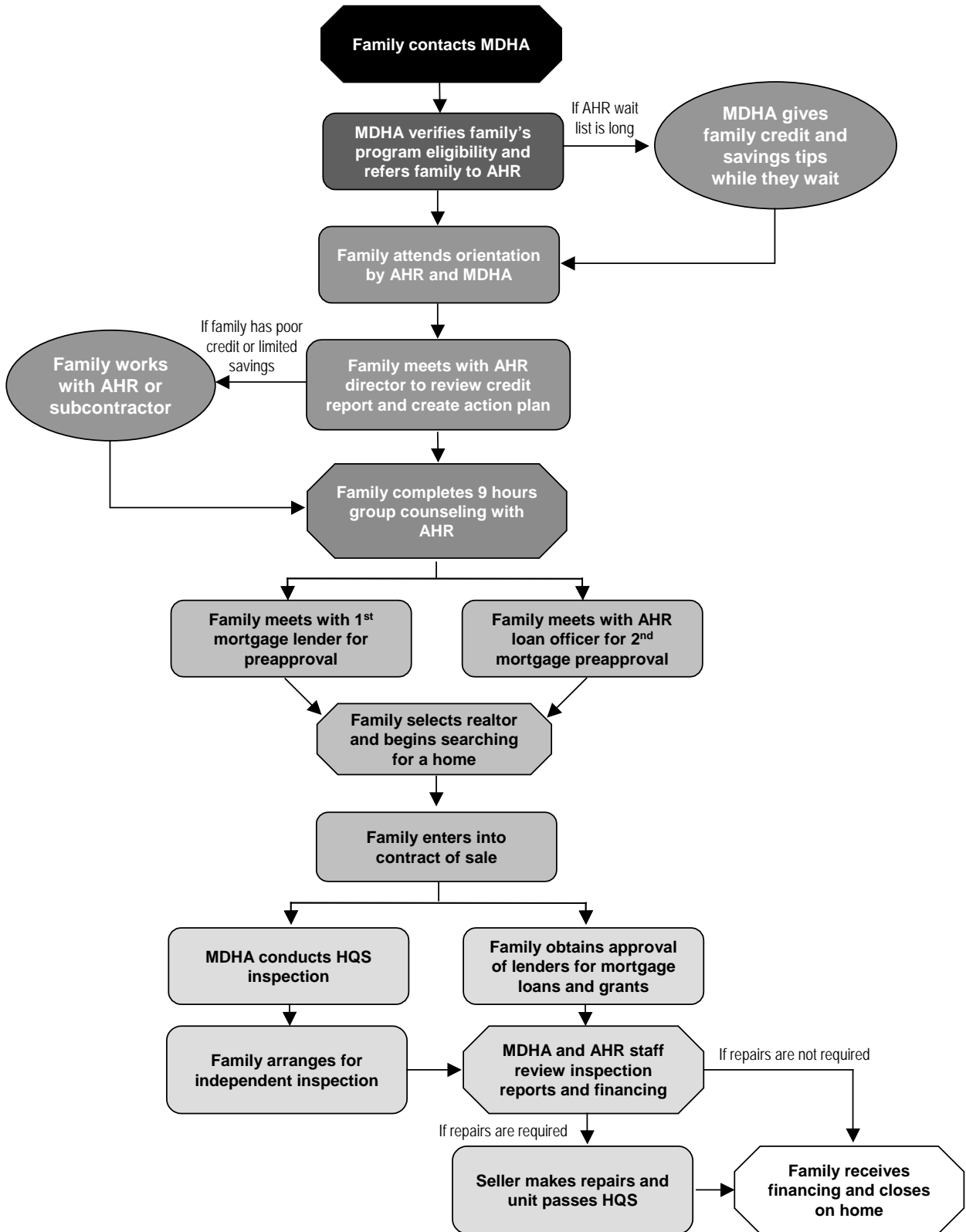
- Have annual incomes of at least \$15,000 and
- Have been employed for at least 3 years and
- Contribute at least \$300 to their monthly rent *or* are active in the FSS program

The income and employment requirements are waived for elderly and disabled households. MDHA's income and employment requirements would not be permitted for PHAs operating under the final rule.

MDHA is not actively marketing the program given the current backlog of program participants.

³ In practice, most voucher program participants earning \$15,000 will be paying over \$300 in rent by virtue of their income, unless they have a large deduction for childcare. For non-elderly, non-disabled households, MDHA will count one year of schooling toward the employment requirement if that schooling has contributed to the applicant’s current job. For elderly and disabled households the employment requirement is waived and the minimum income requirement is \$10,300 as established in the Final Rule.

Nashville Voucher Homeownership Purchase Process



AHR holds program orientation sessions on a quarterly basis. Both AHR and MDHA staff present material at the sessions. The orientation sessions are limited to approximately 35 people. AHR invites candidates to the orientation sessions in the order that they were referred to the program. MDHA staff report that a family interested in the program today would have to wait at least six months before there would be space at an orientation session. Staff try to give families basic hints on saving and credit repair so they will be more ready for homeownership when there is space for them in the program.

When asked what drew them to this program, the program participants interviewed responded that they really wanted to own their own home. Rather than continuing to pay rent, they wanted to build an asset that would benefit their children. The program orientation sessions went over well with these participants. The participants reported that the sessions were clear, informative, and realistic. MDHA staff concur that the atmosphere is ripe for this program in Nashville—many people are very eager to become homeowners.

Homeownership Counseling

After the orientation session, interested candidates fill out a program application and have a one-on-one meeting with AHR’s Program Director. During this meeting, the candidate’s goals, financial situation, and buying power are discussed. An action plan is written listing the steps needed to bring each client to their homeownership goal. When clients need significant credit repair or need help learning how to save, they are referred to AHR’s subcontractor, Woodbine, which runs a homebuyer’s club. Because these clients typically have a year or more of credit repair work ahead of them, AHR staff think of these clients as long-term. AHR’s Program Director noted that he is seeing an increase in credit problems among all AHR clients, both voucher program participants and others.

AHR staff are currently assessing how to manage their medium-term candidates—those who are roughly six months away from being financially prepared for homeownership. The challenge with these clients, according to AHR, is both to provide the financial training they need and to maintain their interest in the program given limited staff time for check-in phone calls and meetings. AHR is in the process of implementing a financial fitness-training course. This course would meet twice per month for six months with the goal of providing basic skills and regular contact with others working toward the goal of homeownership.

Short-term, or fast track, clients who have some savings and relatively clean credit sign up for nine hours of intensive financial and homebuyer training at AHR. NR

counseling materials are used for this training. All long- and medium-term candidates also have to complete the intensive training when they are more prepared for homeownership. The nine hours of training is conducted by AHR over the course of one week. Local lenders and realtors make presentations during the training. The curriculum includes how to look for a house, how the financing process works, and the basics of home maintenance.

Pre-Purchase Counseling

All participants must complete nine hours of homebuyer education plus additional counseling as necessary:

- Participants in good financial shape go directly to homebuyer education.
- Participants requiring significant credit repair participate in homebuyer clubs before homebuyer education.
- Participants requiring about six months of savings and credit repair attend financial fitness classes before homebuyer education.

Participants in the voucher homeownership program attend classes with AHR's non-voucher clients and meet individually with the Program Director as needed. AHR staff believe strongly in integrating voucher program participants into their regular homebuyer training classes. In addition, AHR thinks it important not to coddle their clients by making the home buying process too easy for them. AHR staff believe that a person who is going to take out a mortgage has to be able to stay on top of things, ask questions when they do not understand, and follow up on issues of concern.

Home Search and Inspections

AHR generally encourages program participants to begin the housing search once they have completed pre-purchase counseling, are mortgage-ready (based on their income, debts, and credit rating), and have saved at least half of the amount that they will contribute to the home purchase. Most participants use a realtor to help them through this process. AHR maintains a list of realtors for participants and provides listings of new and rehabbed homes that are available for purchase through Nashville's HOPE VI program and other affordable housing programs. MDHA and AHR staff note that they had to educate realtors about the voucher homeownership option to get them interested and informed.

There are a number of low-priced homes for sale in Nashville in very poor repair; thus, pre-purchase inspections are very important. The lead HQS inspector at MDHA conducts all initial HQS inspections for Nashville's voucher homeownership program. HQS inspections are usually conducted before the independent inspection to save the client the fee of the independent inspection if the HQS inspector reports serious problems. The independent inspectors must be state certified.

Program participants interviewed during the site visit reported that they had been encouraged by program staff to be realistic about how nice a house and neighborhood they could afford for this first purchase. A number of participants see their new house as a first step and hope to "trade up" later as their income and equity increase.

Financing Model

Nashville's voucher homeownership program uses a two-mortgage financing model with a conventional or FHA first mortgage based on the household's income and a second mortgage held by AHR and paid off by the HAP. AHR originates, underwrites, and services the second mortgages with HAP payments sent directly from MDHA. Most second mortgages are loaned at a rate of 6 to 7 percent with a term of 10 years or fewer. AHR's second mortgage pool totals almost one million dollars, with \$296,000 coming from NR and \$700,000 coming from Fannie Mae. AHR has borrowed the Fannie Mae funds at 5.78 percent (and then lends the funds back out at 7 percent to cover costs). At the time of the site visit, almost \$650,000 from the total pool had been committed for second mortgages, which average just under \$20,000 each.

AHR staff mentioned that they plan to experiment with a single mortgage model in the near future. As a starting point, they want to put together a single mortgage deal for a purchaser with disabilities in order to get more buying power from the longer-term nature of the voucher.

AHR staff report that they have not had difficulty developing relationships with financial institutions for this program. They originally invited 10 lenders to participate and have established relationships with several. Lenders are reportedly very interested in giving loans to program clients to get credit

toward Community Reinvestment Act (CRA) goals. However, AHR and MDHA staff reported that they still have to educate the lenders about how the voucher program and homeownership option work.

Lenders from three institutions interviewed during the site visit concurred that their partnership with AHR is strong. The lenders interviewed were already making loans to low-income households, so serving program clients was not a significant change for them. They noted that it takes more time to make loans to voucher program participants because of the paperwork involved, but that they find it very satisfying. MDHA staff and a lender noted that sometimes the borrower's income needs to be recertified several times before the loan is made to pin down affordability and the split between the first and second mortgages. Small changes in borrower income affect all loan amounts, especially with the two-mortgage model, according to MDHA staff.

Nashville program staff have not imposed a limit on the percentage of income that participants can spend on monthly homeownership expenses. Instead, the program relies primarily on the lenders' underwriting guidelines to keep the purchases affordable. The program staff and lenders interviewed reported that AHR staff carefully review the interest rates of the first mortgages before approving the financing package. In general, program staff seem very aware of predatory lending issues and have controls in place to prevent any predatory loans in this program. Only fixed rate mortgages are accepted.

The lenders interviewed noted that the first mortgages they originate for this program tend to be FHA loans because FHA products are well suited to first-time homebuyers with lower credit scores. The lenders were unsure of how to deal with multiple mortgages and multiple down payment and closing cost assistance programs using Fannie Mae or Freddie Mac products. In addition, the lenders noted that FHA offers more lenient credit qualifying criteria than either Fannie or Freddie.

Sample Purchase Transaction

Buyer's Annual Income: \$22,184

Costs to Buyer:

- Purchase Price: \$83,900
- Closing Costs: \$3,609

Sources of Financing:

- 1st Mortgage: \$56,700 (7%, 30 yrs., local bank)
- 2nd Mortgage: \$29,950 (6%, 10 yrs., AHR)
- Buyer Cash Down: \$859

Monthly Mortgage Payments:

- Total monthly PITI on 1st mortgage: \$496
- Monthly HAP to offset PITI on 2nd mortgage: \$373
- Buyer's share of monthly PITI: \$496
- Buyer's share of PITI as a percent of gross monthly income: 27%

The Nashville program allows closing costs to be financed as part of the first mortgage. Purchasers are required to make a down payment equal to at least one percent of the purchase price from their own resources. There are some resources available in Nashville to offset down payments and closing costs. HOME funds and Tennessee Housing Development Authority (THDA) grants and forgivable loans are available to reduce the down payment for qualified buyers. Lenders noted that there are other grants and assistance programs available through MDHA and other organizations. AHR has repair and rehabilitation loans available when the need arises, as well as emergency rehabilitation assistance. MDHA has some funds available to assist with lead-based paint abatement.

All first mortgages include a third-party agreement with AHR stipulating that AHR will be able to buy the home prior to foreclosure. To date there has been one delinquency among voucher homeownership purchasers. This purchaser lost her job and was unable to make the payment on her first mortgage for one month. AHR arranged short-term assistance while the purchaser drew

unemployment for several weeks. After receiving her tax refund, the purchaser made her mortgage payment and covered the delinquency fee. She now has a new job and is back on track with her payments.

The MDHA staff interviewed were not very concerned about borrowers making their payments; the AHR staff were somewhat more concerned. They reported that homeownership costs represent a stretch for most purchasers and they worry that these purchasers are not used to having increased housing cost burdens. At the same time, AHR staff agreed that compared to other low-income borrowers without vouchers, voucher purchasers were less likely to walk out on their obligations. When asked why, the staff responded that most voucher purchasers never thought that they would be able to own their own home, and as such they tend to view the voucher homeownership program as their “one big chance” that will not present itself again.

Post-Purchase Activities

The Nashville program requires eight hours of post-purchase training on basic maintenance and how to protect the investment value of the home. AHR holds one post-purchase class available per month, with each class lasting an hour and a half. Classes cover different topics and generally follow the NR curriculum. AHR currently has post-purchase classes on foreclosure prevention, predatory lending, financial maintenance, insurance, record keeping, predatory home improvers and various maintenance topics. At the time of the site visit, four buyers from this program had completed the post-purchase training.

AHR staff are also in contact with some clients post-purchase by virtue of the two-mortgage model. As client incomes increase, the HAP amount decreases, which leads to the client having to cover part of the monthly payment on the second mortgage from their own resources. As a result, AHR receives monthly checks from a number of program purchasers to cover portions of the second mortgages.

Post-Purchase Activities

The Nashville program requires 8 hours of post-purchase counseling. This counseling is delivered in monthly workshops at AHR that cover a variety of topics. In addition, MDHA requires annual HQS inspections for two years after purchase.

MDHA inspectors conduct annual HQS inspections of homes for two years after purchase. Any deficits found during these inspections are submitted to the owner and to AHR for attention, but there is no threat of the loss of voucher assistance based on the condition of the home. AHR’s Program Director reported that purchasers generally want privacy and independence and find the post-purchase HQS inspections intrusive. In addition, AHR staff noted that some purchasers have not understood that they were responsible for attending to all post-purchase HQS deficiencies. Staff have thus learned that it is important to emphasize this responsibility during pre-purchase counseling. Aside from post-purchase counseling and HQS inspections, program staff generally do not contact purchasers. Some purchasers call in with questions, which is fine with program staff.

AHR staff reported that data from the reexaminations of program purchasers indicates that most household incomes have increased somewhat. The Program Director also noted that some purchasers were surprised when they were notified for their annual reexamination and claimed that they were no longer part of the voucher program. It was surprising to program staff that such a misunderstanding could occur with all of the counseling and discussions about how the program works. This was a

reminder to program staff that participants may not always absorb what the staff knows to be critical information.

Program Management, Staffing, and Partnerships

For MDHA it was an easy decision to apply to be a HUD pilot site and NR-demonstration site for the voucher homeownership program, with AHR as a partner. MDHA and AHR have a history of cooperation and contractual relationships for a number of ongoing development projects. Further, MDHA voucher program staff thought that many voucher program participants were ready for homeownership. MDHA management did not perceive any real risks to offering the program because they were confident that program participants would be well supported through the FSS program. In addition, there was significant support for this program from Nashville's Mayor, which further encouraged MDHA to move forward.

MDHA staff involved in the voucher homeownership program include the Director and Assistant Director of Rental Assistance, and the lead HQS inspector. To a lesser extent, MDHA's interim Executive Director, voucher program caseworkers, and FSS directors are also involved. AHR staff involved in the voucher homeownership program include the Executive Director and the Program Director and, to a lesser extent, the loan director and the loan servicer. In addition, AHR has hired a new post-purchase counselor who will be involved in the program.

Since becoming fully operational, this program requires less staff time than during the design phase, but continues to be labor intensive. MDHA's Director of Rental Assistance spends half of her time on the program, with the Assistant Director of Rental Assistance spending a quarter of his time on it. The level of staff effort by MDHA staff is approximately three-quarters of a full-time staff person. At AHR, the Program Director spends more than half his time on the voucher homeownership program. The AHR Executive Director spends ten percent or less of his time on the program. AHR's loan director, loan servicer and post-purchase counselor also spend time on this program. Together, the combined level of staff effort by MDHA and AHR staff is between one and a half and two full-time staff equivalents.

Staffing changes at both MDHA and AHR have affected Nashville's program. MDHA's former Executive Director, an active supporter of the program, recently retired. Given the Mayor's interest in voucher homeownership, MDHA staff are confident that a new Executive Director will be supportive of the program. The previous Program Director left AHR in the winter and has not been replaced. Instead, the former training director has assumed the Program Director role. In addition, AHR lost its previous post-purchase counselor. AHR and MDHA staff reported that staff turnover slowed their progress somewhat, but also allowed AHR to develop a new staffing structure where multiple staff are involved with program participants.

More significantly, both MDHA and AHR staff report that they have more program participants than they can adequately support. Neither MDHA nor AHR has the staff or funding to increase capacity in the program. For example, MDHA staff do not have enough time to help plan and participate in more than one orientation per quarter. In addition, AHR staff are struggling to find the time to follow up

Program Staffing

The level of effort by MDHA staff is equivalent to three quarters of a full-time staff person. AHR devotes about the same amount of staff time. Both MDHA and AHR staff report that they have more program participants than they can adequately support. Neither organization currently has available capacity to add to this program.

with the backlog of medium-term program participants who are in various stages of saving and credit repair.

To date, staff time spent on the program has been funded in various ways. PHA administrative funds and voucher administrative fees fund MDHA staff. AHR has funding from NR to help cover the administrative costs.

Program Outcomes

In general, Nashville staff are very pleased with the success of their program. As of April 2002, 204 people had enrolled in the program, among whom 24 had dropped out and 180 were active. The 180 active participants include 33 purchasers, two participants very close to closing, and another 20 participants who are mortgage-ready and currently looking for homes to purchase. This leaves roughly 125 program participants in various stages of training, credit repair, and saving. Among this group of 125, some have already completed fast track counseling and will likely be financially prepared to purchase in about six months. AHR staff are in the process of contacting these participants and checking on progress with their action plans.

Now that there is a significant backlog of program participants, a major real challenge for AHR is managing this backlog with limited staff time. The concern is that if follow-up with medium- and long-term clients is not strong enough, then the program stagnates and the initial investment in orientations and counseling is lost as people drop out. MDHA staff noted that they never thought they would have so many purchases so quickly. AHR staff also reported that they thought this program would become “just one of our other programs” and blend into AHR’s other available services. On the contrary, it has become necessary to designate a point person at AHR who deals specifically with issues related to this program.

The homes purchased through this program are located throughout the city and inner-ring suburbs. Two of the three homes visited during the site visit are located in new construction, single-family developments a good distance from downtown. These residential developments were in excellent condition, if somewhat removed from commercial areas with services. Another home visited during the site visit is a newly constructed, in-fill home located in an older, less affluent, and more urban neighborhood currently experiencing a significant amount of reinvestment. The purchased home brightens the block and is surrounded by several properties being rehabbed. It was important to this purchaser to buy in the neighborhood where she grew up and where her family still lives. She has been very happy with her decision.

Program Outcomes

- Number of households enrolled: 204
- Number of active participants: 180
- Number of homes purchased: 33
- Average income of purchasers: \$23,180*
- Average purchase price: \$84,590*
- Instances of delinquency: 1
- Instances of default: 0

**Based on a sample of 10 purchases.*

Program staff report that most participants want to purchase in neighborhoods with better schools and less crime than the neighborhoods in which they were renting. Interviews with staff and participants suggest that the purchase neighborhoods are generally meeting these expectations. AHR staff report that most purchases are in “up and coming neighborhoods” of Nashville where the housing is predominantly owner-occupied.

According to MDHA staff, purchases have been split evenly between newly built houses and existing stock. Five of the 33 houses purchased were newly built by AHR. Aside from a few cases of homes in very poor condition, most of the existing homes identified by the purchasers have been in good shape. Half of existing homes pass HQS on the first inspection and the others typically only require minor repairs.

When asked what they thought the program had done for them, participants spoke of the positive influence the program has had on their outlook, expectations, and behavior. One homeowner commented that before joining the program, she never thought it would be possible for her to own a home as a single mother. She is grateful for and proud of this investment that she can pass on to her children. Another homeowner commented that she is now much more cautious about spending. Another participant who has had a lot of ups and downs over the course of the program commented that the program has taught her discipline and helped her through her mistakes. One participant reported that being a homeowner has had a positive effect on her siblings and mother. Her home is now a place where the whole family comes together.

Lessons Learned

Nashville program staff attribute much of their success to the following factors: the long-standing and strong partnership between MDHA and AHR; the quality of counseling services available at AHR; the affordability of the housing market; and the availability of second mortgage capital. Most program staff find the mortgage terms and down payment and closing cost assistance programs adequate for borrowers. The program is not particularly dependent on below-market financing or other deep layers of subsidy.

Now that the program has been running for several years, the major challenges in Nashville are getting clients financially prepared for homeownership, finding enough staff time to manage the backlog of clients, and finding enough second mortgage capital. While the availability of second mortgage capital is not an immediate problem, the task of arranging for and negotiating the terms of new allocations of second mortgage capital is ongoing. The Nashville program is likely to continue to produce a steady number of closings—about two per month. As of April 2002, there were no plans for program expansion.

The main piece of advice given by MDHA and AHR staff to organizations considering such a program is to develop and take advantage of strong public/private partnerships. All staff credited the long-standing and highly cooperative partnership between MDHA and AHR as key to the success of their program. Each partner organization has a great deal of experience and is well informed about this program.

In addition, MDHA and AHR management reported several factors that can contribute to program success:

- *Staff expertise* in housing development and the home purchase and financing process;
- *A robust FSS program*, which can provide a well-prepared client base for the program (even if the program is not limited to FSS participants);

- ***Strong relationships with nonprofit partners*** with experience in homeownership counseling and affordable housing development and a solid funding base. For MDHA, the partnership with AHR relieved the strain of starting a new program and brought additional resources to the effort; and
- ***Reinforcement of critical information*** about homeownership and about the voucher program through post-purchase counseling and ongoing communication.

Nashville Program Summary	
Number of homes purchased:	33
Average income of purchasers:	\$23,180*
Average purchase price:	\$84,590
Average monthly HAP payment:	\$315*
Financing model:	Two-Mortgage
PHA program staffing:	0.75 full-time staff equivalent
<i>*Based on a sample of 10 purchases.</i>	

San Bernardino, California

Housing Authority of the County of San Bernardino

Introduction

The Housing Authority of the County of San Bernardino (HACSB) administers approximately 7,800 housing choice vouchers. HACSB began offering the voucher homeownership option in October 2000 under the final rule. As of April 2002, three households had purchased houses through the program. HACSB and its partners had expected a greater number of households to purchase in the first year and a half of the program. However, HACSB has had trouble securing the participation of local lenders due to underwriting and loan servicing issues. The lack of lender participation led the agency to adopt a conservative stance toward recruiting participants to the program. In addition, HACSB has taken some time to work through procedural issues with its principal partner, Neighborhood Housing Services of the Inland Empire (NHSIE), a nonprofit organization that received funding through the Neighborhood Reinvestment Corporation (NR) to provide counseling and financing to voucher homeownership program participants. Finally, a number of program applicants had significant credit issues to work through before being able to qualify for a mortgage. Some of these households are now at a stage where they can go to lenders and begin looking for houses. HACSB expects the number of closings to increase over the next year.

Housing Market Conditions

Located within the Los Angeles metropolitan area, San Bernardino County is the largest county in the continental United States.¹ San Bernardino County is the most affordable county in the Los Angeles metropolitan area, but—like the rest of Southern California—it has experienced a rapid escalation in house prices over the past few years. In March 2002, the median home sales price in San Bernardino County was \$156,000, up 7.6 percent from March 2001.² According to HACSB staff and program partners, there is housing available in the price range affordable to participants in the voucher homeownership program, but finding a home in the more desirable neighborhoods can be challenging. To date, HACSB's three voucher homeownership purchasers have bought houses for \$101,000, \$114,000, and \$110,000.

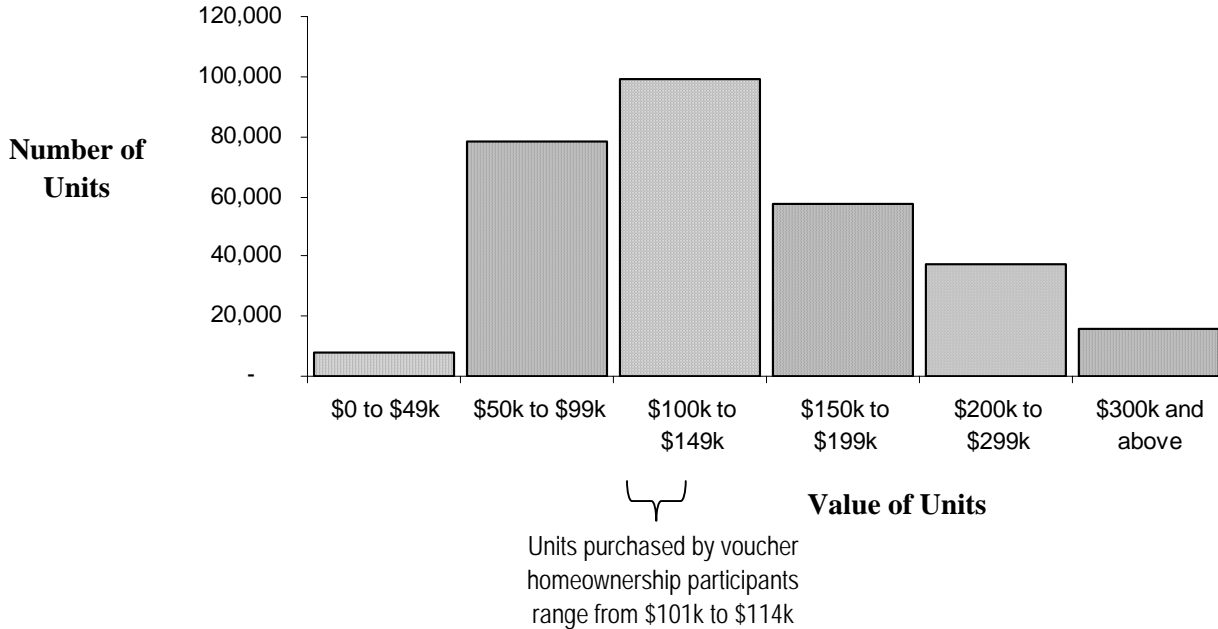
The chart below presents data from the 2000 Census on the number and value of owner-occupied housing units in San Bernardino County. According to these Census data, more than half of the units in the county (63 percent) are valued below \$150,000. However, the more recent data cited above suggest that units in this price range now make up a smaller share of the total housing stock. San Bernardino program staff believe that there is still sufficient stock in the price range affordable to

¹ The Cities of Upland and Needles are the only political units within the county that are outside of HACSB's jurisdiction. Both of these cities have independent housing authorities.

² "Home Prices at Record Level in County." North County Times, 4/20/02. Downloaded from North County Times web site (<http://www.nctimes.net>). By contrast, the median home sales price in Riverside County in March 2002 was \$202,000.

homeownership voucher participants, but are concerned that participants could find themselves priced out of the market if prices continue to escalate.

Value of Owner-Occupied Units in San Bernardino County, Based on 2000 Census



Program Design

Targeting and Outreach

HACSB began by marketing the voucher homeownership option exclusively to participants in its Family Self Sufficiency (FSS) Program. HACSB staff thought that FSS participants, many of whom had accrued sizeable escrow accounts, would be ideal candidates for homeownership. In October 2000, program staff sent flyers to HACSB’s FSS participants announcing the homeownership option. Fifty of the 450 FSS participants responded. Following this modest response, and an internal analysis revealing that many non-FSS voucher participants had good incomes and work histories, HACSB decided to market the program to a broader population.

HACSB’s voucher homeownership program is open to households who meet the minimum income and employment requirements established in the final rule. However, given San Bernardino’s increasingly tight housing market, program staff believe that most program applicants will need to have incomes above the program minimum in order to qualify for a mortgage large enough to be able to purchase. As a result, HACSB markets the program to households earning at least two times the voucher payment standard and with at least 24 months of continuous employment (for non-elderly, non-disabled households only). For households qualifying for a two-bedroom unit, this translates to an annual income of \$17,300, well above the program minimum of \$10,300.

In addition to the initial outreach that HACSB conducted, HACSB's partner, NHSIE, has also marketed the program. NHSIE mailed 250 flyers to voucher participants in early 2001 who met the PHA's income and employment targets. NHSIE also held a promotional event in July 2001 to attract applicants to the program. This event was intended to highlight the program's initial success as two of the voucher participants who had completed NHSIE's counseling were close to purchasing homes. Several local politicians attended the event, which was covered by a local newspaper. This exposure brought an unanticipated influx of applicants to the program, and HACSB and NHSIE became concerned about creating a backlog of potential homebuyers for whom mortgage financing might not be available. As HACSB's Development and Acquisition Manager noted, "We were in danger of putting the cart before the horse because the amount of funds reserved to finance mortgages for participants was limited." Shortly after this event, HACSB and NHSIE agreed to stop actively marketing the program and to conduct outreach primarily through the briefings and annual reexaminations required by the voucher program.

Target Population and Outreach Methods

HACSB's program is open to households who meet the minimum income and employment requirements established in the final rule. However, HACSB markets the program to households earning at least two times the voucher payment standard and with at least 24 months of continuous employment (for non-elderly, non-disabled households).

HACSB and NHSIE conducted initial outreach through flyers and a public event but have since stopped actively marketing the program until the financing details of the program are fully worked out.

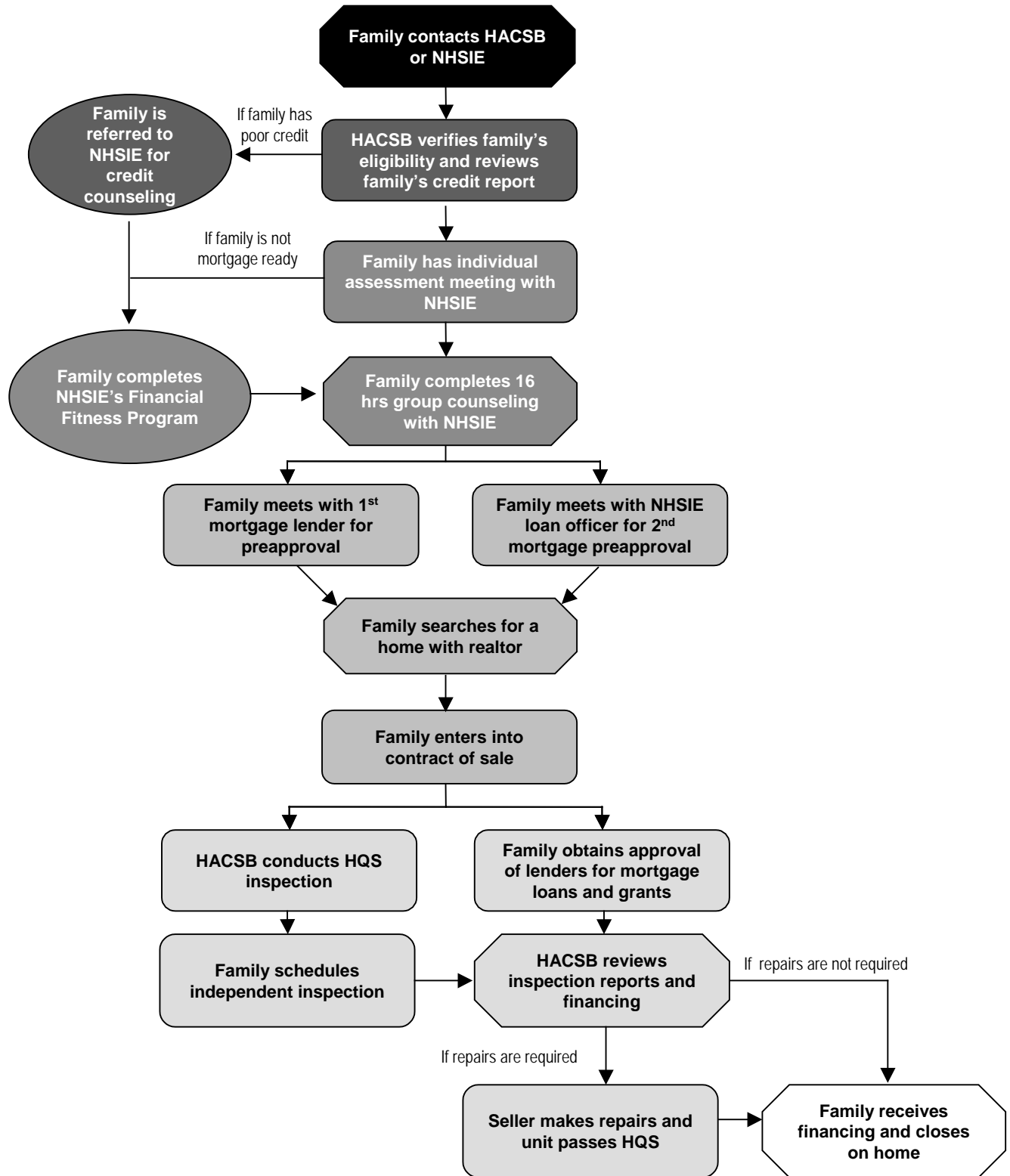
Homeownership Counseling

HACSB requires voucher homeownership candidates to complete 8 to 16 hours of pre-purchase homebuyer education, depending on the mortgage product used.³ NHSIE provides the homeownership counseling through its Homeownership Center in the City of San Bernardino. NHSIE received \$80,000 in 2001 from NR to provide pre- and post-purchase homeownership counseling. The Homeownership Center is staffed by six NHSIE employees and provides pre- and post-purchase homebuyer education courses for a variety of first-time homebuyer programs. The Homeownership Center is equipped with a classroom for group sessions, meeting rooms for individual counseling sessions, and a resource center with training materials, periodicals, and videos on topics such as credit repair, debt reduction, and how to buy a house.

Voucher homeownership candidates go through the pre-purchase counseling alongside the other first-time homebuyers that NHSIE serves. The required component of the pre-purchase counseling is NHSIE's Homebuyer Education Learning Program (HELP), which is comprised of two eight-hour classroom sessions held on consecutive Saturdays. The topics covered in HELP include: budgeting, the loan process, fair housing, title and escrow, home search, home maintenance, inspections, predatory lending, and homeowner's insurance. Although NHSIE staff lead each session, the classes also include presentations by guest speakers such as realtors, lenders, and escrow officers.

³ The final rule for the program requires that participants complete a homeownership counseling program. In addition, lenders require first-time homebuyers to attend homebuyer education. The number of hours of counseling that HACSB participants receive (over the minimum of 8 hours) reflects different lender requirements.

San Bernardino Voucher Homeownership Purchase Process



Voucher homeownership candidates follow one of two counseling tracks. “Fast track” applicants, who have good credit and have pre-qualified for a mortgage, go directly into the HELP program. Candidates who have poor credit or are otherwise unable to qualify for a mortgage are placed on a “slow track” and invited to enroll in NHSIE’s Financial Fitness program. This program begins with a two and a half hour group orientation that covers credit repair and the goal of homeownership. “Slow track” candidates also receive individualized credit counseling. Once they have completed the Financial Fitness program and repaired their credit, these candidates are required to complete the HELP program.

Pre-Purchase Counseling

Neighborhood Housing Services of the Inland Empire provides the homeownership education for program participants at its Homeownership Center in San Bernardino. HACSB requires voucher homeownership candidates to complete a minimum of 16 hours of pre-purchase homebuyer education.

NHSIE’s Executive Director expressed confidence in his organization’s ability to prepare participants for homeownership. “Buying a house is complicated for everyone,” he commented, “but our homeownership education leaves participants better prepared than the average college graduate.” Both HACSB and CalFED Bank, HACSB’s principal lending partner, concurred that NHSIE delivers effective homebuyer education. CalFED’s Vice President for Community Banking was particularly supportive of the 16-hour requirement, citing research that shows that borrowers with homebuyer education have lower default rates. Although the HELP program is free for voucher program participants, Financial Fitness participants pay a \$25 fee to cover the cost of running a credit report. CalFED Bank also provides free credit reports to HACSB homeownership participants.

Home Search and Inspections

Other than a discussion of the home search process in the pre-purchase counseling, HACSB provides no additional assistance to participants in finding a house to purchase. HACSB conducts HQS inspections prior to the independent inspection to minimize the risk that the family will pay for an independent inspection on a unit that will not be able to pass HQS (either because of its poor condition or because the seller is unable or unwilling to make the necessary repairs). Currently, HQS inspections are assigned to HACSB inspectors based on the location of the unit. However, as the homeownership program matures, program staff may assign HQS inspections of homeownership units to a single inspector. The three properties purchased to date all passed the first HQS inspection. In the event that major physical deficiencies are identified, HACSB staff will meet with the buyer to discuss the options, including not going through with the purchase.

Financing Model

As of April 2002, three voucher program participants had purchased through the program. All three purchases were financed using the two-mortgage model, in which the first mortgage is based on the participant’s own income and the second mortgage is paid off by the voucher subsidy, the monthly HAP. The first two purchasers received first mortgages from CalFED and second mortgages from NHSIE. The first mortgages are 30-year loans with fixed interest rates of 6.25 percent and 5.75 percent. One of the second mortgage loans has a 10-year term and a fixed interest rate of 4.5 percent and the other second mortgage has a 15-year term and a fixed interest rate of 3.25 percent. The third purchase through the program was an in-house transaction, with both first and second mortgages financed by HACSB. The house was previously owned by HABSC through a non-HUD scattered

site program. The first mortgage has a 30-year term and a 7 percent interest rate and the second mortgage (based on the HAP) has a 15-year term and the same interest rate.

HACSB has placed several restrictions on the types of financing that program participants can obtain. First, program participants must obtain fixed rate mortgages, and balloon payments are prohibited on down payment assistance. Seller financing is permitted on a case-by-case basis if an independent appraisal supports the purchase price. Finally, the participant's share of the monthly mortgage payment cannot exceed 40 percent of the participant's adjusted monthly income.

Program financing is an area of ongoing concern for HACSB and NHSIE. The main concern is that NHSIE has a limited pool of funds from which to make second mortgage loans to program participants. NHSIE received \$260,000 from NR to provide second mortgage loans to program participants. However, replenishing these funds by selling the loans on the secondary market is difficult. At present, neither Fannie Mae nor Freddie Mac will purchase second mortgage loans. NHSIE might be able to sell the loans to its parent organization, Neighborhood Housing Services of America (NHS), which buys the other loans that NHSIE makes to first-time homebuyers. However, NHS is only willing to purchase the second mortgage loans made to voucher participants if the average interest rate across all of the loans that NHSIE sells to NHS (including but not limited to loans made to voucher participants) is at least five percent.

Thus far, NHSIE has made second mortgage loans of \$40,700 and \$45,000 to participants in the voucher homeownership program. This amounts to about one third of the total capital funds that NHSIE has set aside for the program. These loans also make up a significant share of NHSIE's total loan pool, because NHSIE's other loans are typically around \$6,000 or \$7,000. NHSIE agreed to make second mortgage loans to the first two voucher program participants at interest rates of three and five percent, but needs to make future loans at a higher interest rate in order to meet the five percent average needed to sell the loans to NHS.

The interest rate on the second mortgage loans has been an ongoing source of tension between NHSIE and HACSB. NHSIE's interest rates reflect community and secondary lending requirements and are not set by HACSB. However, HASBC program staff would like to get the best possible interest rate for program participants. In addition, FHA and conventional financing do not allow the interest rate on a community lending second mortgage to exceed the interest rate on the first mortgage. At the same time, NHSIE's would like to sell the loans to NHS so as to be able to replenish its capital funds and make loans beyond the initial \$260,000 provided by NR. If NHSIE continues to offer second mortgage loans to program participants at an interest rate below five percent, the agency will not be able to recycle the loan capital to finance additional purchases.

Sample Purchase Transaction	
Buyer's Annual Income:	\$21,258
Costs to Buyer:	
– Purchase Price:	\$110,000
– Closing Costs:	\$3,246
Sources of Financing:	
– 1 st Mortgage:	\$51,300 (6.25%, 30 yrs., CalFED)
– 2 nd Mortgage:	\$45,000 (5%, 10 yrs., NHS)
– Buyer Cash Down:	\$3,334
Monthly Mortgage Payments:	
– Total monthly PITI on 1 st mortgage:	\$454
– Monthly HAP to offset PITI on 2 nd mortgage:	\$451
– Buyer's share of monthly PITI:	\$454
– Buyer's share of PITI as a percent of gross monthly income:	26%

Although HACSB and NHSIE continue to wrestle with this issue, HACSB has been exploring alternative financing models for the program. In particular, HACSB is interested in the single mortgage model in which the HAP is counted as a direct offset to the monthly mortgage payment. According to HACSB officials, this model might increase the mortgage financing available to participants, because Fannie Mae and Freddie Mac have expressed a willingness to purchase first mortgage loans that use the HAP in this manner. Under the single mortgage model, voucher homeownership participants could access county and municipal first-time homebuyer programs that provide additional down payment and closing cost assistance. However, using this model would require more extensive participation by private mortgage lenders, who would assume the full risk of the loan, and thus far HACSB has struggled to attract local lenders to the program due to underwriting and loan servicing concerns.

At the time of the site visit, only one private lender, CalFED, was willing to make loans to voucher program participants. HACSB had a longstanding relationship with CalFED, having previously partnered with the bank to finance the development of some senior housing units. CalFED quickly became a steadfast partner in the voucher homeownership program, pledging \$1 million in capital funds to finance first mortgages for program participants using the two-mortgage model and to hold these loans in portfolio. CalFED's Vice President of Community Banking has also assisted HACSB in its successful application to the Federal Home Loan Bank for a grant to provide down payment assistance to FSS program participants.

CalFED has been working with HACSB to develop a single mortgage product for program participants to help reduce the program's dependency on second mortgage financing from NHSIE. Although most of the details have been worked out, CalFED still has concerns about how to service the loans with separate payments coming from the borrower and the PHA. HABSC and CalFED have agreed that the HAP should be paid directly to CalFED, and CalFED will likely create a designated receiving account for both the HAP and the borrower's payment so that the loan servicer can draw one amount from the account per borrower.

Several sources of down payment assistance are available to voucher homeownership program participants. First, HACSB received a \$150,000 grant from the Federal Home Loan Bank's (FHLB) Individual Development Empowerment Account (IDEA) program to provide down payment assistance to voucher homeownership participants who are also in HACSB's FSS program. The IDEA program matches FSS participants' escrow accounts on a three to one ratio, up to a maximum match of \$10,000 per household. In Spring 2002, HACSB applied for an additional \$200,000 in down payment assistance funds from the FHLB for voucher homeownership participants not enrolled in the FSS program.

In addition to these sources of down payment assistance, program participants can access closing cost assistance from CalFED through the FHLB's Affordable Housing Program (AHP). Finally, HACSB has reserved \$300,000 of its discretionary funds to assist voucher homeownership participants to purchase homes.⁴ HACSB plans to use these funds for down payment assistance once the single-mortgage model is fully operational.

⁴ These non-HUD monies were drawn from the sale of vacant land owned by Housing Partners, Inc., a nonprofit subsidiary of the housing agency.

Post-Purchase Activities

HACSB plans to require all voucher homeownership program participants to attend one post-purchase counseling session with NHSIE on an annual basis. However, given that there have only been three purchases to date, this aspect of the program has not been implemented. Nevertheless, this requirement is included in the statement of obligations signed by program participants.

In addition to post-purchase counseling, HACSB has several procedures in place to promote the long-term success of participants who purchase homes through the program. First, HACSB requires all homebuyers in the program to provide a copy of their Annual Mortgage Analysis Statement to the housing agency upon notification of their annual reexamination. HACSB's Real Estate Specialist reported that she will use this document to review participants' payment history and assess the need for additional intervention.

In addition, HACSB has a Memorandum of Understanding with CalFED that stipulates that CalFED's loss mitigation department will inform program staff if a program participant is 30 days late in making a mortgage payment. Participants in this situation are required to seek out additional post-purchase counseling from NHSIE. Program staff will follow up with the participant to ensure that he/she completes the counseling and develops a plan of action to avoid foreclosure.

Finally, HACSB plans to conduct post-purchase HQS inspections on an annual basis for all homes purchased through the program.

Post-Purchase Activities

HACSB plans to require all participants who purchase a home through the program to attend one post-purchase counseling class on an annual basis.

HACSB will monitor participants' progress in making their mortgage payments by requiring purchasers to provide a copy of their Annual Mortgage Analysis Statement at the time of their annual reexamination.

Program Management, Staffing, and Partnerships

The three main actors in San Bernardino County's voucher homeownership program are HACSB, NHSIE, and CalFED Bank. Although all three partners play important roles in the program, HACSB is the facilitator and gatekeeper among the various partners and acts as the first point of contact for program participants. The process that participants follow on their path to homeownership has been altered since the program was first implemented. In particular, HACSB has taken on a larger role in applicant screening. According to HACSB and NHSIE staff, there were significant growing pains during the initial stages as each organization strived to define and understand their role in the program. Both HACSB and NHSIE staff reported that their organizations were satisfied with the partnership as of Spring 2002.

HACSB did not have extensive homeownership experience prior to offering the voucher homeownership option. However, the agency had real estate, development, and transaction experience. For example, HACSB employs a Development and Acquisition Manager who purchases, develops, and manages real property for the housing agency, including 670 non-public housing units for the elderly.

In February 2000, HACSB hired a "Real Estate Specialist" to help design and manage the voucher homeownership program. With over 30 years of experience in the real estate industry, this new staff person added to HACSB's existing real estate expertise. As HACSB's Development and Acquisition

Manager noted, “We were more comfortable hiring someone with an extensive real estate background because we felt it was easier for a housing agency to teach someone about the voucher program than trying to teach real estate to a voucher program staff person.” CalFED’s Vice President of Community Banking was part of the hiring committee for this position.

HACSB funds the Real Estate Specialist position entirely through the agency’s administrative budget, and not from the administrative fees generated by the housing choice voucher program. In addition, HACSB’s Executive Director made the strategic decision to house the Real Estate Specialist in HACSB’s main administrative offices instead of in the voucher program department, which is dispersed across the county in four district offices. The Real Estate Specialist spends 100 percent of her time on the voucher homeownership program. With the program fully operational, HACSB’s Development and Acquisition Manager spends less than 10 percent of her time on the program. However, during the first year of the program, she estimated that she spent about 50 percent of her time on the program. Overall, HACSB now devotes about 1.1 full-time staff equivalents to the voucher homeownership program, assuming a 40-hour work week.

Program Staffing

HACSB hired a new staff person with extensive experience in the real estate industry to administer the program. This position is funded entirely through HACSB’s discretionary funds. HACSB devotes 1.1 in full-time staff equivalents to the voucher homeownership program.

The Real Estate Specialist and the Development and Acquisition Manager took the lead in planning and implementing the program. The team worked closely with CalFED. HACSB’s Executive Director commented that the housing agency’s prior relationship with CalFED was an asset because, “There was a trust between us. We knew each other. In new programs, there is always a learning curve, and this was no exception. The nature of the voucher program subsidy did not fit into any particular box. However, once you have a history and pattern, it is easier to work in new areas together.”

In addition to working with CalFED, HACSB began developing the partnership with NHSIE in early 2000. In September 2000, NHSIE applied for funds from the Neighborhood Reinvestment Corporation (NR) to participate in NR’s voucher homeownership demonstration. In mid-2001, NR awarded NHSIE \$80,000 in operating funds to hire a voucher homeownership program coordinator and the aforementioned \$260,000 in capital funds to finance second mortgages for program participants.

There were problems in the partnership between HACSB, NHSIE, and CalFED early on. When HACSB began implementing the program, HACSB’s Real Estate Specialist referred voucher homeownership applicants directly to NHSIE for counseling before screening them for their readiness to purchase. Under this system, NHSIE provided homeownership counseling to candidates regardless of their credit histories. In addition, many voucher homeownership candidates with poor credit went directly to CalFED after completing the counseling to apply for a mortgage. This created a burden for loan officers at CalFED, who had to spend significant time with program participants who were not purchase-ready. Another management issue was that many participants would overestimate their income to the CalFED loan officers, while underreporting it to HACSB. This caused considerable back and forth between HACSB and CalFED staff when it came time to calculate the amount of mortgage for which participants could qualify.

The above concerns led HACSB and its partners to adopt the current management structure in which HACSB staff work more closely with program applicants on the front end. In particular, HACSB

verifies each applicant's income at the time of the application and recommends some applicants for credit checks. CalFED staff run the credit reports free of charge, but HACSB's Real Estate Specialist reviews them before referring candidates to a CalFED loan officer to pre-qualify for a mortgage. Applicants who pre-qualify for a mortgage move directly into the 16 hours of homebuyer education from NHSIE. Applicants who the Real Estate Specialist does not think will qualify for a mortgage, or who are referred to CalFED and turned down, work with NHSIE on the "slow track" of credit repair and individualized counseling before starting homeownership counseling. According to the staff interviewed from HACSB, NHSIE, and CalFED, this has reduced the administrative burden for all parties involved.

Program Outcomes

In April 2002, NHSIE staff reported that 97 voucher homeownership program applicants had received some form of counseling through NHSIE's Homeownership Center. Of these, 32 applicants, including the three purchasers, had completed homeownership counseling. Ten of these households were either searching for homes or were working with CalFED to determine how much of a mortgage they could afford.

Of the 65 program applicants who have yet to complete homeownership counseling, NHSIE staff estimate that about 35 households are at least a year away from being able to qualify for a mortgage. The remaining 30 households may be six to eight months away from being creditworthy and ready to purchase.

Two of the three purchasers bought houses they had been renting through the voucher program. One of these houses was owned by HACSB and, as noted above, HACSB financed the purchase. The other two houses were purchased from private individuals. Both of these purchase transactions included a conventional first mortgage through CalFED based on the household's income and a second mortgage financed by NHSIE based on the HAP.

Program Outcomes
<ul style="list-style-type: none">• Number of households counseled: 32• Number of homes purchased: 3• Average income of purchasers: \$22,278• Average purchase price: \$108,333• Instances of loan default: 0

According to HACSB staff and program participants interviewed during the site visit, finding homes in the more desirable parts of the county can be challenging. HACSB and NHSIE staff agree that overall, there is sufficient housing stock in the price range affordable to homeownership voucher participants. However, the Executive Director of HACSB expressed concern about rising housing costs in southern California, suggesting that if home sales prices continue to escalate, participants could find themselves priced out of the market. In addition, NHSIE staff reported that many of the properties in the price range affordable to homeownership voucher participants require some repairs to pass an HQS inspection.

The two purchasers interviewed during the site visit indicated that buying a home in good condition in a good neighborhood requires creativity and persistence. The first participant interviewed described how she drove around for four months on her own looking for a house that met her needs and was in relatively good condition. Following a tip from a co-worker, she finally found the "right house" in the neighborhood where she wanted to live. However, she could not have bought the house if NHSIE had

<p>"Buying my first home was kind of scary at first. But as a single parent, this program is a great chance to move ahead." - HACSB program participant</p>

not agreed to reduce the interest rate on the second mortgage from five percent to three percent.

The second participant interviewed also had difficulty finding a house in good condition in a safe neighborhood. After two months of looking, this participant approached her landlord about buying the house she was renting through the voucher program. The purchase was only affordable after the owner agreed to reduce the selling price from \$135,000 to \$110,000. The owner was willing to do so at least in part because selling the house to his tenant meant that he did not have to pay a real estate commission to an agent. The program participant was satisfied with her decision to purchase “in place” because she liked the unit and the neighborhood. As she described it, “it is a nice quiet location that is good for someone like me with small kids that needs to be in a safe area.”

Lessons Learned

Despite the considerable resources that have been made available—including a full-time staff person and a \$1 million commitment from a private lender—HACSB and its partners have struggled to get the voucher homeownership program in San Bernardino off the ground. Concerns related to the availability of second mortgage capital and the interest rates of the second mortgage loans have been persistent stumbling blocks for the program. HACSB, NHSIE, and CalFED have been disappointed by the small number of closings to date. However, they reported that they remain committed to expanding San Bernardino’s voucher homeownership program. HACSB staff reported they hope to reach as many as 20 closings per year once the single mortgage model becomes fully operational. Given that there are candidates in the pipeline who either have already pre-qualified for loans or are in the process of repairing their credit, resolving these financing issues may be the key to growing the program. However, San Bernardino’s housing market may continue to be a challenge.

HACSB’s Executive Director suggested several programmatic changes that he thought would promote greater lender participation in the program and ease the administrative burden on PHA staff. First, he suggested that the HAP should be fixed for the term of assistance, eliminating the need for annual reexaminations. He suggested that the lenders that he had tried to recruit had been wary of the annual reexamination and its potential effect on the payment of the mortgage (particularly in the single mortgage model where the lender receives two payments, the amounts of which may fluctuate although they sum to the same total). NHSIE’s Executive Director emphasized the labor intensity of the program for PHAs and partners, and suggested that HUD should directly fund homeownership positions at PHAs as well as provide financial support and capacity building to partner agencies. As he put it, “This is a new venture for us so capacity building would be helpful to us to sustain what we are doing. In fifteen years we will still need to be working with these families and no one can really predict what will happen.”

HACSB staff offered the following advice to PHAs considering the voucher homeownership option:

- ***Foster partnerships as early in the process as possible.*** In particular, make sure to have lenders on board before recruiting program applicants. Building on preexisting lender relationships—as HACSB did with CalFED—may be most effective because lenders are generally skeptical of what is still a new program.

- **Clarify each partner’s role in the program before full-scale implementation begins.** This will help to avoid the confusion over roles and responsibilities among the partners that can end up stalling program participants’ progress toward homeownership.
- **Be prepared to allocate sufficient staff time in the initial stages of the program.** HACSB staff report that, despite just three closings to date, the program has been “a labor intensive affair that takes all your time. I don’t think a lot of people realize how much effort is required.” HACSB’s Executive Director commented that PHAs with large voucher programs and some discretionary funds to put into the program may be in a better position to sustain the effort than smaller agencies.

San Bernardino Program Summary	
Number of homes purchased:	3
Average income of purchasers:	\$22,278
Average purchase price:	\$108,333
Average monthly HAP payment:	\$420
Financing model:	Two-mortgage
PHA program staffing:	1.1 full-time staff equivalent
<i>*Based on a sample of 10 purchases.</i>	

Syracuse, New York

Syracuse Housing Authority

Introduction

The Syracuse Housing Authority (SHA) administers approximately 2,900 housing choice vouchers in Onondaga County, which includes the city of Syracuse. SHA began offering the voucher homeownership program in the spring of 2000 under the proposed rule as part of HUD's pilot program. SHA staff viewed the opportunity to develop a voucher homeownership program as a logical addition to the agency's large FSS program. In addition, the ample supply of modestly priced homes in Syracuse offered good homeownership opportunities for low-income buyers. SHA staff agreed to participate in HUD's pilot program and teamed with Home Headquarters, a local nonprofit organization that provides housing counseling and financial assistance to low- and moderate-income homeowners and prospective homebuyers. Home Headquarters is a local affiliate of the Neighborhood Reinvestment Corporation (NR), and SHA and Home Headquarters became one of four demonstration sites for NR's voucher homeownership demonstration. Home Headquarters was a particularly appropriate partner because of its strong relationships with local lenders, a key component for success in the voucher homeownership program.

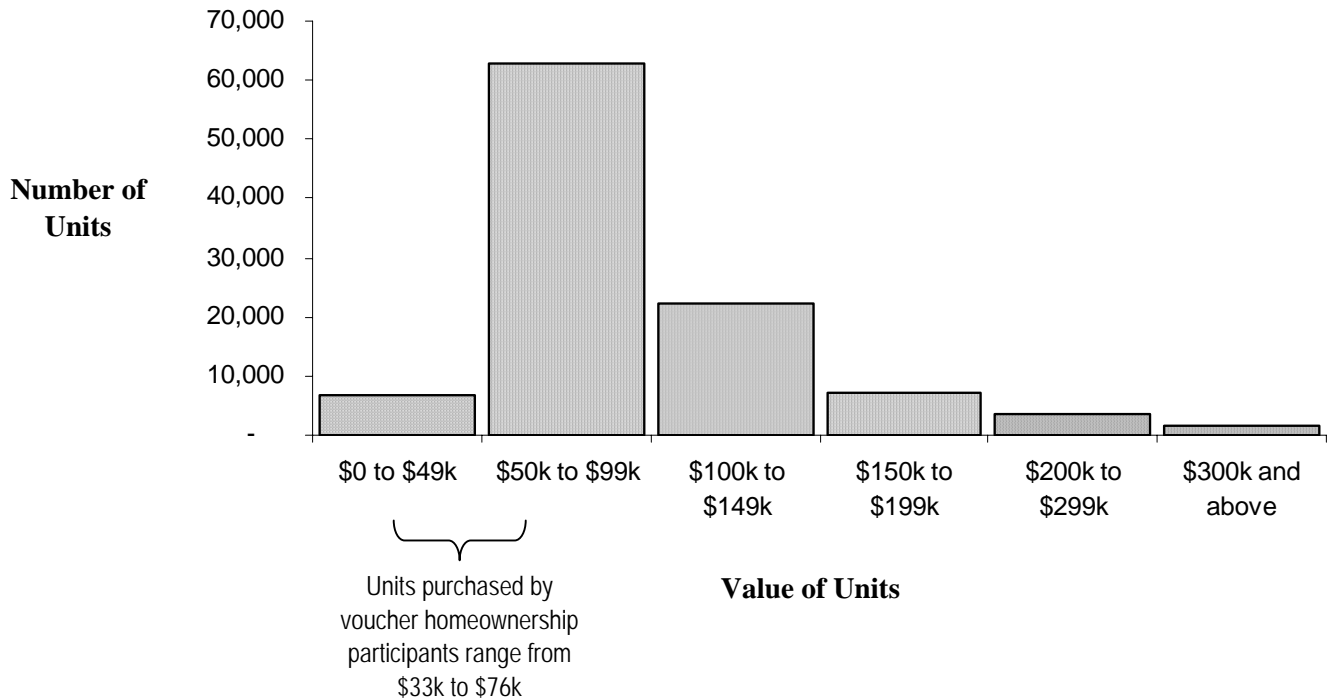
SHA staff and partners have always believed that the voucher homeownership option should be targeted to voucher program participants who are nearly ready for homeownership. As a result, SHA has set a minimum income requirement for participation in the program that is higher than that specified in HUD's final rule. In addition, SHA requires that voucher homeownership candidates be enrolled in its FSS program. As of April 2002, 12 households had purchased through the SHA's homeownership program. Because the families admitted to the program can qualify for loans based on their own incomes, the voucher subsidy is not considered in the mortgage calculation and is paid to the family for their discretionary use in meeting their monthly homeownership expenses. SHA is unique among the 12 study sites in this respect. Syracuse's housing market and the higher incomes of program participants make this possible. Program staff note that most participants who meet the program's income requirements are receiving limited assistance from the voucher program.

Housing Market Conditions

Syracuse has one of the most affordable housing markets of the 12 sites in the study. According to the National Association of Realtors, the median sales price of existing homes in the Syracuse metropolitan area in the first quarter of 2002 was \$80,300, up six percent from the first quarter of 2001 but just four percent from 2000. Inside the city limits, program staff report that houses in good condition can be found in the \$40,000 to \$60,000 price range. Syracuse program participants have purchased houses ranging in price from \$33,000 to \$76,000, with an average of \$56,362.

The chart below presents data from the 2000 Census on the number and value of owner-occupied units in Onondaga County. Approximately 60 percent of the units in the county are valued between \$50,000 and \$99,000, within the price range of Syracuse program participants. This supports the view of program staff that the local housing market does not present a barrier to the program's growth.

Value of Owner-Occupied Units in Onondaga County, Based on 2000 Census



Program Design

Targeting and Outreach

SHA's homeownership option is available to current voucher program participants who are enrolled in FSS, have completed one year of full-time employment, and have incomes of at least \$15,000, including public assistance income if the household is elderly or disabled. (This income requirement would not be permitted for PHAs operating under the final rule.) SHA staff take the lead in identifying candidates for homeownership by reviewing administrative files and sending letters to voucher program participants who meet the minimum income requirement for the program. According to program staff, as of early 2002, about 225 recruitment letters had been mailed. Some voucher participants who meet the income requirements and are targeted for recruitment are not yet enrolled in FSS. If the participant is interested in pursuing homeownership, enrollment in FSS is required.

Target Population and Outreach Methods

SHA's voucher homeownership option is available to FSS participants who have been employed for at least one year and whose annual income is at least \$15,000. This income requirement would not be permitted for PHAs operating under the final rule.

Marketing methods include mailings and promoting the program in newsletters, flyers, and at events targeted to prospective low-income buyers.

In addition to the mailings, SHA's voucher homeownership program is marketed by SHA and Home Headquarters staff through newsletters, flyers posted in their offices, and at special events such as a recent affordable housing fair. Word of mouth is also proving to be an effective marketing tool as the number of closings grows.

Although SHA's current Administrative Plan sets a cap on the program's size at 50 vouchers, SHA staff do not plan to limit the program size as long as qualified applicants continue to express interest in the program. There are also no plans to change the income requirement even though HUD's final rule sets a lower minimum requirement (equal to 2,000 hours of annual full-time work at the Federal minimum wage, or \$10,300) for non-pilot sites. Program staff, lenders, and participants alike are dismayed at the final rule provision because they believe that purchasing a home with such a low income (even in a lower cost market like Syracuse) puts the buyer at risk and fails to provide incentives for reaching self-sufficiency.

Homeownership Counseling

Orientation meetings are held approximately once a month and are conducted jointly by SHA and Home Headquarters staff. After the orientation, SHA runs criminal record checks on voucher participants who express interest in the program; a conviction for violent crime or drug charges would result in ineligibility. Those who are eligible arrange to meet one-on-one with the Home Headquarters coordinator to review their credit histories and discuss their readiness for homeownership. Applicants who need to build additional savings may be referred for enrollment in HSBC bank's First Home Club. Through this program, first-time homebuyers establish a savings account where every \$1 contributed by the buyer is matched by a \$3 contribution by HSBC.

Since 1999, 174 voucher program participants have attended an orientation and 61 have enrolled in homebuyer education. Home Headquarters offers homeownership counseling to voucher participants separately from their other clients, and the customary \$250 fee is waived for voucher customers. The two, five-hour group classes are held on successive Saturdays. This schedule generally works for the

Pre-Purchase Counseling

SHA has partnered with a NR-affiliated nonprofit counseling agency to deliver pre-purchase counseling to program participants. Participants complete two five-hour classes and receive individualized assistance as needed.

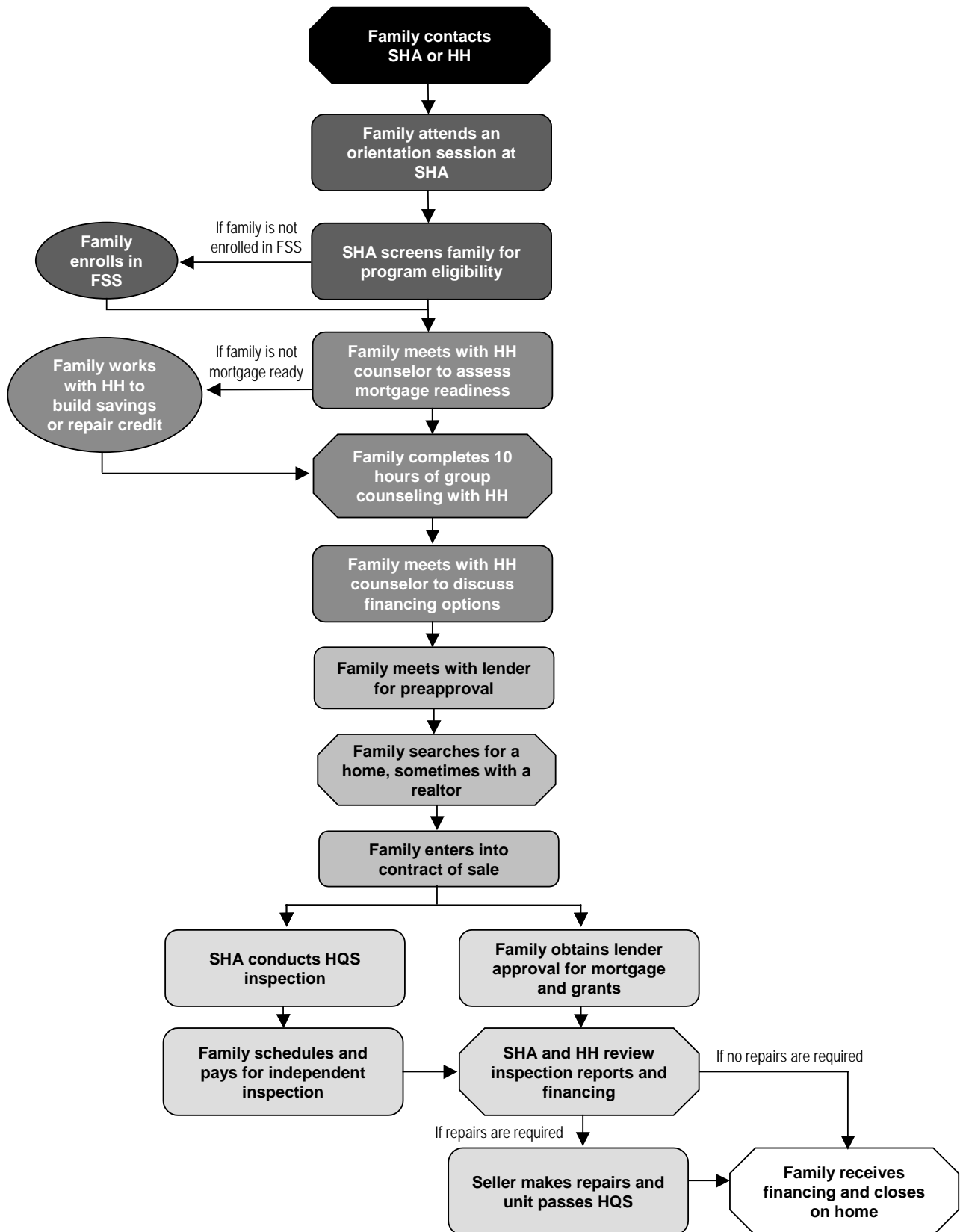
participants, although the Home Headquarters coordinator said the Saturday schedule makes it difficult to get outside speakers such as lenders or home inspectors to speak to the class. Thus, the coordinator typically delivers all the material herself.

The classes focus heavily on financial fitness and credit issues, including how to repair and maintain credit and avoid predatory lending. Several staff associated with SHA's program noted that predatory lending is an issue of great concern in Syracuse. Not only are unscrupulous mortgage

lenders considered a problem, but also automobile dealers who offer unfavorable terms on car leases and contractors who pressure homeowners into unneeded repairs. According to the Home Headquarters coordinator, she places heavy emphasis on teaching participants how to avoid these loans, noting only half-jokingly, "I beat them over the head with it!"

Once a voucher homeownership candidate has completed the required 10-hour homebuyer education curriculum, Home Headquarters' coordinator maintains contact with the family through the loan application and home search process. She helps program participants determine when they are ready

Syracuse Voucher Homeownership Purchase Process



to meet with a lender to pre-qualify for a mortgage. The coordinator noted that some participants are eager to meet with a lender even before she thinks they are ready. She allows these participants to go ahead and meet with the lender even if the outcome may be disappointing: “It’s all part of the learning process,” she explains.

The two lenders interviewed reported that most of the candidates referred by Home Headquarters are very well-prepared for the purchase process, commenting that “If [the Home Headquarters coordinator] says they’re ready, they’re ready.” However, the lenders acknowledged that some applicants are referred before they are ready, in part as a “reality check.” The lenders view these meetings as part of the process of preparing buyers and do not view the additional time as burdensome, even though the buyer may not be ready to pre-qualify.

Home Search and Inspections

Once candidates for homeownership complete their homebuyer education, the Home Headquarters coordinator educates them about loan programs available from the County Community Development Department and local lenders, trying to “match people with programs” and making sure people are realistic about what they can afford. The coordinator reported that she generally discourages participants from working with realtors because she does not think that realtors are necessary for program participants to locate suitable houses in Syracuse’s loose housing market. In addition, she has found that realtors often pressure prospective buyers to consider homes they cannot afford. To help participants identify homes for sale in their price range, the coordinator helps participants review newspaper listings as well as explore opportunities available through local affordable housing developers. According to SHA’s Administrative Plan, participants have up to 90 days to locate a home to purchase and an additional 90 days to secure financing and close on a property, but staff report they are very flexible on the length of the home search and financing process.

Once participants identify a home they hope to buy, an SHA inspector conducts the HQS inspection. An independent inspector is not contacted until the HQS inspector determines the house is in reasonably good condition. The Home Headquarters coordinator tries to be present for both the HQS and independent home inspections.

Most of the homes identified for purchase at the time of the site visit were in good condition. Although three of the 12 homes purchased did not pass HQS on the first inspection, the deficiencies were described as minor. None of the problems prevented a voucher participant from purchasing. In one case, Home Headquarters assisted with the repairs and in the other cases the seller made the needed repairs.

Financing Model

Voucher program homebuyers may obtain mortgages from one of several local lenders. Local program guidelines prohibit seller financing and financing that includes balloon payments. In most cases, the loan products used are designed for lower income, first-time homebuyers, offering 30-year, fixed rate loans with interest rates at or below-market. In addition, there are flexible credit requirements and generous down payment and closing cost assistance provisions. Purchasers who buy homes renovated by the Onondaga County Community Development Department may qualify for additional grants to reduce the purchase price of the home by as much as \$20,000. Finally, Home Headquarters has a three-year grant of approximately \$213,000 from NR to provide mortgage

assistance to voucher program participants. Staff reported that only about \$20,000 of this grant has been used, in most cases to provide small second mortgages to assist purchasers with needed improvements such as repairs to fences or driveways.

The voucher HAP is not considered an income source in SHA's homeownership program. The HAP payment goes to the program participant, who then makes the mortgage payment to the lender. Program staff encourage participants not to depend on the HAP as part of their household budget, but rather to use it to pay down principal or set it aside for repairs or other contingencies. These are only recommendations, however. The participant ultimately decides how to use the HAP funds. It is worth noting that the FSS voucher participants with steady employment who are targeted for this program are often receiving limited assistance from the voucher program by the time they actually purchase.

The decision to treat the HAP this way was partly driven by lenders, according to local respondents. Because lenders cannot be guaranteed that the HAP will continue to be available, they do not want to count it as income. In addition, according to the two loan officers interviewed, excluding the HAP allows them to offer loan products they already have to voucher participants. Including the HAP would have required developing a new product with special underwriting criteria.

Sample Purchase Transaction	
Buyer's Annual Income:	\$22,580
Costs to Buyer:	
– Purchase Price:	\$33,000
– Closing Costs:	\$2,593
Sources of Financing:	
– 1 st Mortgage:	\$31,331 (8.1% 30 yrs., private lender)
– Deferred Loan:	\$3,000 (0%, deferred 30 yrs, Home Headquarters)
– Buyer Cash Down:	\$1,243
Monthly Mortgage Payments:	
– Total monthly PITI:	\$441
– Monthly HAP to offset PITI:	\$255
– Buyer's share of monthly PITI:	\$186
– Buyer's share of PITI as a percent of gross monthly income:	10%

Both of the loan officers interviewed for this study are associated with the community lending departments of their institutions, where working with low-income, first-time homebuyers is a priority. Both acknowledged that the potential for Community Reinvestment Act credit for loans to voucher participants is an incentive to work with the voucher homeownership program, but they also credit Home Headquarters with sending them qualified candidates who are mortgage-ready. Each loan officer indicated his bank offers a product that is sold to the secondary market (one to Fannie Mae and the other to Freddie Mac), but each also offers loan products that are held in portfolio. Private mortgage insurance is required by both lenders if the loan-to-value ratio is greater than 80 percent.

SHA staff are quick to point out that the housing market in Syracuse offers plentiful opportunities for lower income homebuyers. Houses in poor condition can be purchased for as little as \$20,000, and houses in reasonably good condition can be found for \$40,000 to \$60,000. In addition, local programs offer grants and deferred loans that can total as much as \$30,000 to reduce the cost of a mortgage. Those with FSS escrow accounts may use the funds for the down payment or for other expenses such as appliances for the new home. The combination of available housing at reasonable purchase prices and generous assistance to reduce purchase prices further makes it possible for voucher program buyers to afford homes without including the HAP in the mortgage calculation. However, the HAP is still required in order for participants to meet their anticipated monthly homeownership expenses, which include utilities, routine maintenance, and occasional major repairs, as well as the monthly mortgage payment.

Post-Purchase Activities

Home Headquarters staff commit to working with all of their customers for up to three years after closing. The level of interaction depends on the customer; staff respond to requests for assistance but generally do not proactively contact customers once the buyer has closed unless there is a late payment. Because the voucher participant is responsible for making the mortgage payment, Home Headquarters requires that the participants sign a consent form at closing that permits the lender to notify Home Headquarters if a payment is 30 days late. When notified of a late payment, Home Headquarters staff visit the participant to identify the problem and determine a solution.

Post-Purchase Activities

Syracuse does not currently require post-purchase counseling. However, program participants must allow lenders to contact Home Headquarters if a mortgage payment is 30 days late.

Home Headquarters plans to develop a more formal post-purchase program to begin in the summer of 2002. The coordinator expects the curriculum to include budgeting and credit, predatory lending, and working with contractors, and envisions that the training would be offered in two, two-hour sessions per month for one year after the participant purchases a home.

Program Management, Staffing, and Partnerships

Senior staff at SHA and Home Headquarters played key roles in the development of Syracuse's voucher homeownership program. Staff report that, as a small city, staff from organizations working on low-income housing issues know each other and have a history of both formal and informal partnerships. Although SHA and Home Headquarters had not formally collaborated prior to the homeownership demonstration, SHA staff were familiar with the organization and had referred people to Home Headquarters for homeownership counseling and financial assistance. The Executive Directors of the two agencies and the SHA's Housing Choice Voucher Program (HCVP) Supervisor met to agree on how the program would operate in Syracuse. All agreed that the homeownership option should be targeted to households who were nearly ready to buy. Home Headquarters' strong relationships with lenders helped attract local lenders to the program. SHA staff acknowledge that, although program design decisions were made by consensus, SHA deferred to Home Headquarters' expertise and experience regarding targeting and the financing model. They believe this helped create a program design that would ensure lender participation while meeting the needs of voucher program participants.

Program Staffing

SHA devotes one-half to three-quarters of one full-time equivalent to the voucher homeownership program. In addition, Home Headquarters devotes three-quarters of one full-time equivalent. Limited staff capacity is an obstacle to further program growth.

Once underway, senior staff became less involved as front-line staff took on a greater role in program implementation. SHA's FSS coordinator at the time enthusiastically promoted the program, generating considerable interest through mailings, newsletter announcements, and personal contacts with prospective participants. Through her efforts, SHA generated a list of voucher participants who expressed interest in attending an orientation and began inviting groups of 20 to 30 per month to learn more about the program. It took roughly one year to work through the initial recruitment list; additional sets of recruitment letters were sent out in 2001 and early 2002. Staff report that the day-to-day management of the homeownership program requires intensive staff effort. Staff capacity

serves to limit program size because staff do not want to enroll more prospective buyers than can be adequately supported.

SHA staff working on homeownership include two FSS staff members and one tenant selection staff member, with oversight by the HCVP Supervisor. HQS inspections are conducted by one of the agency's three inspectors. In total, SHA staff estimate that they devote between one-half to three-quarters of one full-time staff equivalent to the voucher homeownership program (assuming a 40 hour work week). Given more resources, senior staff report they would add the equivalent of one more full-time staff member to support current participants and accommodate future growth of the program. At present, the program is funded through voucher program administrative fees and HUD funds received for FSS coordinators.

At Home Headquarters, one staff member spends roughly three-quarters of her time working with voucher program participants. Program funding is partially provided by the organization's general operating funds. In addition, in the spring of 2001, Home Headquarters received a three-year grant of approximately \$315,000 from NR for administrative costs (\$102,000) and capital funds (\$213,000) specifically for voucher homeownership participants. Staff reported that as of April 2002, about one-third of the administrative funds had been expended, and 11 percent of the capital funds had been used.

Program Outcomes

Since 1999, 174 voucher homeownership candidates have attended a program orientation and 61 have enrolled in homebuyer education. As of April 2002, 12 had purchased homes. Purchase prices have ranged from \$33,000 to \$76,000. Program staff have not set specific ratios for determining the affordability of mortgages, but instead rely on the lenders' underwriting criteria. According to data on purchasers provided by Home Headquarters, mortgage payments (including principal, interest, taxes, and insurance) range from 26 percent to 43 percent of gross monthly income in all but one case; the lowest income buyer (with an annual income of just over the minimum of \$15,000) has the highest payment as a percentage of gross monthly income at 50 percent.

There have been no formal defaults so far. One homebuyer refused to be recertified and subsequently forfeited the voucher assistance but continues to live in the home and

make the mortgage payments. A second homebuyer who had purchased a property renovated by the County Community Development Department subsequently left the Syracuse area. Under the terms of the sale, however, the County was able to repurchase the home and resell it to another low-income buyer (who is not a voucher program participant), thus avoiding a formal default.

Voucher participants have purchased houses in a variety of types of neighborhoods, from densely built urban areas near the center of Syracuse to an established suburban subdivision nearly 10 miles from downtown. Based on a tour of most of the neighborhoods where participants have purchased, it appears these low-income buyers have been able to purchase in neighborhoods where the housing is in good to very good condition and where homeowners appear to maintain their properties. Some purchasers have chosen to stay within Syracuse city limits, although staff noted that a number of

Program Outcomes

- Number of households counseled: 61
- Number of homes purchased: 12
- Average income of purchasers: \$23,457
- Average purchase price: \$56,362
- Instances of loan default: 0

purchasers have moved to communities outside the city limits, where the public schools are considered better and where services such as grocery stores are more accessible.

With the exception of one purchaser who bought a townhouse, program participants have purchased single-family detached dwellings. Most of the houses purchased appeared to have been built between 1900 and 1950. Three of the houses observed during the site visit had been renovated by Home Headquarters or the County Community Development Department prior to being sold to voucher participants. Although all were older properties, the extensive renovations made them very attractive. One of the program participants interviewed had purchased one of these houses. She reported that her house had been badly damaged by fire before being acquired by Home Headquarters. The rehabilitation included a new roof, windows, siding, and interior finishes. “It’s like living in a brand-new house!” the homeowner marveled. Home Headquarters even provides a warranty on their work. The homeowner reported that when her storm door was damaged in a windstorm, Home Headquarters had it repaired.

Lessons Learned

SHA staff and their partners believe the following factors have contributed to their ability to move voucher program participants into homeownership: the strong relationships among local partners; a relatively low cost housing market; a targeting approach focused on people who are ready (or nearly ready) to buy; and a financial model that fits with local lenders’ existing loan products for lower income buyers. Although the total number of closings to date (12) seems modest, it is notable that one in five Syracuse participants who have completed the homeownership counseling have successfully purchased a home. Given the challenges of implementing a voucher homeownership program—particularly the poor credit histories of participants and limited staff capacity—program staff believe the Syracuse program is performing well. Although the argument could be made that these purchasers could have bought a home without the voucher assistance, SHA staff strongly believe in using vouchers to promote homeownership and self-sufficiency. The SHA executive director admitted to using the program as somewhat of a tool for social engineering: “We’re rewarding the behavior we want to see.”

The close working relationship between the Home Headquarters coordinator and local lenders has been a particularly important asset to the Syracuse program. Lenders trust Home Headquarters to prepare prospective buyers before referring them to the lender to complete a loan application. The two lenders interviewed agreed that homebuyers referred by Home Headquarters typically require less time and effort to close a loan than other low-income buyers who are often not as well prepared for the process. Further, the strong working relationships between lenders and Home Headquarters have allowed SHA to stay out of the financing end of the program, which is the agency’s preference. “It allows everyone to do what they do best,” according to SHA’s Executive Director.

Poor credit histories and limited incomes have posed some problems for the Syracuse program. For voucher participants with limited skills, jobs with good salaries that will allow them to meet the program’s minimum income requirement are hard to find. However, staff, lenders, and participants alike are dismayed at the final rule provision that allows voucher participants with incomes as low as \$10,300 to buy a home. They worry that such a low income (even in a lower cost market like Syracuse) puts the buyer at risk and fails to provide incentives for reaching self-sufficiency.

SHA and Home Headquarters staff offered the following suggestions to PHAs considering the program:

- ***As program design decisions are made, try to ensure that participants will benefit from the program over the long term.*** This is the justification for the Syracuse partners’ decision to adopt a \$15,000 minimum income requirement. In the opinion of Syracuse staff, the lack of complex financing packages with layered subsidies protects both buyers and the program and increases the likelihood that lenders will agree to participate.
- ***Draw on the expertise and connections of outside partners rather than trying to develop this capacity in-house.*** The SHA Executive Director commented, “You have to put your ego on the shelf and admit that you don’t know everything and you don’t have to.” SHA staff strongly believe that the PHA should not duplicate skills and programs that already exist in the community, but instead should work to improve their clients’ access to community resources.

Syracuse Program Summary	
Number of homes purchased:	12
Average income of purchasers:	\$23,547
Average purchase price:	\$56,362
Average monthly HAP payment:	\$159*
Financing model:	HAP not counted by lender toward mortgage but given to participant to offset homeownership expenses
PHA program staffing:	0.6 full-time staff equivalent

**Based on a sample of 10 purchases.*

Toledo, Ohio

Lucas Metropolitan Housing Authority

Introduction

The Lucas Metropolitan Housing Authority (LMHA) began developing its voucher homeownership program in October 2000, following the publication of HUD's final rule. LMHA administers approximately 3,400 housing choice vouchers in the Toledo metropolitan area. At the time of the publication of the final rule, LMHA had begun to acquire and develop housing for homeownership using revenue generated from its Turnkey III program. The voucher homeownership option complemented LMHA's existing homeownership programs and fit the agency's broader goal of contributing to neighborhood stabilization and community development in the city of Toledo.

To offer the voucher homeownership program, LMHA partnered with Neighborhood Housing Services (NHS) of Toledo, a nonprofit lender and affordable housing developer with experience providing loans and homeownership counseling to low-income homebuyers. In May 2001, NHS received approximately \$80,000 in capital funds and \$15,400 in operating funds from the Neighborhood Reinvestment Corporation (NR) to provide second mortgage loans and homeownership counseling services to voucher program participants. The partnership between LMHA and NHS is an essential part of the program in Toledo.

LMHA's program has not had the number of closings that might be expected given the favorable housing market and second mortgage resources available. As of May 2002, nearly 200 households had received homeownership counseling through the program but only two households had purchased houses. Despite the availability of second mortgage financing, which reduces the loan-to-value ratio on the first mortgage, LMHA has had difficulty recruiting private lenders to the program. Thus far, lenders have been reluctant to tailor loan products for voucher program participants. In addition, relatively few applicants to LMHA's program have had sufficient income and credit standing to purchase in the near term. Some of the highest income applicants ended up purchasing without the voucher subsidy either on their own or through one of LMHA's other homeownership programs. Other applicants have needed anywhere from six months to two years to resolve their credit issues. At the time of the site visit, LMHA and NHS staff anticipated that the rate of purchases would increase as clients who have been working on their credit begin to qualify for mortgages.

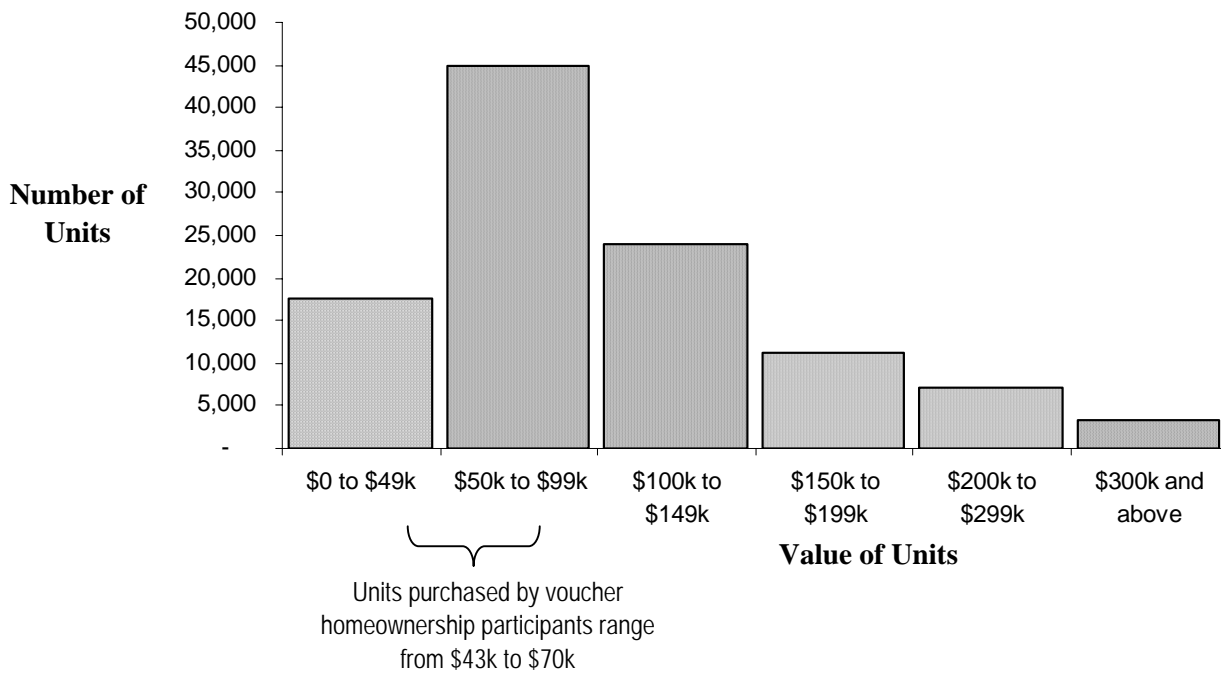
Housing Market Conditions

The Toledo metropolitan area, particularly within the city limits, has a large stock of housing in the \$40,000 to \$70,000 range affordable to voucher homeownership program participants. According to the National Association of Realtors, the median sales price of existing homes in the first quarter of 2002 was \$101,800, down from \$111,100 in 2001 and \$104,000 in 2000. Although the well-maintained houses tend to sell very quickly, program staff suggest that much of Toledo is a "buyer's market," particularly for the smaller, older homes selling for less than \$100,000. LMHA's two voucher homeownership purchasers bought houses for \$43,000 and \$70,000.¹

¹ The value of the house at the time of purchase was \$100,000, but the purchase price to the participant was \$70,000 after a \$30,000 write-down from the City through the HOME program.

The chart below presents data from the 2000 Census on the number and value of owner-occupied housing units in Lucas County, where LMHA’s voucher homeownership program is offered. A majority of units (58 percent) are valued below \$100,000 and approximately 80 percent of units are valued below \$150,000. There is also a bigger share of units (16 percent) valued at less than \$50,000 than in most of the other sites in this study. Given that housing prices do not appear to be appreciating rapidly in the Toledo area, these data suggest that the local housing market does not present a significant barrier for the growth of LMHA’s program.

Value of Owner-Occupied Units in Lucas County, Based on 2000 Census



Program Design

Targeting and Outreach

LMHA makes the voucher homeownership option available to existing participants in the agency’s rental voucher program who meet the homeownership program’s income and employment criteria. Individuals and families admitted to the voucher program from the waiting list are also offered the option to pursue homeownership; however, LMHA’s Homeownership and Development Manager (hereafter referred to as the Homeownership Manager) encourages clients to rent for at least a year before trying to purchase if their credit is not sufficient to qualify for a mortgage right away. All voucher homeownership participants must also be enrolled in LMHA’s Family Self Sufficiency (FSS) program, although this can be done at any time prior to purchasing. LMHA’s Homeownership Manager encourages all clients with an interest in homeownership to enroll in the FSS program as soon as possible so that they can be contributing to an FSS escrow account while they go through homeownership counseling and work on their credit.

LMHA’s strategy for recruiting applicants to the voucher homeownership program has evolved considerably since the agency held its first program orientation in March 2001. LMHA began by marketing the program to voucher participants who had been in the FSS program for five years and had saved at least \$5,000 in their FSS escrow accounts. LMHA has a large FSS program (over 300 households in May 2001) and a successful track record of assisting FSS graduates to purchase houses. LMHA staff thought that FSS participants—particularly those who had been on the program for some time and had accrued some funds in escrow—would be most likely to purchase homes through the voucher program.

LMHA initially got a strong response to the program and was concerned about its ability to handle the volume of applicants. However, a substantial proportion of households who initially expressed interest in the program either failed to attend a program orientation or did not complete homeownership counseling. Some households in this group ended up purchasing without the assistance of the voucher, in one or two cases possibly through predatory lenders. More often, however, LMHA and NHS, the nonprofit organization providing the homeownership counseling and second mortgage loans, have found that even among longtime FSS participants with money in escrow, poor credit presents a significant barrier to purchasing in the near term.

Based on this initial experience, and not wanting to arbitrarily limit the number of potential homebuyers, LMHA began marketing the program to voucher participants who had been in the FSS program for at least three years and had accrued \$2,000 in escrow. In late 2001, having had only one closing through the program, LMHA decided to reach out to all voucher participants earning over \$11,500. Applicants to the homeownership program who are already in FSS enroll in FSS when they are determined eligible for the homeownership program.

Target Population and Outreach Methods

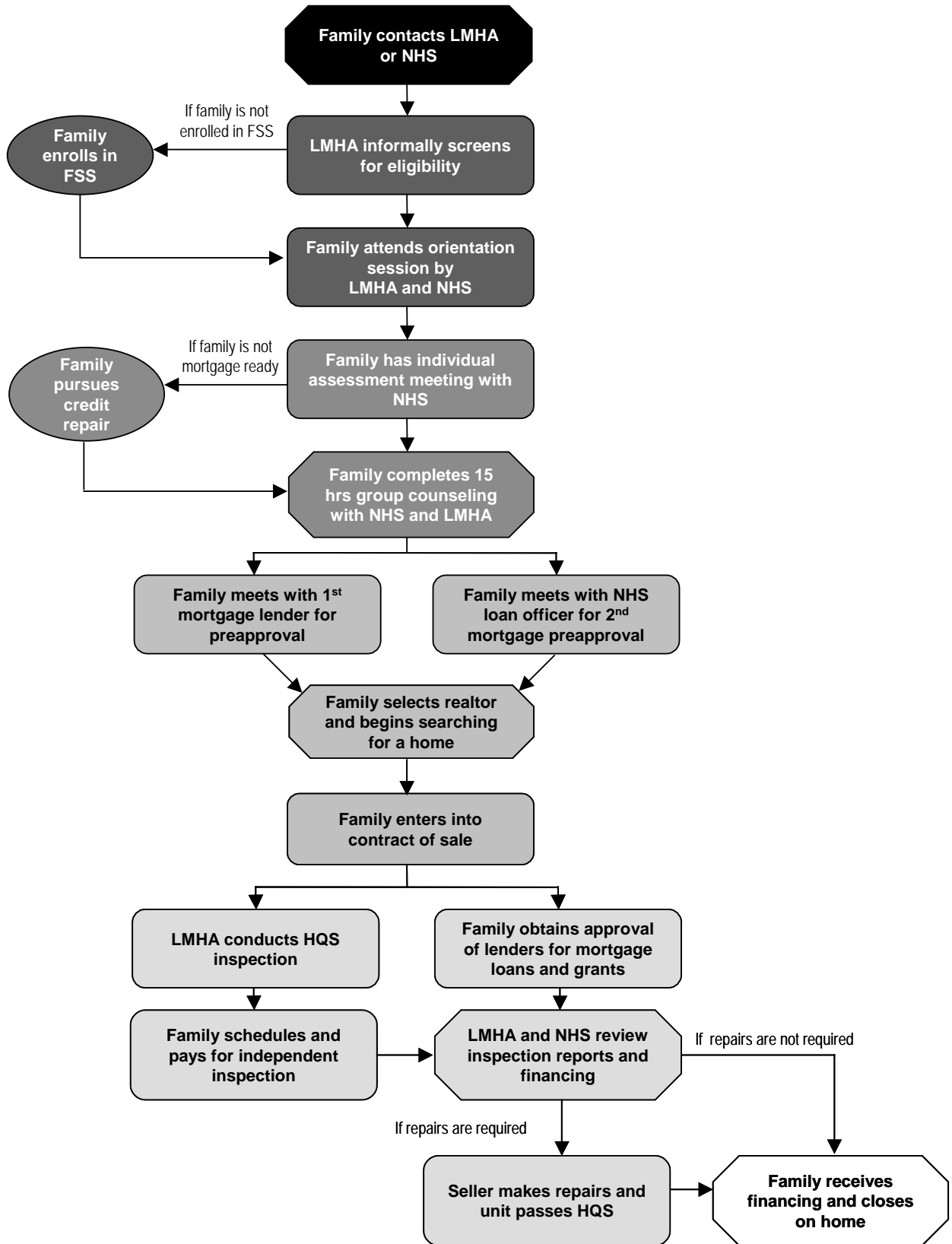
LMHA’s voucher homeownership option is available to existing participants in LMHA’s rental voucher program in good standing with the agency and to households newly admitted to the voucher program from the waiting list. Program participants must also be enrolled in the FSS program prior to purchasing.

LMHA began by marketing the program to FSS participants, but recently began sending out letters and flyers to all voucher participants earning at least \$11,500.

LMHA has primarily marketed the program by sending letters and flyers to these households. The response rate to these mailings is generally low—of the last batch of 700 letters sent, only 32 households (five percent) actually attended an orientation meeting. In addition to the mailings, LMHA staff discuss the homeownership option at the regular briefings for the housing choice voucher program and at annual reexaminations for households earning at least \$10,300. At the time of the site visit, LMHA’s Homeownership Manager indicated that he would like to identify a marketing strategy that might be more effective in recruiting qualified and prepared applicants to the program.

Without restricting access to the program, LMHA and NHS have deliberately created some minor obstacles to test clients’ commitment to homeownership. For example, clients interested in pursuing homeownership must contact LMHA’s Homeownership Manager to sign up for an orientation session (the flyers and mailings give out his contact information, but not the time or location of the orientation). This gives LMHA’s Homeownership Manager a sense of who will be attending the orientation and allows him to ask basic questions about the person’s income, employment, and credit.

Toledo Voucher Homeownership Purchase Process



Anyone who appears to meet the program’s income and employment criteria is invited to attend the orientation and begin homeownership counseling, regardless of how close they are to being able to purchase a home. Prior to the first homeownership class, NHS conducts a 35- to 40-minute individual assessment with each applicant to determine how much of a mortgage they can afford and whether they need to work on their credit. If the applicant is not ready to purchase, NHS nevertheless encourages them to pursue the full course of pre-purchase homeownership counseling and to take steps to address the income or credit issues preventing them from qualifying for a mortgage.

This approach to targeting and outreach gives a large number of households access to some homeownership counseling, even if a relatively small fraction of those counseled actually purchase through the program. NHS has various sources of funding that enable it to provide homeownership counseling free of charge to voucher program participants. These include a grant from NR, HOME funds provided through the City of Toledo, and revenue generated through NHS’s other counseling activities. Part of NHS’s revenue, however, also comes from lender fees that clients pay when they purchase homes, including the 3.5 percent origination fee on NHS’s second mortgage loans. From this perspective, NHS has had to make a tradeoff between program efficiency (measured by the proportion of clients counseled that end up buying homes) and the desire to offer a broader range of clients the benefit of counseling on budgeting and credit issues.

Homeownership Counseling

NHS provides most of the required pre-purchase homeownership counseling to participants in the voucher homeownership program. Program participants complete between 10 and 12 hours of pre-purchase counseling, which includes five weeks of group classes (one two-hour class per week) and several one-on-one sessions. The first four homeownership classes cover budgeting, credit, home finance, buying a house, and maintenance. They are led by trained NHS staff members and feature guest speakers such as lenders, realtors, and insurance agents. The fifth class is led by LMHA’s Homeownership Manager and focuses on issues related to the voucher program.

For the first four homeownership classes, voucher program participants are mixed together with other first-time homebuyers who will be buying without the voucher subsidy. NHS thinks that it is important that voucher participants be “mainstreamed” into the general pool of first-time homebuyers and not feel stigmatized by the voucher subsidy. NHS also believes that group sessions are generally more effective than individual counseling because households participating in the group sessions tend to motivate each other and challenge each other to address the issues—such as poor credit and fear of working with a lender—that may be holding them back.

Pre-Purchase Counseling

LMHA requires that participants complete four two-hour homeownership classes and one shorter class on the specifics of the voucher program. NHS staff lead the first four classes and LMHA’s Homeownership Manager leads the fifth class.

NHS staff also meet one-on-one with participants to assess their purchasing power and, if necessary, develop an action plan to address any credit, income, or employment issues that affect their ability to purchase.

Following the five classes, NHS staff meet with voucher participants individually to reevaluate their purchasing power and credit situation. Participants with sufficient income to meet the voucher program requirements and reasonable credit are encouraged to apply for a second mortgage loan through NHS (for the amount of the voucher subsidy) and meet with a lender of their choice to pre-

qualify for a first mortgage. NHS does not require participants to use a specific lender for the first mortgage, but provides a list of recommended lenders to program participants and educates participants about predatory lending practices.

Participants who are not able to qualify for a mortgage right away and need more time to develop a work history or repair their credit set up an action plan with NHS staff to work on these issues. NHS staff maintain contact with these households over the months or years that it may take them to qualify for a mortgage and provide status updates to LMHA's Homeownership Manager. NHS's goal is not necessarily to get as many people into homeownership as quickly as possible, but rather to offer training and build budgeting skills that will help all clients to move toward financial stability, whether or not they are able to purchase a home in the near term.

Home Search and Inspections

Neither NHS nor LMHA provides search assistance to program participants as they look for a house to purchase. As part of the pre-purchase homeownership counseling, however, NHS provides guidance on selecting and working with a realtor. NHS and LMHA also provide participants with listings of houses that have been built or redeveloped by nonprofit organizations (including NHS) for purchase by low- to moderate-income first-time homebuyers. These houses are mainly located in the city of Toledo, in neighborhoods targeted for revitalization. In all cases, NHS discourages program participants from starting to look for a house to purchase until they have qualified for a mortgage and have a clear sense of what type of house they can afford.

Pre-purchase HQS inspections for the homeownership program are done by the inspections staff for the rental voucher program. There is nothing different about the process for the homeownership program, except that there may be a shorter window of time in which the inspection needs to take place, which requires close communication between LMHA's Homeownership Manager and the inspection staff. The HQS inspection typically takes place prior to the independent inspection so as to save the participant the cost of the independent inspection should the unit not pass HQS and the seller refuse to make the necessary repairs. The participant is encouraged to accompany both the HQS inspector and the independent inspector to learn about potential problems and maintenance issues. The program participant interviewed for this case study had participated in the independent inspection and had found it enlightening, even though she had been living in the house as a renter for six years.

LMHA's Homeownership Manager and Housing Choice Voucher Program (HCVP) Director review the independent inspector's report to ensure that the house is not likely to require significant maintenance within five years. The HCVP Director ultimately approves the sale.

Financing Model

LMHA modeled its voucher homeownership after the program developed by Nashville's Metropolitan Housing and Development Agency, one of the original pilot sites in NR's voucher homeownership demonstration. Nashville adopted a two-mortgage model in which the purchase is financed by a first mortgage based on the participant's own income and a second mortgage based on the HAP provided by the housing agency. Many of the NR demonstration sites have adopted this model because the NeighborWorks organizations with which they partnered for the demonstration—in LMHA's case this is NHS—receive capital from NR and other sources to make the second mortgage loans.

LMHA and NHS review all purchase transactions to ensure that they meet the program's affordability standards. For the first mortgage, LMHA requires that program participants obtain a conventional or FHA-insured 30-year fixed rate loan, with a competitive interest rate and fees. Adjustable rate mortgages, balloon mortgages, and seller financing are prohibited, and the principal, interest, taxes and insurance (PITI) on the first mortgage must not exceed 29 percent of the participant's monthly income.

Participants obtain a second mortgage loan from NHS based on the voucher subsidy, up to a maximum of \$25,000. This mortgage is a fixed rate mortgage at an interest rate set by NHS (the two households that have purchased through the program received rates of 6.5 percent and 7.0 percent). For non-elderly, non-disabled households, the mortgage has a 10-year term, and the maximum monthly payment allowed is 60 percent of the estimated monthly HAP.² Basing the mortgage on a fraction of the total HAP reduces the participant's purchasing power but also reduces NHS's exposure.

Sample Purchase Transaction

Buyer's Annual Income: \$11,300

Costs to Buyer:

- Purchase Price: \$43,000
- Closing Costs: \$2,300

Sources of Financing:

- 1st Mortgage: \$29,000 (7.5% 30 yrs., private lender)
- 2nd Mortgage: \$14,290 (6.5%, 10 yrs., NHS)
- Buyer Cash Down: \$2,010

Monthly Mortgage Payments:

- Total monthly PITI on 1st mortgage: \$268
- Monthly HAP to offset PITI on 2nd mortgage: \$273
- Buyer's share of monthly PITI: \$117
- Buyer's share of PITI as a percent of gross monthly income: 29%

For elderly or disabled households, the maximum monthly payment allowed for the second mortgage is 80 percent of the estimated monthly HAP and has a 15-year term. The more generous mortgage terms are allowed on the assumption that these households are likely to experience fewer fluctuations in income. NHS would like HUD to allow PHAs to fix the amount of the HAP for 10 years. This would reduce NHS's risk and allow the maximum monthly payment on the second mortgage to equal the full amount of the monthly HAP.

LMHA and NHS favor the two-mortgage model for several reasons. First, they believe that the model allows the participant to build equity more quickly than a single mortgage model, because the second mortgage is paid off within 10 years. Second, being the second mortgage lender gives NHS an opportunity to build an ongoing relationship with program participants and to intervene if there are problems with the house or with making the payments on the first mortgage. For example, the first mortgage lender is required to notify NHS if the participant misses a payment on the first mortgage. This gives NHS an opportunity to offer the participant counseling if needed. In addition, the closing documents give NHS the right of first refusal on the house in the event of resale or foreclosure. Finally, LMHA and NHS hope that the two-mortgage model will encourage private market lenders to provide first mortgages to program participants, because the second mortgage reduces the loan-to-value ratio for the first mortgage to 60 to 70 percent.

² For non-elderly, non-disabled families, the term of the HAP is also 10 years under this model. As stated in the final rule, except for elderly and disabled families, voucher homeownership assistance may only be paid for a maximum period of 15 years if the initial mortgage incurred to finance purchase of the home has a term that is 20 years or longer. In all other cases, the maximum term of homeownership assistance is 10 years.

One challenge of the two-mortgage model is that it is capital intensive. As of April 2002, NHS had not been able to sell the two loans it made through the program. Although the \$25,000 loan cap and the shortened loan term reduce NHS's exposure, NHS will eventually run out of capital to make loans to program participants unless it can sell the loans on the secondary market. With only two closings to date, this is not yet a major concern for the program, but LMHA's Homeownership Manager has nevertheless begun to explore other sources of capital to fund NHS's loans.

In addition to providing second mortgage loans, NHS can assist voucher homeownership program participants to obtain down payment assistance from a number of sources. LMHA requires program participants to make a down payment of at least three percent of the purchase price, at least two percent of which must come from the participant's personal resources. If the participant receives more than \$3,500 in down payment assistance, however, the participant only needs to pay one percent of the purchase price out of his/her own funds.

The first purchaser in Toledo's program had about \$2,000 in her FSS escrow account that she used to make a down payment equal to five percent of the purchase price. She did not receive additional down payment assistance. The second purchaser, who bought a home built by NHS in a revitalization area of the city, received a \$14,000 grant from the City of Toledo, a \$10,000 grant from Allstate Insurance, and a \$3,000 grant from Catholic Charities. His overall down payment equaled 40 percent of the purchase price, of which two percent came from his own funds.

LMHA also encourages program participants to open an Individual Development Account (IDA) through the Toledo Fair Housing Center. Participants can access the IDA funds for a down payment on a house or, if they have already purchased, for house repairs or to get out of a predatory lending situation. The Fair Housing Center has begun to recruit participants actively to the IDA program; LMHA's Homeownership Manager also hands out flyers and contact information for the program at the fifth homeownership counseling class.

Post-Purchase Activities

After program participants have purchased, they must complete an additional eight hours of homeownership counseling. This counseling will be provided by NHS and will include classroom training on budgeting and credit, a three-hour session on home maintenance done in a model house owned by NHS, and an additional one-on-one session. Thus far, neither of the two purchasers have completed this training.

In addition to post-purchase counseling, LMHA requires that participants have bi-annual HQS inspections for the first two years after closing. The inspections are done by LMHA's inspection staff and are primarily an opportunity for LMHA to check that program participants understand the maintenance needs of their houses and are taking steps to ensure that the houses do not fall into disrepair. If a unit fails the post-purchase HQS, LMHA will contact NHS, who will use their position as the second mortgage holder to encourage the household to come in for additional counseling. NHS will also work with the household to access whatever sources of funding may be available for maintenance. For example, NHS offers a weatherization program, which the first program purchaser used to repair her furnace. LMHA does not formally require program participants to save a set amount each month for repairs and maintenance, but NHS stresses the need to budget for ongoing maintenance expenses and occasional replacement items in its pre-purchase and post-purchase homeownership counseling.

LMHA and NHS share responsibility for tracking participants' payment of the first mortgage. At the time of annual reexamination for the voucher program, homeownership participants must provide documentation that they are current on their mortgage payments, taxes, and utilities. In addition, first mortgage lenders are authorized (and encouraged) to contact NHS if a program participant is 15 days late on a payment. If LMHA or NHS finds out that a participant is having trouble making his/her mortgage payments, the participant will be referred to NHS for additional counseling and other intervention as needed. Finally, participants facing foreclosure may deed the house to NHS in lieu of foreclosure.

Post-Purchase Activities

- LMHA requires that participants complete eight hours of post-purchase counseling through NHS.
- LMHA conducts HQS inspections every six months for two years to educate purchasers further about maintenance issues.
- Participants authorize lenders to contact NHS if they are 15 days late on a mortgage payment.

Program Management, Staffing, and Partnerships

LMHA's partnership with NHS has played a key role in the development and ongoing operations of the voucher homeownership program. LMHA initially considered partnering with other housing counseling agencies, but discovered early on that NHS was the most qualified to provide the counseling and was in a unique position to offer second mortgage loans to program participants. The partnership between LMHA and NHS unofficially began when LMHA's Executive Director and Homeownership Manager and NHS's Executive Director visited Nashville in October 2000. In addition to providing an opportunity to learn first-hand about a successful voucher homeownership program, the visit to Nashville gave LMHA and NHS access to policies and procedures documents that Nashville's Metropolitan Housing and Development Agency had already prepared for the program. LMHA officially partnered with NHS in December 2000 and the two agencies have since shared the duties of running the program.

LMHA's Homeownership Manager is the main point of contact for program participants and is responsible for marketing the program to potential homebuyers, determining their initial eligibility for the program, and scheduling orientation sessions. He also runs one of the homeownership classes and works closely with other LMHA staff to arrange the HQS inspection, the release of FSS escrow account funds, and the initiation of HAP payments. Staff from NHS work closely with program participants from the orientation onward: providing most of the pre-purchase counseling; screening participants for program eligibility (in conjunction with LMHA staff); assessing how much they can afford; working with the first mortgage lenders; and originating, underwriting, and servicing the second mortgage loan. NHS also conducts the post-purchase counseling and maintains ongoing contact with participants after they purchase.

The partnership with NHS has allowed LMHA to devote a relatively modest amount of staff resources to the program. LMHA's Homeownership Manager, who has primary responsibility for the program, spends about 20 percent of his time on the program. The remaining 80 percent of his time is spent working on LMHA's Turnkey III program and housing development initiatives. Thus far, his position has been funded through LMHA's operating budget, but in the future LMHA hopes to fund the position through the proceeds of the Turnkey III program. In addition to the Homeownership Manager, staff from LMHA's HCVP Department perform specific tasks related to the voucher homeownership program, such as verifying participant eligibility, conducting pre- and post-purchase

HQS inspections, reviewing the results of the independent inspection, and conducting annual reexaminations. Finally, LMHA's FSS Coordinator must work with the Homeownership Manager to ensure that potential homebuyers become enrolled in FSS, and that those who purchase officially graduate from the program and access the funds from their escrow accounts prior to closing. With only two purchases so far, the program has not added significantly to the workload of LMHA's HCVP or FSS staff, but this may change as the volume of closings increases.

NHS staff estimated that voucher program participants represent approximately one third of their client base for counseling and loan services. NHS staff report that working with voucher participants is more time-consuming than working with other first-time homebuyers because voucher participants tend to have more significant credit issues and in some cases require more "hand holding" through the counseling and home search process. Clients that come to NHS for counseling and loans without additional assistance are typically more prepared to purchase than voucher participants. NHS staff have also had to work more closely with the first mortgage lenders for voucher participants than for non-assisted borrowers because of the lenders' lack of familiarity with the program. NHS's three counseling staff and Executive Director estimate that they spend 40 to 50 percent of their time with voucher program participants, amounting to slightly less than two full-time equivalent staff. As of May 2002, NHS staff had counseled almost 200 voucher program participants. Taken together, LMHA and NHS contribute the equivalent of slightly more than two full-time staff to the program.

LMHA's Homeownership Manager believes that LMHA would not be able to offer the voucher homeownership option without the partnership with NHS. The level of staff effort required to administer the program and the expertise required to deliver an effective homeownership counseling component exceeded what LMHA alone was willing and able to commit to the program.

Program Staffing

LMHA devotes 20 percent of one full-time staff person to administering the program. NHS devotes the equivalent of about two full-time staff to the program. LMHA would probably not offer the program without the partnership with NHS because of the level of staff effort and expertise that would be required.

Because of NHS's contributions to the program, the partnership between LMHA and NHS is more complex than a contractual relationship between a PHA and a housing counseling agency. In particular, LMHA's Homeownership Manager describes it as a relationship in which each entity has its own area of expertise and needs the other in order to be able to offer the program. This level of partnership puts a premium on communication between the two agencies and on working through problems as they arise. LMHA's Homeownership Manager noted that he is in almost daily contact with NHS's Executive Director via telephone and e-mail and receives a formal update from NHS on the households undergoing counseling on a monthly basis.³

Over the past year, LMHA and NHS have worked through areas of potential conflict such as the level of down payment required of program participants, the interest rate on NHS's second mortgage loans, and the target population for the program. The current challenges facing LMHA and NHS include how to increase the number of households purchasing through the program without "pushing" people into homeownership and how to ensure that sufficient capital will be available to make second mortgage loans to participants as the program grows.

³ NHS maintains a database of participants who have received counseling through the program that notes where they are in the process, the size of the mortgage they will be able to afford, and whether there are any income, employment, or credit issues that they will need to address before purchasing.

Program Outcomes

LMHA and NHS have devoted substantial staff time and resources to the voucher homeownership program over the past year. Since March 2001, they have held seven program orientations and counseled almost 200 households. Two households have purchased houses through the program and between 60 and 70 households are at various stages of pursuing homeownership. LMHA and NHS are satisfied with the number of households going through homeownership counseling but concerned that only two have been able to purchase. Originally, LMHA and NHS had estimated that 20 to 30 households would purchase in the first year of the program.

It is not clear why so few voucher participants have been able to purchase through Toledo's program. However, several factors may be coming into play. First, LMHA offers several homeownership options for participants in its public housing and voucher programs, including affordable homeownership units that the agency has developed using the revenue generated from its Turnkey III program and through a partnership with Habitat for Humanity. It is possible that good candidates for voucher homeownership have been attracted to these programs, which are better established and possibly allow households to purchase more quickly than the voucher program. At least three voucher homeownership candidates who completed counseling with NHS chose to purchase houses without the voucher subsidy. These purchasers had incomes of approximately \$13,600, \$14,000, and \$18,600. LMHA does not place a particular priority on which program households use to purchase. If a participant in LMHA's rental voucher program completes homeownership counseling with NHS and buys a good quality unit at affordable (i.e., non-predatory) mortgage terms, it is considered a successful outcome, whether or not the participant continues to receive the voucher subsidy.

Program Outcomes

- Number of households counseled: 199
- Number of homes purchased: 2
- Average income of purchasers: \$12,183
- Average purchase price: \$56,500
- Instances of loan default: 0

The second issue that may help to explain the low number of closings through the program to date is that LMHA has not found lenders willing to offer first mortgage loan products with flexible credit guidelines. Early on, LMHA and NHS hosted an informal lunch for lenders to explain the program. LMHA has also sent flyers to lenders highlighting the benefits of the program (primarily the reduced risk because of the second mortgage) and has met with lenders on an individual basis. Thus far, however, these outreach efforts have not led to creative lender partnerships. According to LMHA, lenders have thus far been reluctant to discuss loan products tailored to voucher participants because they perceive the loans as unprofitable and are concerned that the loans cannot be sold on the secondary market. LMHA has recently reached out to Fannie Mae to help resolve these lender issues.

In addition to competition from other homeownership programs and the lack of lender support, LMHA has struggled with the poor credit of program applicants. LMHA and NHS did not anticipate that poor credit would be a major problem for FSS participants with sizeable escrow accounts as well for the lowest income applicants. Of the 60 or so households undergoing homeownership counseling at the time of the site visit, over half had significant credit issues to address before they could qualify for a mortgage.⁴ As of May 2002, however, approximately 14 households were ready to seek out a first mortgage lender, and LMHA anticipated a "bubble" of closings over the next six months.

⁴ Based on the database of program participants provided by NHS at the time of the site visit.

Overall, however, LMHA and NHS have been concerned by program applicants' inability or unwillingness to follow through on homeownership counseling and long-term credit repair.

The two participants who have purchased through the program purchased different kinds of housing units in similar neighborhoods. The first purchaser, interviewed for this study, bought the two-bedroom house that she had been renting for six years for \$43,000. The house is located in an older neighborhood in Toledo close to a large park and within the jurisdiction of one of the better public schools in the area. The house did not pass the initial HQS inspection and required a number of minor repairs that were paid for by the seller. The participant looked at other units before deciding that this house was the best that she could afford. At the time of the interview, her monthly mortgage payment was approximately 29 percent of her gross monthly income, and she occasionally worried about her ability to pay for maintenance and repairs on the house. Overall, however, she was extremely happy with the purchase and planned to stay in the house for the rest of her life.

"Sometimes I get worried that I am paying a bit more now than I was in rent, but I worked out a system so that I know that even if I don't get my child support one month, I will be OK. It's worth it for me to pay a bit more. The house is mine and I can do what I want with it. I am so proud that I feel like my chest is about two feet out because I did it myself."

- LMHA program participant

The second purchaser bought a two-bedroom house that was built in 2000 by NHS. The price of the house was \$70,000 after a \$30,000 write-down from the City through the HOME program. It is located in a neighborhood in Toledo that is targeted for revitalization and stands out as the nicest house on the block. The purchaser, who is a person with a disability and has an annual income of approximately \$14,000, received \$27,000 in grants toward the purchase. As would be expected with a newly built unit, the house passed HQS on the first inspection.

LMHA's Homeownership Manager anticipates that most voucher homeownership participants will purchase older houses (i.e., built before 1930) that are in good condition. Alternatively, they may buy houses recently built or rehabilitated by community development corporations. It is likely that most participants will purchase in Toledo, as housing in the more upscale suburban communities is generally unaffordable to voucher participants, even with the voucher subsidy. Overall, LMHA's Homeownership Manager expects that most program participants will be able to afford better quality units in better neighborhoods than they lived in as renters, but that some households may have to downgrade slightly in order to purchase.

NHS and LMHA anticipate that most participants will purchase houses in the \$40,000 to \$80,000 range. As a result of the population loss that Toledo has experienced over the past decade, there are plenty of units available in that price range. However, many of the units require substantial repairs. As a result, LMHA is interested in learning how to combine the voucher homeownership program with FHA's 203(k) loan program, which allows buyers to purchase houses needing substantial repairs by incorporating the cost of the repairs into the financing. LMHA believes that this would open up additional choices for program participants. However, at present program staff do not view the condition of the housing stock as a significant barrier to the growth of the program.

Lessons Learned

LMHA’s program, while well developed in many ways, continues to face obstacles that are resulting in a slower pace of purchases than anticipated. LMHA is concerned that only two households have been able to purchase through the program. As mentioned, LMHA and NHS did not anticipate that poor credit would be such a significant problem for program applicants, given their initial focus on higher income FSS participants. The fact that LMHA has other homeownership options to offer its clients may limit the pool of households available to purchase through the voucher program, particularly if the most prepared participants buy through other programs. LMHA and NHS expect that with 14 clients ready to go to lenders, the volume of closings will increase significantly over the next six months. This influx of mortgage-ready participants will test the commitment of local lenders to the program. Gaining the participation of a broader group of lenders willing to offer first mortgages to program participants is critical to the success of the program.

LMHA and NHS staff offered the following advice to PHAs considering the voucher homeownership option:

- ***Anticipate that program applicants may require six months to two years of counseling and credit repair before they will be ready to purchase.*** Program staff should be aware that poor credit can result in attrition among program participants who get discouraged about their ability to qualify for a mortgage and a lag in the number of closings for the first year or so of the program. PHAs may attempt to mitigate these problems by targeting recruiting strategies to the most prepared households and/or by recruiting a sufficient number of households to the program to ensure that there are always households “in the pipeline” working toward homeownership.
- ***Open and frequent communication among the program partners is essential to developing a strong program.*** In order for the partnerships to be most effective, the different partnering entities need to leverage each other’s particular expertise and also respect each other’s organizational needs and priorities. The partners also need to set up the mechanisms—such as daily e-mails and regular meetings—to communicate freely and work through problems as they arise.

Toledo Program Summary	
Number of homes purchased:	2
Average income of purchasers:	\$12,183
Average purchase price:	\$56,500
Average monthly HAP payment:	\$209
Financing Model:	Two-Mortgage
PHA Program Staffing:	0.2 full-time staff equivalent

State of Vermont

Vermont State Housing Authority

Introduction

The Vermont State Housing Authority (VSHA) began its voucher homeownership program as one of the HUD-approved pilot sites in early 2000. The VSHA runs a statewide voucher homeownership program by partnering with five nonprofit Home Ownership Centers (HOCs), which are affiliated with the Neighborhood Reinvestment Corporation (NR).¹ These HOCs are located across Vermont and provide counseling and financing coordination.²

The VSHA administers approximately 3,100 housing choice vouchers across Vermont, and eight local PHAs together administer an additional 2,400 vouchers in the state.³ The VSHA is willing to partner with all local PHAs so that voucher participants in these PHAs also have access to the voucher homeownership program. The VSHA will provide materials, systems, and set-up to local PHAs in Vermont who wish to offer the homeownership option. The local PHAs can run the program themselves or pay an administrative fee to the VSHA to provide assistance. The VSHA also allows voucher program participants from local PHAs who do not wish to offer the homeownership program to port in to VSHA's homeownership program. The VSHA currently has active partnerships with the Montpelier and Springfield PHAs for the voucher homeownership program. In Montpelier, for example, the VSHA has provided a good deal of technical assistance to Montpelier PHA staff, helping them to modify VSHA program forms and materials to suit local needs. When the first Montpelier program participant purchases a home, that PHA will pay a fee to the VSHA for their administrative assistance, a kind of fee-for-service system.

VSHA began operating the voucher homeownership program in April 2000 under HUD's proposed rule but subsequently changed to the final rule. As of May 2002, 15 program participants had purchased houses throughout the state. VSHA's program is distinctive for its statewide nature and the way it has offered the program to local PHAs. The program is spread out geographically and includes a number of purchases in small towns, villages, and rural areas. The financing of home purchases in VSHA's program includes subsidies available from Rural Housing Service, the Vermont Housing Finance Agency (VHFA), and local Land Trusts. The main challenges for this program are

¹ Program staff interviewed during this site visit included the Executive Director, the Housing Choice Voucher Program Director, and the Home Ownership Program Coordinator at the VSHA. The Executive Director of the Montpelier Housing Authority was also interviewed, as were representatives from the Gilman Housing Trust and Rural Housing Service. All client-level data came from VSHA voucher program participants.

² The Burlington PHA has its own, separate voucher homeownership program that also began as a HUD-approved pilot. The Burlington HOC provides counseling to voucher program participants for both the Burlington PHA and the VSHA.

³ The eight local PHAs in Vermont are located in Barre, Bennington, Brattleboro, Burlington, Montpelier, Rutland, Springfield, and Winooski. The Burlington PHA, the largest of the eight local Vermont PHAs, administers about 1,300 of the 2,400 vouchers allocated to the local PHAs. Note that the VSHA's jurisdiction is the entire state of Vermont minus the City of Montpelier, so except for the Montpelier PHA, the jurisdictions of the local PHAs all overlap with the jurisdiction of the VSHA

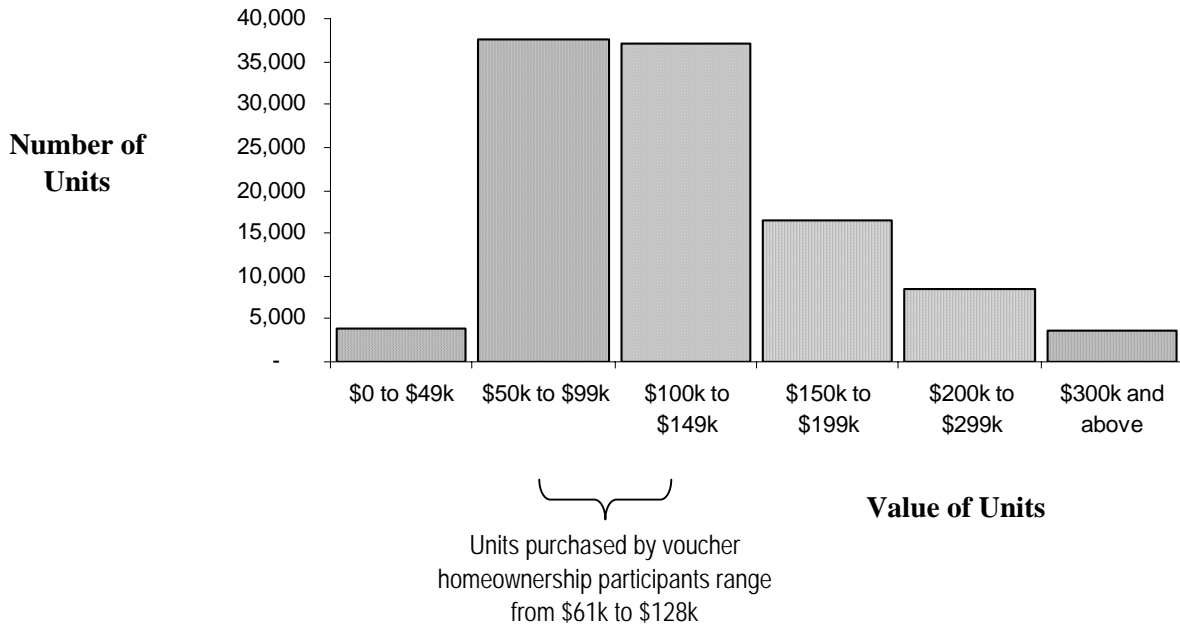
the limited amount of affordable housing in the state and the task of preparing households for homeownership.

Housing Market Conditions

The state of Vermont includes a range of housing markets, some very affordable and some more expensive. According to the 2000 Census, the median house value for the state as a whole was \$115,288, about 4 percent lower than the national median of \$119,600. However, in some parts of the state, such as the city of Burlington, housing prices are higher. The median house value in 2000 in Burlington was \$135,000 and house prices in and around the city have been increasing in recent years. In the more expensive parts of the state, the availability of below-market financing and significant write-downs is critical to voucher homeownership participants' ability to purchase.

The condition of the affordable housing stock in Vermont is also highly variable, with a number of the older homes needing lead-based paint abatement. Program staff report that there is housing stock available in good condition in the \$80,000 to \$100,000 price range, but there are also many similarly priced units in bad shape. Thus far, VSHA program participants have purchased houses ranging in price from \$60,500 to \$128,000, with an average purchase price of \$89,555, based on a sample of 10 purchase transactions.⁴ The chart below presents data from the 2000 Census on the number and value of owner-occupied housing units in the state of Vermont. Almost three-quarters of the units in the county (73 percent) are valued below \$150,000, and approximately 39 percent are valued below \$100,000.

Value of Owner-Occupied Units in Vermont State, Based on 2000 Census



⁴ The financing for the \$60,500 house included no write-downs. The financing for the \$128,000 home included a \$20,000 Land Trust grant and a \$39,000 estate gift.

Program Design

Targeting and Outreach

VSHA makes the homeownership option available to existing participants in its rental voucher program and to households admitted to the voucher program from the waiting list who meet the basic eligibility requirements set out in the final rule. Existing voucher program participants must be in good standing with the voucher program and the PHA.

The VSHA works with the five Home Ownership Centers (HOCs) across the state that provide the counseling for the program to identify when new voucher homeownership candidates can be admitted to the program. When one of the HOCs is ready to counsel new clients, VSHA program staff send a letter to all voucher program participants in the HOC's jurisdiction describing the program. In order to offer the program to as many potential homebuyers in the area as possible, VSHA does not limit the mailings to voucher program participants who meet certain income or employment thresholds.

Target Population and Outreach Methods

Vermont's homeownership option is available to new or existing voucher program participants who are in good standing with the VSHA or with the local PHA administering their voucher.

Each HOC notifies the VSHA when they have the capacity to take on new program participants. The VSHA then markets the program via mailings sent to all voucher program participants in the counties covered by the jurisdiction of the HOC.

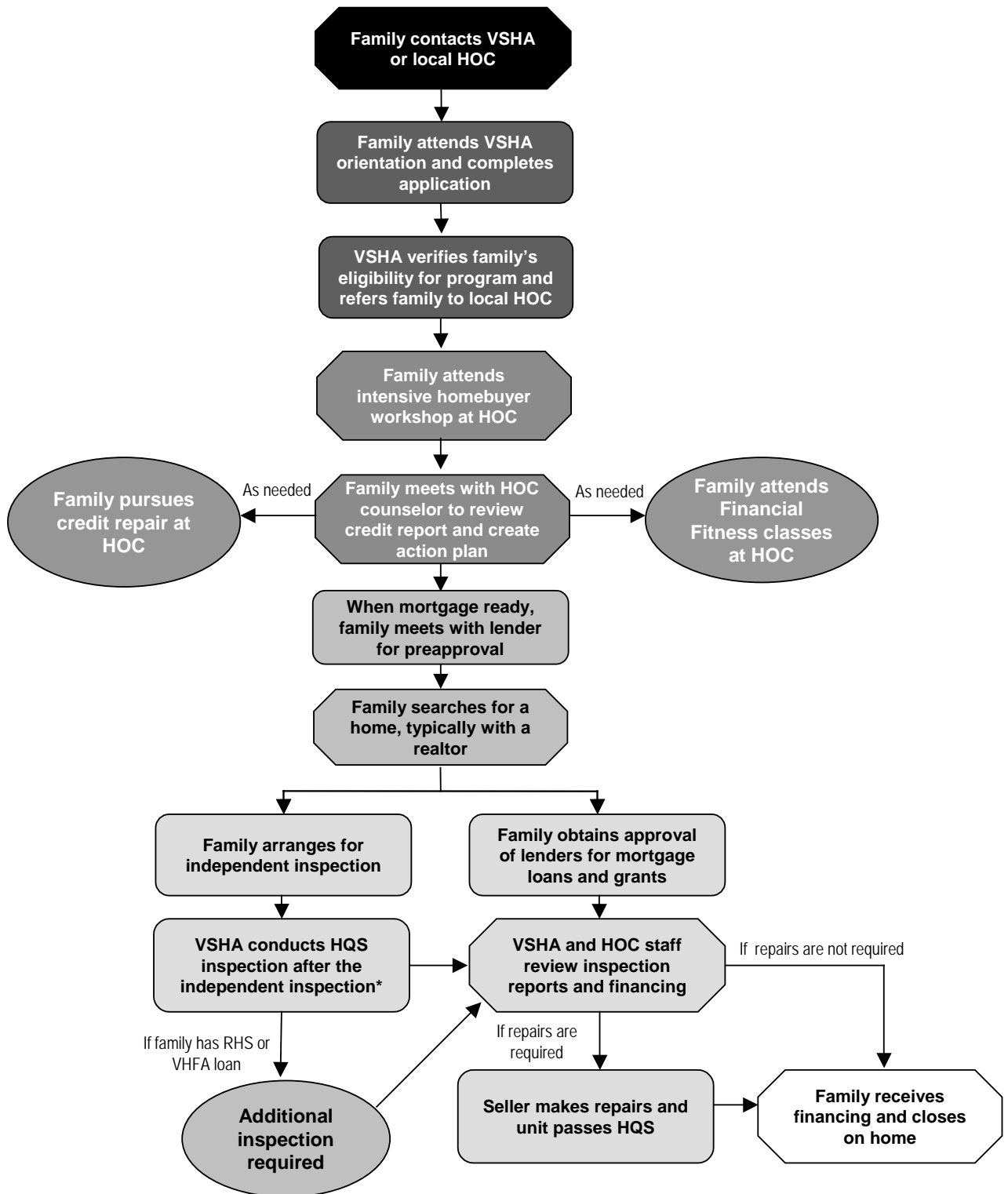
The VSHA has sent recruitment mailings in four areas in the state, and has recruited twice in one area thus far. The Program Coordinator estimates that the response rate to the mailings is about 10 percent. In addition, program applicants hear about the program through word of mouth. Interested households are invited to attend a group orientation about the program or, in some cases, simply contact the Homeownership Coordinator at the VSHA and complete a questionnaire and mutual release form for information-sharing. VSHA refers households that meet the program's basic eligibility criteria to the HOC that serves their area for homeownership counseling.

The HOCs also conduct more passive recruitment by screening walk-in clients for housing choice voucher program eligibility. One of the local PHAs also screens clients for eligibility during annual reexaminations. The clients who walk in to the HOCs reportedly have a wide range of preparedness for homeownership. Many program participants come in with credit problems and need from six months to two years of credit repair and saving before they will be mortgage-ready. According to VSHA staff, the HOCs are very good at working with a variety of people and are prepared to assist clients for as long as it takes to get them ready for homeownership. Gaining financial literacy is a big step for many clients.

Homeownership Counseling

The counseling component of this program is provided by the five HOCs around the state. A minimum of eight hours of homebuyer training is required. All of the HOCs integrate voucher program participants with other clients in their classes. VSHA's administrative plan stipulates that the following topics be covered during homebuyer training: maintenance, budgeting, credit counseling, financing, home search, neighborhood search, and predatory lending. The HOCs use training materials developed by either NR or Fannie Mae. Because a number of clients have to drive a significant distance to attend the homebuyer training, group sessions are often held over one

Vermont State Voucher Homeownership Purchase Process



* Vermont program staff are rethinking their policy of conducting the HQS inspection after the independent inspection and may recommend that the HQS inspection take place first.

weekend day. VSHA staff report that the HOCs provide relatively uniform counseling to all participants.

After completing the homebuyer training, clients typically attend a one-on-one follow-up session to review their credit report and create an action plan.⁵ Some clients require a number of one-on-one sessions. According to HOC staff, many clients need support through the process of credit repair. According to VSHA staff, several HOCs want to start homebuyer clubs to support clients who will need more time to prepare for homeownership. The Lyndonville HOC is hoping to implement a financial fitness course to teach financial basics to longer-term participants and to help maintain their interest in the program. A certificate showing completion of the counseling component is only issued by the HOCs once the household has the income and credit to qualify for a mortgage.

Pre-Purchase Counseling

VSHA requires all participants to complete at least eight hours of homebuyer education delivered by the HOCs in group sessions. Most clients then have individual sessions with HOC counselors after completing homebuyer education. These sessions help clients establish a plan for saving and credit repair.

Home Search and Inspections

Most clients enlist the help of a realtor to find homes to purchase. VSHA staff report that one of the benefits of the statewide program is that clients are not constrained in their home search by geographic limits of the voucher. The ability to search across Vermont is helpful because of the lack of affordable housing in many areas. HOC staff interviewed reported that some of their clients have been looking for a home for a year or more, but this does not appear to be the norm. VSHA does not place a strict limit on search time for voucher homeownership candidates because program staff recognize that homeownership candidates may need more time than the 120 days given in the rental voucher program.

Because of the variability in the condition of the housing stock, program staff see the inspection process as critical. Program participants typically arrange for an independent inspection prior to VSHA's HQS inspection to identify significant problems.⁶ In general, clients use independent inspectors referred by the HOC. In addition, a number of the HOCs have inspectors on staff, who have conducted inspections in this program. VSHA staff report that they have had home purchases fall through because the independent inspector identified too many significant repairs.

HQS inspections are conducted by regional VSHA housing choice voucher program staff that provide full services to all voucher program participants including lease-ups, HQS inspections, income reexaminations, and coordination of any social services. The staff conducting HQS inspections are typically very familiar with the voucher program participants and are able to offer them candid advice about the home being inspected. VSHA staff report that there are regularly minor HQS failures on the homes inspected for purchase in this program. Common problems include the need for fire extinguishers, new lights, new railings, and ground-fault circuit interrupter (GFCI) outlets.

⁵ Given the dispersed nature of VSHA's program, we could only interview staff from one of the five HOCs (the Gilman Housing Trust in Lyndonville) during the two-day site visit.

⁶ Program staff in Vermont are currently rethinking their policy of conducting the HQS inspection after the independent inspection and may recommend in some cases that the HQS inspection take place first.

A separate inspection needs to be conducted in order to use Rural Housing Service (RHS) and VHFA loan products. Because borrowers in VSHA's program almost always use at least one of these loan products, the properties considered for purchase are typically inspected three times by different parties.

If the unit passes HQS but additional repairs are required by RHS, the sellers do not necessarily take care of these repairs. RHS will roll a rehab escrow into the mortgage as long as the increase in the mortgage amount is reasonable given the appraised value of the home. Usually these rehab escrows need to be used within 30 to 90 days after closing. RHS staff inspect the property after the repair is completed to approve the work.

Financing Model

The lenders currently working with the VSHA program consider the voucher subsidy as income when underwriting the multiple mortgages used to finance home purchases. Borrowers typically use below-market financing products available through RHS and the VHFA. The voucher program HAP is paid directly to the borrower, and the borrower is responsible for sending checks to both the RHS and VHFA loan servicers.⁷

Rural Housing Service's Section 502 Direct Loan Program, commonly known as the Section 502 loan program, is available in all areas of Vermont except for parts of Burlington, which are not classified as rural. The Section 502 loan program offers 33-year mortgages with a subsidized interest rate based on the borrower's income. The lower the borrower's income, the greater the subsidy and the lower the interest rate. The subsidized interest rates for borrowers in the lowest income bracket begin at one percent. The borrower's income is examined every two years during the loan term and the interest rate is adjusted accordingly. As the borrower's income increases, the interest rate is adjusted up to a ceiling of 6.25 percent (as of April 2002). For the purposes of the interest rate calculation, Section 502 loans do not count the HAP as income during the income examinations.

Rural Housing Service Section 502 Direct Loan Program
<ul style="list-style-type: none">• Available to low and very low income households to purchase in rural areas• Loan term is 33 years (38 for very low income households who cannot afford the 33-year term)• Interest rate determined by household income as a percentage of the area median income• There is no required down payment• Properties must meet RHS's site standards

Although Section 502 loans significantly increase buying power with the availability of subsidized interest rates, they also limit equity accumulation for the borrower. The Section 502 direct loan product has a recapture provision such that when the house is sold, the lesser of the following two amounts must be repaid to RHS: the total subsidy received in the form of a subsidized (reduced) interest rate, or half of the appreciation in value of the home between the time of purchase and the time of resale.

Program staff were not especially concerned about the limits in equity accumulation posed by Section 502 loans for two reasons. First, if the borrower is working toward self-sufficiency, they are not likely to be subsidized through RHS for long. As the borrower's income increases over the life of the loan, the subsidy will decrease. In addition, program staff report that borrowers with Section 502 loans are encouraged to refinance in the conventional market when their income, debt and credit

⁷ RHS and VHFA have the option to request that the HAP be paid directly to them, but thus far, neither agency has done so.

rating allows them to do so, limiting the amount of subsidy received from RHS. For elderly purchasers or purchasers with disabilities who may not be working, the lack of equity may be the tradeoff for the economic and social stability gained from owning their own home. One of the purchasers interviewed during the site visit explained that the recapture provisions associated with her RHS Section 502 loan were worth it given the loan's low interest rate and the house she was thus able to buy.

Although RHS Section 502 direct loans can provide up to 100 percent financing, they are usually leveraged with other loans from public or private lenders. RHS staff explained the multiple benefits of leveraging loans. The borrower gets a slightly lower interest rate on their Section 502 loan if it is leveraged with other loans. In addition, making smaller loans to borrowers allows RHS funds to benefit more households.⁸ Lastly, having more than one loan builds a more significant credit history for the borrower. The RHS loans for purchases in this program are typically in second position and represent about 80 percent of the total amount borrowed. The RHS loans are in second position because RHS is willing to subordinate itself to other amortized loans in order to encourage lender participation.

Mortgages using VHFA products are typically in first position and are lent between 5.0 and 6.7 percent interest, depending on the lending product chosen. All VHFA loans have 30-year terms. For purchases financed by both VHFA and RHS loans, the first-position VHFA mortgages typically represent about 20 percent of the total amount borrowed.

RHS loan officers work in five regional offices across Vermont and typically originate both RHS and VHFA loans for this program. These loan officers are called circuit writers because they are "out on the circuit" working in the HOCs for one day each week, making the process of visiting a loan officer much easier for program participants. At the Lyndonville HOC, the circuit writer is very involved in the program by making a presentation on loans and financing during homebuyer training and also by providing one-on-one counseling to program participants.

Thus far, about a third of VSHA voucher homebuyers have also taken advantage of significant subsidies offered by local Land Trust programs. Land Trust subsidies are available either through down payment grants (for new properties entering the Trust) or affordably priced Land Trust sales. The down payment grants can reduce the purchase price by \$20,000 or more. Buyers of Land Trust properties technically lease the land on which the property is located for \$25 per month for 99 years

Sample Purchase Transaction	
Buyer's Annual Income:	\$15,366
Costs to Buyer:	
– Purchase Price:	\$79,900
– Closing Costs:	\$3,504
Sources of Financing:	
– 1 st Mortgage:	\$16,000 (6.3% 30 yrs., VHFA)
– 2 nd Mortgage:	\$64,000 (3.0% 33 yrs., RHS)
– Seller Assistance:	\$2,900
– Buyer Cash Down:	\$504
Monthly Mortgage Payments:	
– Total monthly PITI:	\$537
– Monthly HAP to offset PITI:	\$132
– Buyer's share of monthly PITI:	\$405
– Buyer's share of PITI as a percent of gross monthly income:	32%

⁸ Availability of RHS loan funds is a significant limiting factor in the use of this program. RHS staff report that their fall allocation for Vermont and New Hampshire is usually gone by June of the following year.

and cannot be evicted from this land.⁹ The purpose of the Land Trust is to keep properties perpetually affordable. Land Trust properties can only be sold to purchasers who fall below a certain income level.

Although the Land Trust program significantly increases purchasers' buying power, it also limits equity accumulation. Any equity the property gains while owned by the seller must be shared with the new buyer in the form of a reduced purchase price when the property is sold to preserve the property's affordability.

The NR capital funds available through the HOCs have been used in different ways to contribute to the financing deals. One HOC has used this capital to add deferred loans of \$15,000 to the financing packages. Another has added smaller loans on the order of \$5,000 at a three percent interest rate to financing packages. VSHA staff summarized that the use of NR capital funds in the financing packages varies between HOCs and is at the HOCs' discretion.

One HOC director hopes to include FHA loans in some future financing packages. FHA underwriting guidelines are reportedly more tolerant of blemishes in the borrower's credit history. An RHS staff member noted that RHS is interested in exploring leveraging possibilities with conventional lenders, as that would allow borrowers to build a relationship with a bank or credit union that might benefit the borrower with post-purchase services.

Down payment requirements vary by the loan product used. If conventional mortgages are used in this program, the buyer must pay a minimum of one percent of the purchase price as a down payment, although the loan product used might require a larger down payment. RHS loans require no down payment. VHFA loans require some money down. Other resources used to cover down payments are clients' Individual Development Accounts (IDAs). VSHA staff reported that IDAs are relatively popular in Vermont—the VSHA has a small IDA program, as do some of the HOCs. In addition, RHS loans also allow the financing of closing costs, which is helpful for many program participants.

VSHA has adopted several financing requirements in their program policies. In general, VSHA staff may reject proposed financing deals if they determine that the debt is unaffordable for the purchaser. VSHA policy specifically prohibits balloon payment mortgages (unless they are convertible to a variable rate mortgage), and seller financing is only considered on a case-by-case basis. Further, if a mortgage is not FHA-insured, the VSHA requires that the lender comply with generally accepted mortgage underwriting standards consistent with those of HUD/FHA, Fannie Mae, Freddie Mac, the Vermont Housing Finance Agency (VSHA), RHS, the Federal Home Loan Bank, or other private lending institutions.

Post-Purchase Activities

Post-purchase counseling is not currently required by VSHA's program, and the availability of post-purchase counseling varies by HOC. The Lyndonville HOC runs periodic post-purchase workshops on home maintenance, landscaping, and weatherization. Announcements for these workshops are sent to this HOC's entire client list.

⁹ At the time of the site visit, HUD regulations did not allow the monthly land lease fee of \$25 to be included as a homeownership expense that could be offset by the HAP.

The VSHA plans to conduct post-purchase HQS inspections on a case-by-case basis. VSHA staff will use the results of a questionnaire given to program participants at the time of reexamination to determine whether an HQS inspection and/or referral to an HOC for additional counseling is warranted. If conducted, the HQS inspection will primarily be an opportunity for VSHA staff to educate the purchaser about potential maintenance or repair problems. VSHA staff also reported that at annual reexaminations, staff will verify with the lender(s) that all payments are current and that previous payments have been made in a timely manner.

VSHA and its lender partners do not currently have a uniform system in place to monitor the mortgage payments of program participants. At the time of the site visit, RHS staff reported that they want to modify RHS's tracking system to be able to track loans made to voucher program participants. RHS has a nationalized loan servicing system and currently has no automated way to identifying voucher program loans within its overall pool of loans. This also means that there is no automated way for RHS to contact VSHA if there is a late payment from a program participant.

Post-Purchase Activities

VSHA does not currently require post-purchase counseling but conducts informal post-purchase HQS inspections during annual recertifications. VSHA will also verify with the lender(s) that all loan payments are current and were made in a timely manner during recertifications.

VSHA does not currently have a system in place to track program participants' mortgage payments or to receive notification in the event of a late payment.

Program Management, Staffing, and Partnerships

Early on, VSHA staff were eager to add a homeownership option for their voucher program participants. Given the lack of affordable housing in Vermont, they also saw this program as a way to free up rental units. VSHA invested significant time and energy into the program development stage. Staff report that they took a lot of time to educate all of their partners—including the HOCs, the local PHAs, RHS, and VHFA—about the program. VSHA began by partnering with two HOCs and later expanded to all five HOCs in Vermont.

Representatives from local PHAs and HOCs reported that they were pleased with all of the information provided by the VSHA. VSHA staff commented that participating organizations and agencies were enthusiastic from the beginning. One HOC director commented that this program was set up to use the HOCs' existing strengths in the areas of homeownership counseling and financing expertise—no new curricula or counseling procedures were developed specifically for this program. Because of this, the HOC sees the housing choice voucher as simply another financing resource available to some of their clients.

Staff from RHS and VHFA basically decided how they wanted the HAP payment to be treated during the development of the financing model. They were interested in treating the HAP as income, and VSHA agreed.

Since becoming fully operational, the program has required fewer staff resources at VSHA than during the design phase. VSHA's Housing Choice Voucher Program (HCVP) director now spends about five hours per week on the program. VSHA's Homeownership Coordinator works essentially full-time on this program, tracking the status of all referrals and program participants. VSHA and other partner organization staff are pleased with this centralized management model, but it is time-consuming. VSHA's Homeownership Coordinator is currently transitioning out of her former role as

Family Self Sufficiency (FSS) Program Coordinator so as to be able to focus her efforts on the voucher homeownership program.

According to VSHA staff, the number of staff working on this program at each HOC varies, but typically includes at least three people. The Lyndonville HOC has four staff involved with this program, including the HOC director and the director of homeownership programs, all of whom provide counseling to program participants. The Lyndonville HOC director estimates the total staff time spent on this program at their HOC to be about two-thirds of a full-time equivalent.

Program partners stay in regular contact via phone calls, emails and meetings. The program Coordinator at VSHA is in regular touch with the HOC staff. In addition, all Vermont PHAs and all HOCs meet quarterly.

Staff time spent on this program is funded in different ways. At the VSHA, the only sources of funding for this program are voucher administrative fees and Homeownership Coordinator funds available through the FSS program. The only source of funding for the smaller, local PHAs is voucher administrative fees, given that most of the local PHAs are too small to have their own FSS program. The HOCs receive funding from NR, as well as from the VSHA. In addition, the five Vermont HOCs received capital and administrative funding for this program from NR in April 2001.

Program Staffing

The level of effort for VSHA staff to run this program is just over one full-time equivalent. The amount of HOC staff time devoted to the program varies by HOC. The level of effort at the Lyndonville HOC is approximately two-thirds of one full-time equivalent.

VSHA is continuing to develop partnerships with local PHAs administering the voucher program across the state. Thus far, VSHA staff report that the partnerships are working well. Among the eight PHAs with which VSHA is currently working, the Winooski and Barre PHAs have decided that they will help VSHA with recruitment to the program, but will require qualified households to port-in to the VSHA to receive the homeownership voucher and associated services. The Montpelier PHA plans to administer the program itself, building on VSHA forms and technical assistance and providing a fee going to VSHA at the time of closing.

Program Outcomes

As of April 2002, there were 15 purchases in VSHA's program. Program staff are very pleased by this progress. VSHA staff report that they hope to increase the number of closings to between 30 and 40 per year. They expect to be able to do so for the next several years, but after that the rate of purchases may decrease as the pool of voucher program participants with the income, work history, and credit necessary to purchase diminishes.

Most of the houses purchased through the program had purchase prices around \$80,000. Among the sampled purchase transactions, the lowest purchase price was \$60,500 for a home located in a more remote and less expensive region of Vermont. Another house was purchased for \$61,750 as a Land Trust resale. This house had an appraised value of roughly \$80,000, but the purchase price was kept low by the resale provisions of the Land Trust program. The highest purchase price was \$128,000, but that deal also included a \$20,000 Land Trust grant and a \$39,000 estate gift. Without write-downs, the most expensive home purchased was \$105,000.

One of the homes purchased was a double-wide manufactured home, and the client was disappointed with the quality of the home after purchase. VSHA staff commented that given this experience, they now ensure that the HOCs counsel participants about issues of home quality when considering what to purchase. Except for the double-wide manufactured home, all of the homes purchased thus far were existing, single-family, detached structures. Based on properties seen during the site visit, the purchased homes are in excellent condition. VSHA staff report that, except for Burlington where the purchase neighborhoods seemed better than the previous rental neighborhoods, there are no significant differences in neighborhood quality between the rental and purchase neighborhoods for most purchasers. There have been no late payments on any mortgages thus far.

Among the 15 purchasers, two were FSS graduates. Several of the purchasers were women displaced from their previous homes as a result of divorce. Six of the current purchasers have some form of disability. Program staff report that approximately 40 percent of the participants in VSHA's voucher program as a whole are persons with disabilities. When asked about the implications of having significant numbers of persons with disabilities in the homeownership program, program staff reported that they assess the competence and preparedness of all clients for homeownership using the same criteria. All program participants have to prove their financial management ability to take on the burden of homeownership, and people both with and without disabilities have risen to the occasion. In addition, VSHA staff report that the HOCs do a good job of connecting their clients to local resources as needed.

Program Outcomes
<ul style="list-style-type: none">• Number of households enrolled: 77• Number of active participants: 62• Number of homes purchased: 15• Average income of purchasers: \$19,004*• Average purchase price: \$89,555*• Instances of delinquency: 0• Instances of default: 0
<i>*Based on a sample of 10 purchases.</i>

VSHA's HCVP director notes that there have been cases where a family would have been able to obtain a conventional mortgage with the assistance of their voucher, but were not able to participate in the program based on minimum income guidelines established by HUD. Specifically, program regulations stipulate that neither child support nor disability payments/welfare payments received by children in the household can be counted as income for purposes of achieving the program's \$10,300 minimum income criteria, even though underwriters consider these as sources of income. VSHA's program director reports that VSHA has had 10 to 15 families with disabilities who were prepared for homeownership but unable to participate in this program because they could not meet the minimum income calculation under the current regulations. The HCVP director felt strongly that the voucher home ownership program regulations should not be more of a barrier to home ownership than conventional lending criteria already are.

As of April 2002, there were 62 active program participants in various stages of the program. VSHA staff report that among the 62, 12 have completed training and will be ready for purchase within the next two months, and the remaining 50 who have not yet completed training will need a longer period of time to save and repair their credit. One HOC director reported that he sees no real difference in the preparedness of voucher program participants compared to other clients without vouchers. He said that the voucher program participants fit well with the population the HOC serves.

The two program purchasers interviewed during the site visit gave positive feedback about the program. The first interviewee received rental voucher assistance for five years before purchasing. She had dreamed of becoming a homeowner for many years and saved in an IDA program to build up a down payment. When asked which aspects of the program were challenging, the purchaser

responded that it was difficult to find a home in good condition and in a quiet, safe neighborhood occupied by other homeowners. The first two realtors she worked with showed her homes that were in poor repair, so she decided to continue her search without a realtor. She settled upon a home in a quiet neighborhood within walking distance of her granddaughter's middle school. This purchaser reported that owning a home has brought many positive changes to her life and made her feel part of the community. She explained that it provides significant stability and peace of mind to her and to her granddaughter.

The second purchaser interviewed did not use voucher rental assistance before purchase. She joined the voucher homeownership program hoping to be able to purchase a home after she and her children were displaced from their previous home as a result of divorce. Because she was new to the voucher program and because she was VSHA's first voucher homeownership purchaser, the details of the voucher program were very confusing to her and the financing process was somewhat drawn out. This purchaser also spent a significant amount of time on the home search process. She felt that she needed to find a house quickly, given rising housing prices, but many of the properties that she saw were in undesirable neighborhoods or in poor condition. Ultimately, she found a house in a safe neighborhood that suited her family's needs. Homeownership has been a great experience for her thus far, and she only wishes she could have moved in sooner. While her children are all in college, they have also reportedly benefited from having a stable home base and knowing that their mother is living in a good place.

Lessons Learned

VSHA program staff attribute much of their success to the following factors: the statewide jurisdiction of the VSHA; the portability of vouchers; the highly cooperative partnerships with the HOCs; and the availability of below-market financing for home purchasers from RHS, VHFA, and the Land Trusts. The biggest challenges that the VSHA program faces are the lack of affordable housing in the state and the task of getting people counseled and prepared for homeownership. The Montpelier PHA Executive Director particularly emphasized the income side of the housing affordability issue for program participants. She reported that the restaurant, retail, and grocery store jobs held by many voucher program participants typically do not guarantee the workers a specific number of hours per week, which makes budgeting and planning very difficult.

The Program Coordinator at the VSHA commented that the HOCs play a crucial role in bridging clients' transition to homeownership. However, VSHA staff reported that there are also some challenges to partnering with the HOCs. The HOCs are relatively small in Vermont and thus have limited capacity for providing training and one-on-one follow-up. In addition, they reportedly experienced a lot of staff turnover at one time, which impacted program administration and continuity. VSHA staff noted that the turnover issue was only a one-time concern, however, and believe the HOCs currently have adequate staff. Keeping track of a dispersed voucher program population and multiple counseling partners is challenging, but this appears to be going smoothly under the direction of VSHA's Homeownership Coordinator.

Program staff stressed that it is highly beneficial to have NR's resources and services available to this program. NR provides lending capital, training for HOC and PHA staff, and administrative funds for the HOCs. The NR homeownership counseling curriculum is also seen as a great resource. The HOC staff benefit from the technical assistance available from NR and the support of its homeownership

network. VSHA staff commented that NR’s investment in the HOCs lends uniformity to the program and helps with quality control.

VSHA staff, HOC staff, and the Executive Director of the Montpelier PHA had the following advice for other PHAs and counseling agencies considering the voucher homeownership option:

- ***Try to integrate the voucher homeownership program into existing programs.*** PHAs and partner organizations will be less overwhelmed if they do not think about this as a new program, but rather as an adaptation of existing homeownership programs.
- ***Take the time to develop and cement program partnerships.*** In addition, educate all program partners up front. VSHA staff believe that a key to their success was having the program in place and capacity available before marketing it to anyone. Otherwise, interested households can overwhelm new program staff before they really know what they are doing.
- ***Statewide programs need to have a strong network of partners.*** The networked, NR-affiliated HOCs are an excellent resource to a statewide program. Having a solid FSS program is also helpful as it develops a pipeline of clients and brings in administrative money that can cover PHA costs. VSHA’s Executive Director advises not to expect this program to work for all voucher program participants. It is “just another tool in the toolbox.”
- ***Small PHAs that want to offer the voucher homeownership option should consider forming a coalition of small PHAs to partner with a state PHA or a consultant.*** The state or consultant could provide basic program forms and procedures that can be modified slightly by each PHA. Small PHAs may also benefit from partnering with nearby HOCs or similar entities for the provision of counseling services.

Vermont Program Summary	
Number of homes purchased:	15
Average income of purchasers:	\$19,004*
Average purchase price:	\$89,555*
Average monthly HAP payment:	\$327*
Financing model:	HAP as Income
PHA program staffing:	1.1 full-time staff equivalent

**Based on a sample of 10 purchases.*