Designing Affordable Homebuyer Programs

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Prepared by:

Monte Franke
Franke Consulting Group

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1. Designing Homebuyer Programs

Managing homeownership programs is both rewarding and challenging. It can be very gratifying to assist families in attaining a portion of the "American Dream" however it is also time-consuming and labor-intensive to design a program and to facilitate an often complex process.

This guidance is designed to help you plan. It is not entirely prescriptive since each community or program will have different income levels and housing inventories and may have different target populations. The intent of this guidance is to address many of the common issues that arise in designing low-income homeownership programs and assisting first-time homebuyers.

Although it can not answer every contingency, this guidance should help answer the following questions:

- How do we decide what type of homeownership assistance program is needed?
- How do we prepare homebuyers for the responsibilities of homeownership?
- How do we use private sector underwriting criteria to make sound investment decisions?
- What are our responsibilities and where do we begin?

1.1 Identify Barriers to Homeownership

Before you can effectively design and implement a home purchase program you must determine what factors are preventing homeownership by low-income families in your service area. These factors are commonly called barriers.

Within any geographic area, the following general barriers to homeownership may exist.

<u>Market Conditions</u>

- High cost of property
- Financing is costly
- Financing is inaccessible
- Substandard housing units

<u>Buyer Conditions</u>

- Insufficient funds for down-payment

- Insufficient funds for closing costs
- Excessive existing debt
- Lack of credit or Poor credit

Each of these conditions requires unique approaches to address unique challenges.

1.1.1 High Cost of Property.

Many areas have experienced significant increases in the cost of modest single-family housing without a corresponding increase in income. Even in areas with moderate increases or stable markets, income may be inadequate to allow prospective purchasers the opportunity of ownership: the cost of property is simply too high. The manner in which the high cost of housing is addressed depends upon local conditions and the cost and availability of financing.

Down-payment and closing cost programs may be challenging to implement in a community with very high housing costs unless a significant subsidy is provided. Assistance with closing costs in addition to the equity contribution might also be needed. The program must be designed so that only modest housing is being acquired or constructed. A maximum unit cost must be determined based on the cost of moderately priced housing available in the community.

New construction may be the best option in a community with very high housing costs and a limited supply of units. New construction requires a homebuilder that is willing and able to construct quality housing at a cost that is less than that of available existing housing. For this reason, this approach is often most effective when undertaken by a nonprofit development corporation. In addition, new construction requires sufficient available land and low-to-moderate infrastructure and associated development costs.

Other mechanisms to reduce cost and increase affordability of new homes include:

- Donate or purchase the land to be developed.
- Assist the developer with the infrastructure or off-site costs.
- Contact the developer, if a new development is planned or underway. It is to the developer's advantage to have the units sold prior to completion and a pool of qualified homebuyers may be a negotiating point for ensuring the availability of affordable units.

1.1.2 Inaccessible Financing

In some areas, low-income households may have limited access to private lending institutions. This limitation may be real or perceived. When perceived, it is generally based on the household's lack of comfort communicating with a bank or mortgage company or on the household's lack of credit or poor credit.

This condition is often best addressed through homebuyer education and working with private lending institutions to encourage outreach to new markets, specifically the low income. In those instances where few if any financial institutions are located in the service area, the program must reach out to major lenders to negotiate favorable lending terms and facilitate lending in the area.

1.1.3 Costly Financing

Costly financing may be the result of inadequate purchaser income, market conditions, strict underwriting criteria, or a combination of these.

If the income of potential purchasers is stable but inadequate, a program that provides direct equity contributions or constructs new housing that is available at a lower cost than existing housing may help remedy the problem.

Market conditions, such as high interest rates may be addressed through a program that buys down the interest rate. With an interest rate buy-down program, the interest rate is subsidized so the family can qualify to purchase modest housing. The lower interest rate results in the ability of the family to qualify for a mortgage.

Underwriting criteria are discussed later in this guidance. In recent years, some private lending institutions as well as purchasers of private lending institution loan portfolios have designed programs that provide more flexible underwriting by liberalizing qualifying ratios. This flexibility however only works when incomes are adequate to purchase available housing. Some lender education may be necessary to ensure that underwriting is as flexible as possible.

1.1.4 Need for Property Repairs

The homes most affordable to low-income households are often those that have been poorly maintained and require repair. Low-income purchasers often face the prospect of purchasing a home that will require a great investment for improvements. Money for these improvements is often unavailable and lenders are unwilling to lend for repairs because insufficient collateral is available. Because this type of housing is often located in neighborhoods where improvements may not result in increased value, the problem is further complicated.

A program designed to provide purchase assistance and/or rehabilitation assistance may successfully address this condition. Many communities have found that assisting purchasers with down payment and closing costs and providing a low-interest rehabilitation loan increases the homeownership rate, improves the condition of older or declining neighborhoods, and generally increases property values. This type of program is often undertaken in target or blighted areas, where its impacts are most visible.

1.1.5 Insufficient Funds for Down Payment and/or Closing Costs

This is perhaps the easiest and least costly condition to address. Many low-income households have a stable income but pay a significant portion of their income towards rent and utilities, precluding them from saving for the purchase of a home. Even with federal mortgage insurance that reduces the required down payment to 5% or less of a home's value, purchasers in high-cost areas may not be able to purchase. In addition, closing costs (lender fees such as origination and processing fees, title reports and insurance, appraisals and other typical costs) are often too expensive for low-income households.

Assuming all other conditions have minimal impact, a program that provides a subsidy to pay all or part of the required down payment and/or closing costs will successfully address this condition. In addition, some lenders may be willing to reduce or waive a portion of their fees. Programs designed to provide closing cost assistance may need to limit the amount that will be paid for any line item or in total.

1.1.6 Lack of Credit and Poor Credit

Credit problems occur with low-income households because they pay many of their expenses in cash. Still, many lenders willingly accept "non-traditional credit" as evidenced by regular and timely rent, utility and other payments. Secondary market purchasers of mortgage loans also often recognize these items as evidence of creditworthiness.

Education of potential purchasers regarding the necessity and importance of good recordkeeping and timely payments is critical to their ability to convince a lender of their creditworthiness.

Poor Credit and high existing debt must be addressed prior to the family's attempt to purchase a home and may take several months or years to address. Many low-income families have excessively high existing debts. Debt problems are often exacerbated when families regularly fail to make their payments on time or have an otherwise blemished credit record.
These concerns must be addressed through homebuyer and/or credit counseling prior to the family undertaking the process of applying for a loan and looking for a home. Families in this situation may be able to purchase a home in the near future with the appropriate level of counseling and other assistance.

In all likelihood, multiple barriers to homeownership will exist in your service area. Understanding the barriers that are prevalent in your service area will enable you to design a successful homeownership assistance program. In order to develop a program that addresses local barriers, the market conditions, population and income trends, neighborhood characteristics and the types and availability of single-family housing must also be researched.

1.2 Choose a Strategy

As identified in the discussion regarding barriers, there are many options for homebuyer assistance programs.   This section discusses four primary options.

1.2.1 Purchase-Only Programs

Purchase-only programs provide down payment and/or closing cost assistance to lower income homebuyers that do not have the cash required to buy a home. In many cases, secondary financing ("gap financing") is also made available for families that cannot qualify for a sufficient loan. These programs require less administrative resources and produce a relatively high volume – in terms of units – than the other program design alternatives.

Purchase-only programs help homebuyers finance the home purchase. They address the up-front costs of homeownership by providing cash or discounts to cover down payment and/or closing costs. They may also help reduce the monthly costs of homeownership by providing second mortgages or interest subsidies.

Purchase-only programs are very common across the nation. These programs (particularly when limited to down payment and/or closing cost assistance) can assist a large number of homebuyers and are relatively easy to design and administer. However, purchase-only programs for lower income families will work only work in communities where appropriate properties are available. Purchase-only programs presume that the local housing market has the following characteristics:

- An <u>adequate supply</u> of "decent, safe and sanitary" housing
- <u>Modestly priced</u>, yet desirable housing
- Housing that is <u>readily available</u> on the open market

1.2.2 Purchase - Rehabilitation Programs

Purchase-rehabilitation programs provide rehabilitation assistance, in addition to purchase assistance, to housing that does not meet minimum standards. In many cases, the homebuyer purchases and rehabilitates the property with the assistance of a nonprofit or public agency. In other cases, nonprofits purchase and rehabilitate the property and subsequently sell the property to a low-income household.

If your community has available housing, but it is in substandard condition, a purchase-rehabilitation program may be the best solution. Purchase-Rehabilitation addresses the need for rehabilitation as well as affordability issues—inadequate income, lack of cash, and/or poor or nonexistent credit.

Many programs use a combination of private (conventional) financing and public subsidies. In fact, homebuyer agencies have simplified the process by making it possible for homebuyers to combine purchase and rehabilitation financing in one package.

You can structure your purchase-rehabilitation program in two ways: (1) a homebuyer purchases and rehabilitates the home: or (2) a homebuyer agency purchases the home, rehabilitates it, and then sells the house to an eligible buyer.

- <u>Homebuyer purchase and rehabilitation.</u> Typically, if the homebuyer purchases the property and is involved in the rehabilitation, he or she will obtain a loan from a lender for both the purchase amount and the cost of rehabilitation, minus any subsidies received. The lender will put the rehabilitation portion of the loan into an escrow account, where it will be "drawn down" as construction is completed. In underwriting a purchase-rehabilitation loan, lenders consider the following factors in addition to the creditworthiness of the borrower:

    - Whether the rehabilitation plans appear reasonable.
    - Whether the rehabilitation will be completed on a timely basis, that is, whether the lender believes that the rehabilitation team is competent and that the borrower has the ability to monitor rehabilitation adequately.

    Rehabilitation funds are usually not disbursed in a lump sum at the start of construction; rather, the lender usually disburses loan proceeds during stages of the rehabilitation after obtaining evidence that the rehabilitation work for that stage is complete. Lenders often require that the borrower's architect, the affordable housing provider, and/or a third party professional, to certify that the work is complete for that stage of the rehabilitation. Lenders often allow borrowers to finance construction-related soft costs. These costs could include taxes, insurance and utility costs during the rehabilitation period, architectural and inspection expenses, consultant fees, and even the lender's construction loan interest.

- <u>Agency purchase, rehabilitation, and resale.</u> In this approach, an affordable housing provider, local nonprofit organization, or the homebuyer agency purchases, rehabilitates, and resells the property to a qualified buyer. There are two ways that lenders may issue financing in this scenario:

    A one-time assumable permanent mortgage permits the financing of the acquisition and rehabilitation in the permanent mortgage. Under this type of financing, there is one long-term permanent mortgage that covers acquisition and rehabilitation.

    Rehabilitation funds are placed in an escrow account with the lender and paid out as work is completed. When the rehabilitation is completed and a qualified homeowner (the end-buyer) purchases the property from the housing provider, the homeowner has the option of assuming the permanent mortgage.

A lender issues one purchase-rehabilitation loan to the affordable housing provider. Another loan is issued to the homebuyer at resale (either by the original lender or another lending institution).

The lender will underwrite the property and the affordable housing provider at the time the loan is originated, and will underwrite the end-buyer using affordable lending underwriting criteria at the time of the loan assumption or when the new mortgage is issued.

1.2.3 New Construction

New construction programs utilize construction financing and other development subsidies needed to develop in-fill sites and/or new subdivisions. Direct purchase assistance to the eventual homebuyer is also included in many homebuyer developments.

In areas in which there is an insufficient supply of appropriate housing, the homebuyer agency may want to provide subsidies to stimulate the construction of new housing. The homebuyer agency may develop housing itself or may work directly with housing developers.

Homebuyer agencies also may provide funds to other organizations or individuals to contract for the construction. Depending on the local needs, one or more types of assistance may be provided to developers of new housing and/or the homebuyer directly.

1.2.4 Lease Purchase Programs

Lease/purchase arrangements provide a transition period between renting and homeownership, allowing prospective homebuyers to accumulate cash for a down payment and/or allowing time for establishment or repair of credit.

Homebuyer agencies are increasingly using lease purchases as part of their homeownership strategy. In the past, a lease purchase was used when buyers had little cash for a down payment. More recently, lease purchases have been used to address potential buyers' credit issues.

Lease purchases are commonly used for the following reasons.

- High debt loads and previous unacceptable credit reports.
- Demonstrate credit dependability. Borrowers with blemished credit records (and low credit scores) can prove their creditworthiness during the lease period.

- Inconsistent or unstable income. Lease purchase provides time to demonstrate steady employment.
- Affordability. Depending on lease and financing structuring, the escrow account can be used to provide a significant down payment and reduce the size (and cost) of the eventual mortgage.
- Little available cash.

Successful lease purchase programs have the following components:

- Lease with an option to buy. A clear option or sales contract is combined with a detailed lease agreement or in some cases a right-of-occupancy agreement.
- Limited lease term. A purchase deadline is defined in the option to buy.
- Down payment escrow account. As an option, part of the rent payment is used to accumulate cash for closing costs and down payment.
- Maintenance responsibilities. Lease purchasers are required to maintain the home as if they were homeowners.
- Homeownership counseling. More extensive education and training is needed prior to leasing and during the leasing period. Training needs to include maintaining a home.
- Unique financing. The agency must provide financing during the leasing period. The buyer must obtain financing to purchase the property at the conclusion of the lease period.
- Established financial sources. Financing sources designed to address the unique aspects of lease purchases must be sought. Very few lenders have established lease purchase products, so a local program must be developed. Look to secondary market entities for product help. In addition, use the HOME Program, CDBG, or other flexible resources.

Homeownership Assistance Strategies and Corresponding Administrative Efforts		
Strategy	**Admin Effort / Unit**	**Sample Administrative Activities**
Purchase only	Low to Moderate	Qualify purchaser and property Ensure the minimum and maximum subsidy limits are followed Undertake environmental review Provide homeownership education Establish and enforce long-term affordability standards

Homeownership Assistance Strategies and Corresponding Administrative Efforts		
Strategy	**Admin Effort / Unit**	**Sample Administrative Activities**
Purchase and Rehabilitation	Moderate to High	Qualify purchaser and property Perform layering analysis Ensure the minimum and maximum subsidy limits are followed Undertake environmental review Maintain relocation documentation file Select rehabilitation contractor Provide homeownership education Monitor rehabilitation Monitor Davis-Bacon Wage Rates Establish and enforce long-term affordability standards
Single-Family New Construction	High	Qualify purchaser and property Ensure the minimum and maximum subsidy limits are followed Undertake Environmental Review Prepare market study Assist in assembling land Assist in providing services Establish Relocation Documentation file Provide homeownership education Perform layering analysis Monitor construction Monitor Davis-Bacon Wage Rates Establish and enforce long-term affordability standards
Lease Purchase	Moderate to High	Qualify purchaser and property Ensure the minimum and maximum subsidy limits are followed Undertake Environmental Review Establish relocation documentation file Secure financing for the units during lease period Provide homeownership education during lease period Maintain the units during the lease period Establish and enforce long-term affordability standards

1.3 Identify Types of Affordable Housing

In each area or community the type, cost and availability of housing will be different. When designing your program it is important to identify the types of affordable housing available in your service area as each may require a unique approach.

Single-family detached – This is the type of housing unit most people think about when designing a home purchase program. And, in many areas, single-family detached dwellings represent the majority of owner-occupied housing stock. Because the initial development costs associated with single family dwellings are higher than other types of construction, it may also represent the least-affordable housing available and/or developable within a community.

Manufactured housing – In many areas, manufactured housing represents a significant portion of the affordable housing stock. Manufactured housing is often well built, energy efficient, and affordable, but presents some unique barriers.

- Lending institutions may be unwilling to lend more than 80% of the value of the property, requiring a significant down payment. The secondary market has made the financing of manufactured housing increasingly difficult.
- In order to be considered real property and eligible for most subsidies, the unit must be permanently affixed and on land owned by the purchaser.

Condominiums and townhouses – Condominiums and Townhouses may represent a more affordable option for low-income purchasers. There are several barriers and concerns that should be addressed.

- The complex in which the unit is located must have a significant homeownership rate for FHA or VA to provide a loan guarantee. It may be difficult for prospective purchasers to find affordable financing if the complex is primarily renter-occupied.
- Most condominium and townhouse complexes have associations that charge monthly fees. These fees must be considered when determining whether a family qualifies to purchase the unit. Association fees typically increase to account for the increased costs of maintenance and repairs and the family should be counseled regarding this likelihood.

Community land trusts – Community Land Trusts (CLTs) are being used in some high cost areas to help control the cost of housing and provide for long-term affordability. CLTs separate the ownership of land from the ownership of the structure. The CLT owns the land, and provides a long-term lease to the buyer of the unit. Since land traditionally comprises anywhere from twenty-five to forty percent of the costs of a home, this greatly reduces the net price to the buyer. In addition, the lease gives the CLT the ability to control or influence resales of the property, so it is more likely to remain affordable homeownership. This method has been used for the development of vacant land as well as for the acquisition, division and resale of existing housing to lower income buyers. It requires the designation or creation of a nonprofit entity to act as the CLT, and financing to help the CLT purchase the land.

Cooperative ownership – Cooperative ownership (co-op) is a hybrid form of ownership where the members are partly owners and partly renters. Cooperative ownership consists of 1) stock ownership or membership in a cooperation that owns and operates the property; 2) the right to occupy a unit under a long term lease; and 3) the right to participate in the governance of the co-op. In cooperative ownership then, the household owns the air space, while the cooperative owns the physical building.

Cooperatives have been the most common form of ownership for low-income project conversions, in large part because their corporate ownership structure makes it easier to restrict sale prices on units. These restrictions, commonly known as limited-equity provisions, are a well-tested method of ensuring that units remain affordable. In addition to limited equity restrictions, the blanket mortgage on a cooperative reduces or eliminates the need for low-income residents to qualify individually for a mortgage.

1.4 Determine the Goals and Objectives of Your Program

At this point in the program design process, the program goal(s) and objective(s) must be defined. There are three common primary goals:

- Stabilizing property values and the quality of life in a neighborhood or neighborhoods.
- Stimulating development of a permanent affordable housing stock.
- Increasing homeownership for low-income families.

1.5 Set Program Parameters and Other Program Design Considerations

Now that you have identified the main barriers to affordable homeownership, the type of housing that is available and affordable, and the primary goal of your program, there are numerous decisions that must be made. In some communities these questions may be a matter of policy or a political consideration. In any event, you need to answer these questions before you can fully design your program and a marketing strategy.

Should the potential buyer's current residence or length of residency be limited?

- When an area is experiencing growth, the natural (and political) instinct is often to control that growth. Limiting the applicant's current residence or length of residency in an area, perhaps a city or county, ensures you assist only those households that are established in your service area.
- If you design your program with a residency restriction you will need to consider if your pool of potential applicants will be large enough to make your program a success. You will also need to consider if residency restrictions will detract from your ability to recruit work force or businesses.
- If you limit residency, set parameters on length of time living or working in an area and ensure that your process includes the collection of pay stubs or utility bills to verify current residency.

Should the location of units to be purchased be limited?

- Your strategy may target those areas of a community where the rate of homeownership is low and encouraging homeownership is the goal.
- You may have a neighborhood or geographic area where many of the homes are in need of rehabilitation. Targeting homeownership and rehabilitation assistance to these areas may be an effective component of a redevelopment strategy.
- In large or low-density areas, providing assistance to individual households (rather than affecting ownership patterns) may be the primary motivation and the location of units will be limited to your service area.
- When establishing eligible locations you must clearly define the boundaries and include any areas that may be excluded. Your marketing materials should clearly reflect these boundaries.

How should the program define a family or household? The definition of household composition becomes important when determining household income. When agencies consider first-time homebuyer programs, they often envision a married two-parent, two or three child "traditional" family. The reality may be much different.

- There are many single parent households wishing to purchase homes.
- Three generation households of a middle-aged parent, young woman and her child are also quite common.
- Unmarried couples, with or without children, exist in all parts of the state.
- Some families are raising children of a relative or have foster children or an elderly family member living with them.

In order to avoid the potential for discrimination, it is best to allow each household to define themselves. In other words, if they think of themselves as a "family" or a "household" and operate as one, they are a family/household for the purposes of your program.

What limitations will be placed on household income? Most subsidy programs have income limits for each county, based on the number of people in the household. When utilizing CDBG, HOME or Housing Trust funds, agencies must serve households with income less than 80% of the median income for the area as determined by HUD. These income limits are published annually by HUD.

While maximum income is a program requirement, a minimum income must also be set. There are many families who want to own a home, but are simply too poor at this time. It is very time consuming to accept and process applications from those who will not financially qualify for a mortgage. Consequently, it is both necessary and acceptable to require a minimum household income for applicants.

The figure used for a minimum income should reflect the market in the community, the overall income of the residents, and the availability and cost of mortgage financing. By identifying the cost of housing in your service area, you can set a minimum income. There are several methods for determining minimum income. The resulting minimum and maximum incomes will enable the agency to determine the most appropriate type and level of subsidy to provide.

- A quick but not very accurate way to set minimum income is to review the cost of available housing and multiply the typical cost by 25-30%. For example, if housing is readily available at $60,000, then a minimum household income may be set at $15,000-$20,000 per household.
- Another “rule of thumb” for determining an affordable sales price is that a family can afford approximately 2.8 times their gross annual income for a house. If the family has a household income of $22,000 they could likely afford a mortgage of approximately $62,000. Many lenders will prequalify buyers over the telephone to give them a ballpark figure.

Agencies may also utilize this chart to determine the annual income required to purchase a home at a given interest rate. The chart assumes that housing costs (Principal, Interest, Taxes and Insurance) will not exceed 28% of gross household income. While interest rates in general may be much lower, it is unlikely that low-income or first-time homebuyers will have credit scores that qualify them for the best rates, terms and conditions.

MAXIMUM MORTGAGE AMOUNT BASED ON ANNUAL INCOME AND CURRENT INTEREST RATE								
INTEREST RATE	ANNUAL INCOME							
	10,000	**15,000**	**20,000**	**25,000**	**30,000**	**35,000**	**40,000**	**45,000**
5.5%	36,100	54,200	72,500	90,600	108,600	126,700	144,800	163,100
6.0%	34,500	51,800	69,200	86,500	103,700	121,000	138,300	155,700
6.5%	32,900	49,400	65,900	82,400	98,800	115,300	131,800	148,300
7.0%	31,300	47,000	62,600	78,300	93,900	109,600	125,300	140,900
7.5%	29,800	44,600	59,600	74,500	89,400	104,300	119,200	134,100
8.0%	28,400	45,000	56,700	70,900	85,100	99,300	113,500	127,700
8.5%	27,100	40,600	54,100	67,700	81,200	94,800	108,300	121,900
9.0%	25,900	38,800	51,700	64,700	77,700	90,600	103,500	116,500
9.5%	24,800	37,200	49,500	61,900	74,300	86,700	99,100	111,400
10.0%	23,700	35,600	47,400	59,300	71,200	83,000	94,900	106,800
10.5%	22,800	34,200	45,500	56,900	68,300	79,700	91,100	102,400

Using this chart, if housing is readily available at $85,500 and commercial lenders are lending, with mortgage insurance, up to 95% of the property value at 7.5% for 30 years, the typical loan amount is roughly $89,400. In order to qualify for a loan of this amount, a household must have a gross annual income of at least $30,000.

You can also use this chart to determine the sales price of housing that must be available in your area to qualify as affordable housing. For example, if for a family of four 80% of the area median income for your area is $35,000 and interest rates are 7.0%, then housing must be available in the $110,000 range. If housing is readily available at $135,000, then you must be prepared to offer a subsidy or families will not qualify.

There are no “correct” answers to any of these questions, but the implications and impacts of your decisions should be carefully considered. You should discuss your intentions with a variety of local individuals including planning and zoning officials, commercial lending institutions, and primary employers. Program funding sources and the lending market will also play a role in defining program parameters.

1.6 Identify the Impact of Funding Requirements

The primary sources of funds for homeownership assistance are the federal CDBG and HOME program and State Housing Trust Funds. Each program allows some flexibility, but has certain basic requirements that must be met and will therefore impact the design of the program.

1.6.1 The Federal CDBG Program

The eligible activities for which purchase assistance using CDBG funds may be provided under this category are to:

- Subsidize interest rates and mortgage principal amounts, including making a grant to reduce the effective interest rate on the amount needed by the purchaser to an affordable level. The funds granted would have to be applied towards the purchase price. Alternatively, the grantee or subgrantee could make a subordinate loan for part of the purchase price, at little or no interest, for an amount of funds the payments on which, together with that required under the first mortgage, would be affordable to the purchaser.
- Finance the cost of acquiring property already occupied by the household at terms needed to make the purchase affordable.
- Pay all or part of the premium (on behalf of the purchaser) for mortgage insurance required up-front by a private mortgagee. (This would include the cost for private mortgage insurance.)
- Pay any or all of the reasonable closing costs associated with the home purchase on behalf of the purchaser.
- Pay up to 50% of the down payment required by the mortgagee for the purchase on behalf of the purchaser.
- Note especially that the use of funds under this category is specifically limited to assisting low- and moderate-income households. *Reference: §570.201 (n)*

Rehabilitation. Eligible activities connected with the rehabilitation component of this type of program include [see 24 CFR 570.202]:

- Rehabilitation costs of labor, materials, supplies, and other expenses required for the rehabilitation of property.
- Water and sewer—Costs of connecting existing residential structures to water distribution lines or local sewer collection lines.
- Barrier removal—Cost to remove material and architectural barriers that restrict the mobility and accessibility of elderly and severely disabled persons.
- Landscaping, sidewalks, and driveways—The costs of installation or replacement of landscape materials, sidewalks, or driveways, when incidental to other rehabilitation of the property.
- Historic preservation—Costs to preserve properties of historical significance.
- Lead-based paint hazard evaluation and reduction—Costs of evaluating and treating lead-based paint.
- Other costs including insurance (initial homeowner's premium only), energy efficiency improvements, and security devices.

Ineligible activities include installation of luxury items, equipment costs, furnishings or other personal property that are not an integral structural fixture, such as a window air conditioner or a washer or dryer. Labor costs for owners to rehabilitate their own properties are also ineligible. (24 CFR 570.207).

New Construction. CDBG funds may be used in certain specified circumstances to finance the construction of new permanent residential structures. The following identifies those limited circumstances:

You may construct housing of last resort under 24 CFR Part 42, Subpart 1. This is housing that must be constructed in order to provide suitable replacement housing for persons to be displaced by a contemplated CDBG project, subject to the URA, and if the project is prevented from proceeding because the required replacement housing is not available otherwise–see 24 CFR 570.207(b)(3).

A HUD waiver (Sept 99) permitted the use of CDBG funds for homeownership assistance, as long as the assistance is provided directly to the homebuyer. HUD has determined that down payment assistance on a newly constructed home does not constitute an ineligible activity–by waiver. Supporting language from the letter stipulates. "However, until a regulatory change is implemented, the use of CDBG funds for a homeownership program that would result in assisting the new construction of housing will require approval of a waiver of the CDBG regulations at 24 CFR 570.207(b)(3)."

Other than these situations, new housing construction is ineligible under the CDBG program, unless carried out under the authority of the basic eligibility category, “Special Activities by CBDOs”–see 24 CFR 570.207(b)(3).

Conversion is another eligible activity. It should be noted that the cost of converting an existing nonresidential structure to residential is not generally considered to constitute new construction under the CDBG program and is thus covered under the basic eligibility category of rehabilitation. In some cases, however, the conversion may involve construction that goes beyond the envelope of the nonresidential structure. If this is the case, consult with the local HUD field office to ensure that the extent of such construction would not constitute new construction of housing and thus be ineligible for CDBG assistance. [Reference: 24 CFR 570.202]

Lease Purchase. The CDBG program does not specifically address the use of CDBG funds during the rental phase of a lease purchase program as an eligible homeownership activity. However, once the homebuyer is prepared to purchase the property, CDBG funds can be used as for purchase-only programs. Costs associated with rehabilitation or construction as part of a lease purchase program also are eligible.

National Objectives. Because the use of CDBG funds authorized under this category generally is limited to assisting low- and moderate-income households, any such use of funds would clearly qualify under the national objective of benefit to low- and moderate-income persons-housing activities. Reference: §570.208(a)(3)

Homeownership assistance may also be eligible under the categories of Public Services or Special Activities by CBDOs. While these categories don't have the same restrictions on the type of assistance that may be provided, they do have to comply with the public services cap. However, under these provisions, assistance is not specifically limited by statute to L/M income persons. Therefore, a grantee should carefully consider its objectives against these factors and select the category that best fits those objectives in the context of its entire CDBG program.

Neighborhood Revitalization Strategy Area. If the community has an approved Neighborhood Revitalization Strategy (NRS) and the grantee plans to provide homeownership assistance pursuant to that strategy, there are two further considerations:

- If the grantee elects to use a CBDO to deliver services in the strategy area, any services provided by the CDBO (including homeownership assistance) would be exempt from the expenditures cap on Public Services. This would remove the main advantage of qualifying the assistance under the Homeownership Assistance category.
- If the strategy involves assisting non-L/M income households to purchase houses in the area, CDBG assistance could not be provided under the Homeownership Assistance category (which is limited to assistance provided to L/M income households) unless a CBDO is used for this activity. CDBG funds provided to non L/M income households in a NRS area may still be considered to meet the L/M

Income Benefit national objective because all housing units assisted in such an area may be considered to be part of a single structure for the purpose of meeting the 51%+ occupancy requirement.

1.6.2 The Federal HOME Program

The State has elected to structure its program so that all resources are recaptured in the event the unit is sold during the recapture period.

HOME $$ INVESTED PER UNIT	MINIMUM RECAPTURE PERIOD
<$15,000	5 years
$15,000 - $40,000	10 years
>$40,000	15 years

Eligible Beneficiaries:

- Must have a household income that does not exceed 80% of the area median adjusted by family size.
- Must use the property as their principal residence throughout the period of affordability.

Required Property Standards:

- All properties must meet Section 8 HQS and local codes, zoning and ordinances at the time of initial occupancy.

Types of Investment:

- Interest subsidies
- Down-payment assistance / Equity investments
- Closing-cost assistance

Terms of Assistance:

- Below-market or no-interest deferred payment loan with a term equal to the recapture period, secured by a note and mortgage. In the event the property is transferred during the recapture (loan) period, specific procedures must be followed to ensure the appropriate amount of HOME funds is recaptured.

Maximum property value:

- The property value may not exceed the FHA 203(b) insuring limit for single-family properties

Minimum and Maximum HOME Investments:

- The minimum per unit HOME investment is $1,000. Maximum per unit investments are updated annually by HUD.

Eligible HOME Program Costs:

- Acquisition costs, including but not limited to down payment and closing costs;
- Acquisition of vacant land, when HOME funds have been committed for new construction;
- Hard construction costs;
- Rehabilitation costs, when rehabilitation of an acquired property is necessary to meet the required property standards;
- Housing Counseling
- Staff and overhead costs <u>directly related to a project</u>, such as work write-ups, inspections and housing

Eligible Property Types: The property may be publicly or privately owned, existing or newly constructed, and be one of the following types of residences:

- Single-family (one-unit structures)
- Two-to-four unit structures - one unit must be owner-occupied, and remaining units are subject to HOME rental housing affordability requirements.
- Condominium units.
- Cooperative units.
- Manufactured housing, only if the unit:
  - is situated on a permanent foundation
  - is connected to permanent utility hook-ups
  - is located on land that is held in fee-simple title, land-trust, or long-term ground lease with a term at least equal to that of the affordability period (if the owner of a manufactured housing unit does not hold fee simple title to the land on which the unit is located, the owner may be assisted to purchase the land)
  - meets the construction standards of 24 CFR 3280 if produced after June 15, 1976
  - meets applicable local and/or state codes if produced prior to June 15, 1976

1.6.3 Other Homeownership Funding Programs

The success of a homeownership program depends largely on the ability of the homebuyer agency to involve and coordinate the players involved in the process. As such, this section will emphasize the programs that are available to assist lower-income households to purchase a home.

- Freddie Mac's Affordable Gold works to help meet the needs of more low- and moderate-income borrowers using Gold Measure®, Freddie Mac's underwriting tool, or Loan Prospector®, Freddie Mac's automated underwriting service. Affordable Gold offers flexible ratios, affordable reserve requirements and clear underwriting guidelines.
- Fannie Mae's Community Homebuyer's Program (CHBP), Fannie Mae's signature Community Lending product, CHBP is available to homebuyers who earn no more than 100 percent of the area median household income. This 5 percent down payment mortgage is a 15- to 30-year fixed-rate mortgage with 33/38 debt-to-income ratios. No cash reserves are required.
- Ginnie Mae, a wholly-owned government corporation within the Department of Housing and Urban Development, helps expand homeownership opportunities for all Americans. Ginnie Mae has helped over 18.9 million American families realize their dreams of owning a home.
- Housing finance agencies sell tax-exempt mortgage revenue bonds to investors to raise funds to develop affordable housing. Funds are provided either to local primary lenders or directly to developers. The governments issuing the bonds pass the interest savings on through private lenders to lower income families for first mortgages; rehabilitation and energy efficiency improvement of existing homes; and for older homeowners to use to tap their home equity for living costs.
- The Federal Housing Administration (FHA) offers several popular programs:
  - The most popular acquisition program is Mortgage Insurance for One-to Four-Family Homes (Section 203(b)). Through this program, FHA insures mortgages made by qualified lenders to people purchasing or refinancing a home of their own. Section 203(b) is the centerpiece of FHA's single-family insurance programs.
  - Section 203(k) insurance enables homebuyers to finance both the acquisition and rehabilitation of a house through a single mortgage. Section 203(k) insured loans save borrowers time and money, and also protect lenders by allowing them to have the loan insured even before the condition and value of the property may offer adequate security.
  - The Title I Program insures loans to finance the light and moderate rehabilitation of properties. This program may be used to insure such loans for up to 20 years with a maximum loan amount of $25,000. The Title I insurance protects lenders against the risk of default for up to 90 percent of any single loan.

- The U.S. Department of Housing and Urban Development (HUD) administers several programs in addition to CDBG and HOME that either finance or support and complement affordable housing. They include:
  - Empowerment Zones and Enterprise Communities (EZ/ECs) are designated by HUD (or the Department of Agriculture for rural areas) to receive tax incentives, performance grants, and loans in targeted low-income areas.
  - Homeownership Zones are blighted areas with vacant or abandoned buildings that are targeted for the construction of several hundred new homes in concentrated areas near major employment centers.
  - Youthbuild funds programs that help young high school dropouts obtain education, employment skills, and meaningful on-site work experience in a construction trade. In addition to educational and job training services, leadership training, counseling and other support activities, Youthbuild participants also spend at least half of their time in on-site training in housing rehabilitation or construction work.
  - The Self-Help Homeownership Opportunity Program (SHOP) provides funds for nonprofit organizations to purchase home sites and improve the infrastructure needed to set the stage for sweat equity toward the construction of the home.
- The Rural Housing Service (RHS) is an agency of the U.S. Department of Agriculture.
  - RHS's primary homeownership program is the Section 502 Homeownership Loan Program. It is primarily used to help low-income households purchase homes. It can also be used to refinance debt when necessary to avoid losing a home or when required to make necessary rehabilitation.
  - Rural Housing Repair and Rehabilitation Loans. Rural housing repair and rehabilitation loans are funded directly by the government. These loans are available to very low-income rural residents who own and occupy a dwelling in need of repairs. Funds are available for repairs to improve or modernize a home or to remove health and safety hazards. This loan is a 1-percent loan that may be repaid over a 20-year period. To be eligible, homeowner-occupants must be unable to obtain affordable credit elsewhere, have very low incomes—defined as below 50 percent of the AMI, and must have a home in need of repairs and improvements to make the dwelling more safe and sanitary or to remove health and safety hazards. Grants are only available to homeowners who are 62 years old or older and cannot repay a Section 504 loan.
- The Federal Home Loan Bank (FHLB) System has operated two targeted housing programs -- the Affordable Housing Program (AHP) and the Community Investment Program (CIP) since 1990
  - The AHP is a competitive program whereas the CIP is offered by most FHLBanks on an as-needed basis. The AHP may be used to finance the purchase, construction and/or rehabilitation of housing.

- The CIP is a flexible, noncompetitive program that may be accessed by members of the FHLBank System on an ongoing basis. Through CIP, the FHLBanks make reduced rate advances, typically 20 to 35 basis points below the rate on a regular advance.

▪ Community Development Financial Institutions (CDFIs) are specialized private institutions that fill niches in the market that traditional financial institutions are not well positioned to serve. They provide a wide range of financial products and services to underserved communities and include such diverse institutions as community development banks, credit unions, loan funds, venture capital funds and microenterprise funds. The CDFI Program invests in CDFIs in a variety of forms -- equity investments, loans, grants, deposits and credit union shares -- depending on market needs and the ability of individual CDFIs to raise private matching funds.

1.7 Leverage Private-sector Financing

Most homeownership programs are used in conjunction with mortgages available through private or conventional lending institutions. Central to effectively working with conventional lenders is an understanding of the process utilized to determine whether a buyer will receive financing. This process is often referred to as underwriting. From the lender’s perspective, underwriting is the practice of assessing and minimizing the risks associated with a loan under consideration for funding. Underwriting is primarily a function of risk assessment, because it involves using current information to predict future performance of the borrower. Although each underwriter has his or her own approach to the analysis, all underwriters – whether private or public – consider the risks.

Public and nonprofit homebuyer agencies need to understand private lenders and lending policy. In most cases, the homebuyer assistance is in the form of a second mortgage or junior financing. The primary loan underwriting criteria directly impact how much assistance is needed and how that assistance needs to be packaged.

Some lender requirements may not compliment the intent of the program. Increasingly, public and nonprofit homebuyer agencies are concerned that conventional lending criteria may be too liberal. For instance, many believe that lower income homebuyers should not spend 40 percent of their income for housing and other debt. If this is the case, the homebuyer agency may implement requirements that are more restrictive. In other cases, lender requirements may be too restrictive to meet the homebuyers’ needs, with low loan-to-value ratios, high credit standards, or high down payment and closing costs.

When existing loan products are not compatible with the needs of local buyers, the homebuyer agency may need to talk with local lending representatives about a customized program to meet local needs. Customized programs are generally referred to as “portfolio” programs because the lender retains and services the loan in house.

1.7.1 The "Vocabulary" of Mortgage Lending

Some of the key terms in lending are:

- Gross Income is the money earned before taxes. As long as it is steady and can be documented, it can be counted by the lender.
- Housing Expense includes Principal, Interest, Taxes, and Insurance, commonly abbreviated as "PITI". If there is a second lien on the property that is repayable with regular monthly payments, this loan is included.
- Front End Ratio is the ratio or percentage of housing expense (PITI) to income.
- Back End Ratio is the ratio or percentage of housing expense plus other consumer debt to total income. Other consumer debt typically includes:
- Installment accounts include car payments, furniture payments and student loans. They have the same amount due each month. Lenders may not include them if the remaining payments will be paid off in less than one year.
- Revolving charge accounts include credit cards and department stores. The minimum due on these accounts will vary depending on the outstanding balance. The lender will typically use the minimum monthly payment due on the most recent statement.
- Principal is the loan amount borrowed to purchase the property. A portion of the "PITI" goes each month to reduce the principal of the loan. However, during the early years of a mortgage, the amount is very small, as interest payments are applied first. For example: If an $85,000 loan amortized over 30 years at an interest rate of 7.5% had a monthly principal and interest payment of $594.33, monthly payments would be applied as follows:

	Principal	Interest
Year 1: 6th payment	$65.08	$529.25
Year 25: 295th payment	$393.95	$200.38

- Interest is the cost of borrowing money. The interest rate can have a great effect on the amount of the monthly mortgage payment. For example: On a $100,000 loan for a 30-year mortgage:

Interest rate:	Monthly Payment:
10.1%	$878
7.4%	$679

- Mortgage Insurance is required by lenders to protect their investment when borrowers buy a home with less than a 20% down payment.
- Property Insurance includes hazard insurance to protect the lender and homeowner against loss or damage to the home due to fire or storm. Flood insurance may also

be required if the property is in a 100 year flood plain as determined by the Federal Emergency Management Administration (FEMA).

1.7.2 Private Lender Underwriting Considerations

The predominant risk associated with underwriting single-family owner-occupied property is borrower risk. Borrower risk examines borrower characteristics to determine whether it is reasonable to believe that the borrower can undertake the loan as proposed. It considers borrower equity and cash available to meet obligations, whether the borrower has the capacity to repay the loan, and whether the borrower can be expected to meet debt obligations based on historical performance and character. Private lenders generally consider the four "Cs" of mortgage credit - capacity, credit, capital, and collateral - to assess borrower risk.

Capacity - Can the homebuyer repay the debt?

- The underwriter will look at employment information detailing how long the homebuyer has worked and how much the homebuyer earns. The underwriter will also look at the homebuyer's expenses, number of dependents, additional income, and other financial obligations.
- Lenders typically apply two qualifying ratios to determine a borrower's ability to repay additional debt. The most restrictive ratio in any given case is used to determine the maximum mortgage amount.
- The Housing Expense to Income Ratio ("front-end ratio") is calculated by dividing the homebuyer’s total housing expenses (PITI) by gross income. This ratio is generally expected to be in the 28 to 33 percent range.
- The Total Debt to Income Ratio ("back-end ratio") is calculated by dividing total housing expenses plus other recurring monthly debt obligations by gross income. This ratio is used by lenders to determine if homebuyers can handle a house payment in addition to all monthly recurring payments. The maximum ratio acceptable to the lender is generally in the range of 36 to 48 percent.

Credit History - Will the homebuyer repay the debt?

- Lenders closely scrutinize credit history! Past credit performance is seen as the primary predictor of future credit performance. The borrower's payment history on past obligations will be reviewed to determine whether a borrower is likely to meet mortgage payments in a timely manner. The lenders evaluate credit history by obtaining mortgage residential credit reports from national credit bureaus that collect records from businesses and financial institutions and, using a sophisticated computer system, compile records of individuals' credit histories.
- Many first-time homebuyers do not have traditional credit histories because they have not used credit or do not have the type of credit history that would appear on a

credit report. In these instances, lenders examine non-credit payment references, such as history of regular rent, utility or insurance payments.

Capital – Does the homebuyer have sufficient cash?

- PITI (principal, interest, taxes and insurance) and other monthly recurring costs are not the only costs of homeownership. When a buyer purchases a home, he or she must provide a down payment and cover the costs associated with closing a real estate transaction.
- The down payment -- Most lenders require that the homebuyer contribute some cash up-front toward the purchase price of the home. This requirement ensures that the borrower has a vested financial interest in the property and is therefore less likely to "walk away." In the past, lenders required a minimum down payment of 20 percent. To make homeownership affordable to more people, most lenders now offer mortgages with only a 3 percent down payment.
- Closing costs -- There are a number of costs associated with the transfer of the property. These costs are called closing costs or settlement costs and are typically paid by the borrower (unless the seller has agreed to cover some of the costs as part of the purchase agreement). The amount of closing costs varies, but generally, closing costs range from 3 to 6 percent of the amount of the mortgage.

Collateral – Will the lender have adequate security?

- The other factors, including capacity, capital and credit, are used to minimize the likelihood of default and eventual foreclosure. The evaluation of collateral is necessary to ensure that the lender can recoup their funds in the event of a foreclosure. Homeowners with a higher equity stake in their property are more motivated to maintain and retain their home. Therefore, the risk of foreclosure is reduced. Lenders will require property appraisals to be performed by qualified, certified appraisers to ensure that the value of the property adequately exceeds the loans on the property.
- Lenders will use the Loan to Value (LTV) Ratio to evaluate their risk. The LTV required by lenders is based on many factors. By charter, Freddie Mac and Fannie Mae are not permitted to buy mortgages with an LTV above 80 percent without additional credit enhancement. Mortgage insurance is often provided for loans where the LTV is higher than 80 percent. If mortgage insurance is purchased, the lender will typically permit the homebuyer to have a maximum LTV of 95 to 97 percent.

1.7.3 Trends in Conventional Underwriting

The traditional approach to underwriting homeownership loans is rapidly changing. The two most significant trends include:

- Use of Credit Scores. A credit score is a statistical way of predicting the likelihood that a borrower will pay back a loan, such as a mortgage. The most commonly used credit score today is known as a “FICO” score. The FICO score was developed by Fair, Isaac and Co. and is a mathematical way to look at factors in an individual’s credit record that may affect a borrower’s ability and willingness to repay debt. These factors can include an individual’s track record of repaying loans, i.e., student loans, car loans and credit card bills; any public records, like tax liens and bankruptcies; how often applications are made for installment loans and new credit cards; and how much is actually owed. FICO scores are included in full credit reports issued by Equifax BEACON, Trans Union EMPIRICA and Experian/FICO (formerly TRW/FICO).
- Automated Underwriting. Like traditional underwriting, automated underwriting evaluates mortgage applications on the basis of the 4 C’s - capacity, credit, capital and collateral. However, automated underwriting represents a significant advancement. Its unique strength lies in the ability to analyze a multitude of factors simultaneously. Consider, for instance, the need to balance 10 or more elements in a loan application. The possible combinations of these factors alone can number in the thousands. Human underwriters cannot be expected to assess them accurately and consistently from application to application. In contrast, statistically based automated underwriting systems are designed to handle risk combinations numbering in the millions. By consistently applying uniform standards of creditworthiness, automated underwriting provides the same objective treatment to all borrowers.

  Public and nonprofit homebuyer agencies need to consider the impacts of these trends on their customers. Will their customers have reasonable credit scores? Will they have to focus on the correction of credit data? Will their customers fit automated underwriting, or will manual underwriting need to be done? Will lenders be willing to spend the extra time and effort needed to qualify borrowers manually?

1.7.4 Public Lender Underwriting Considerations

In most cases, public funds are used to cover the “gap” between development costs and the available debt and equity that the project income can support. Calculation of the amount of public funds required is referred to as Gap Analysis. The underwriter determines the borrower’s availability of cash and income available for debt service, calculates the maximum first mortgage loan supported by the borrowers income, assesses the total cash requirements, and then computes the gap that must be funded with loans and/or grants from HOME, CDBG or other sources.

Public underwriters should consider all of the following underwriting elements when designing their homebuyer programs.

Public Lender Review Criteria

	Grants	Deferred Payment Loans	Amortizing Loans
Underwriting Criteria			
Capacity—Qualifying Ratios			x
Credit—Credit History			x
Capital—Availability of Cash	x	x	x
Collateral—Loan to Value Ratio(s)		x	x
Eligibility Criteria (maximum income levels, property values, subsidy limits, property standards, and the like)	x	x	x

Public purpose & regulatory compliance. The program must meet the stated public purposes of the statute and regulations that govern the program in order to use public funds as a subsidy. The project must also meet all of the applicable regulatory requirements of the source program in order to be eligible for funding.

Amount of subsidy. The goal of public underwriting is to provide enough financing to make the deal feasible and affordable to the target population, but not to over-subsidize the property or unduly reward those who are selling the units. Most federal funding sources, including HOME, require a layering analysis when more than one public source of funds is provided. A layering analysis is conducted to ensure that the combination of sources does not over-subsidize the project or the buyer.

Initial and long-term affordability. While private sector underwriters are primarily concerned with making the largest loan possible, public underwriters must also determine that the mortgages are affordable to the target population in the near and long term. Usually, long term affordability is addressed through recapture or resale options as discussed in the next section.

Ultimately, the success of a homebuyer program depends upon the successful blending of public and private funding to a homebuyer. Success depends upon the ability of the agency to understand and negotiate lender requirements, provide compatible gap financing, and communicate the terms of the financing package to the homebuyer.

1.8 Structure the terms of the assistance

Programs should be designed to assist lower income families become homebuyers by minimizing the common barriers and filling the needed gap. There are many options for structuring subsidy, including:

- <u>3/2 option</u>. In this option, the homebuyer pays 3% of the required down payment from their own funds and the program pays up to the 2% allowed to be “gifted” toward the down payment. The actual amount paid by the homebuyer and the agency would depend on the amount of savings held by the homebuyer. You could also split the required down payment with the buyer.

- Percentage Option. Like the 3/2 option, the percentage option provides a certain percentage of the loan amount in the form of a subsidy. For example, if the lender is willing to loan 80% of the home value, then the buyer or the program must pay 20%. Your program could be structured so that the family pays 5% down and the remainder is subsidized.
- Inverse Option. In this option, the subsidy is inversely proportional to the amount of savings and irrelevant to the cost of the house or the amount of the down payment or closing cost needed.
  - This option assumes that the greater the amount of family savings the lesser the necessary subsidy.
  - With this type of program, the subsidy may include all or most of the closing costs, usually between $1500 and $2000, with the balance used for down payment or principal reduction not to exceed a set amount for the total subsidy.
- Inverse Option 2. In this option, the program pays most of the closing costs and down payment assistance is provided in inverse proportion to the purchase price. This option generally provides a greater subsidy to those families with lower incomes and correspondingly lower mortgage amounts.
- Interest Rate Buy-Down. If the typical buyer has the down payment saved, but needs help in qualifying with lower monthly payments or if interest rates are exceptionally high, you may wish to discuss an interest rate reduction with a lender. In this option, the program subsidy is used to reduce the interest rate, for example from 8% to 7%. Each percentage decrease is referred to as a point. The cost of a point varies daily with the market so the cost of the subsidy must be determined at the time of closing. The cost of this type of subsidy may not be worth the additional mortgage paid over the long term. Most lenders will work with you to determine if a principal reduction or an interest rate reduction would be more beneficial.

These are only some of the available options. You may wish to combine or build on these options to meet the needs of your intended beneficiaries and overcome the barriers in your service area. Whatever option or combination of options you choose, you will want to structure a system which seems equitable, provides assistance to the most needy, is easy to explain, and is not a disincentive to saving.

Regardless of the structure of the assistance, keeping the following in mind will help ensure the success of the program:

Ensure Affordability.

- Homeownership should provide stability and security to the program beneficiaries.
- Program design must be carefully considered so that assisted families are not burdened with excessive housing costs.

- Because disposable income is less for low-income families, setting qualifying ratios lower than required by private lending institutions may result in an increased standard of living for program beneficiaries.

Prepare Prospective Purchasers. Housing counseling is an essential part of every successful homeownership assistance program. Guidelines for housing counseling are discussed later in this guidance.

Clearly State Program Requirements and Benefits.

- Prospective purchasers must be fully informed of the obligations, terms and conditions of receiving assistance.
- The process of explaining program requirements may be initially time consuming for the agency but reduces the occurrence of problems in the future.

Be Realistic.

- Operating a home purchase program may be rewarding but it is often staff-intensive and expensive.
- The requirements of many homeownership programs require a long-term commitment by the administering agency and should not be overlooked.
- The program should be designed with simplicity in mind.
- Requirements should be straightforward and the process should be standardized as much as possible without sacrificing service.

1.9 Build Relationships

Lenders, real estate professionals, and Housing Counselors are the key partners in your home purchase program. In addition, if new construction is your chosen method of addressing homeownership, then a developer is also a key partner.

Prior to formally establishing your program parameters you must have discussions and build relationships with your program partners. Although the goals of each of these partners may be different, they are not incompatible. Your partners provide feedback and share with you their concerns about certain design issues. Your partners' concerns should be taken seriously, as without a lending institution willing to lend and Real estate professionals willing to refer buyers your program will not be successful.

In communities where there are few lending institutions, it is important to design a program that is compatible with the commercial lending institution's requirements or affordable housing programs and you will want to involve the lender very early in the program design process.

1.10 Implement the Program

1.10.1 Policies and Procedures

Before proceeding with your program, develop written policies and procedures to create order, train new and existing staff, and ensure fair and consistent treatment of all applicants. Homebuyer program policies and procedures should cover the following:

- Eligible homebuyers – Your policies should describe the households that are eligible to be assisted, including income levels (minimum and maximum), asset limits or standards (including funds for down payment and closing costs), first-time buyer status (if applicable) and other demographic or family characteristics that either are the basis of eligibility or priority/preference.
- Conflict of Interest – The policy for the presumption and treatment of potential conflicts of interest regarding persons who are related to the funding agency. This policy should address the award of contracts as well as benefits to individuals.
- Eligible forms of ownership – Describe the length and form of ownership that is acceptable, including (as applicable) 2-4 family, condominium, cooperative, life estates, land sales contracts, land leases, lease-purchase or other nontraditional forms of ownership.
- Eligible and targeted properties – Define the types and locations of properties that are eligible for assistance under the program. You need to think through what your policy will be if a property is too dilapidated to rehabilitate. There will need to be a guideline to follow when a program would be "throwing good money after bad." For example, if an experienced administrator is using CDBG funds, they obtain an estimate of after-rehab value. If the cost of improvements would exceed 80% of the after-rehab value, they do not proceed. If there are other resources to supplement CDBG funds, they may choose to rehabilitate the property.
- If you have funds for demolition of unsound structures, this should be described in your policies. If you intend to reconstruct housing that is not economically feasible to rehabilitate, your policies should describe the circumstances and the procedures you will follow.
- Eligible improvements – Reference the property standards that will be used in the program. Describe what work may be done, if anything, regarding rehabilitation or reconstruction of the property, the refinancing of existing debt, assessments, or overcrowded conditions. If the property is in a flood plain or Historic District or has been determined to be historically significant, describe what has to be done.
- Fair Housing, Marketing & Affirmative Marketing – Describe how you will meet the spirit and intent of Fair Housing and Equal Opportunity in reaching applicants. Whatever your planned efforts are to reach customers, describe what you will do. (Refer to the Guide to Program Compliance for more information on Civil Rights.)

- Policies should state that no one should be denied assistance based upon race, color, creed, religion, national origin, sex, marital status, reliance on public assistance, age, disability, or familial status. In your marketing section, you will have discussed outreach, but here's where you would also describe your efforts to reach under-served populations and to affirmatively market your program to owners and to local businesses, including contractors.
- Homebuyer Selection Procedures – Describe the procedures for application, intake and processing of applications for assistance. If you plan a first-come, first-served process, describe it. If you plan a lottery or a "window" for applications and then will rank them, describe that process
- Eligibility Verification – Income and assets verification will be crucial to your determination. Your guide should state what acceptable options are. Under most programs, income is calculated by projecting forward over the next year.
- Amount & Terms of Financial Assistance. The maximum and minimum financial assistance, as well as terms, to be provided by the CDBG or HOME funds. If your program will leverage other sources, describe them. If you are providing Deferred Loans, Principal Reduction Loans or Local Loans, describe the procedures. When there are canceled loans or repayments due to the enforcement of liens, describe what you plan to do with these funds.
- Project approval and appeals process – The procedure for packaging and reviewing applications, including the amount of information released to the reviewing body, must be described.
- Contracting Procedures – Describe the method that will be used to recruit and select contractors. Remember to include Women and Minority-owned businesses in your process. If your program will have contracts executed between construction or rehab contractors and owners, describe:
  - How the process will work and what the agency's role is in the process.
  - Desired time lines for events to occur and the schedule for interim inspections, pay-outs and required contractor documentation.
  - Procedures for resolution of conflicts that arise between the contractor and owner.
  - Criteria for consideration of change orders, and procedures regarding how they will be originated and approved.
  - Policies and procedures for terminating a contractor’s contract, and for stopping work and payments.
- File documentation – List the documents you intend to collect and track. Refer to the documents by the name you have given them. At a minimum, you will need to track all eligibility determinations on the applicant and the property, the inspection, approval, work write-up, and bidding, construction management, and close out.

1.11 Manage the Process

It is very important that the program administrator have adequate control of all the cases at the various stages of the pipeline. This is necessary to control administrative costs, manage staff workloads, ensure good customer service, and provide for fair treatment.

Examples of management information or tracking systems include:

- An application tracking system that follows the general progress of multiple cases;
- A status sheet that can be stapled to the outside of each file, enabling staff at different stages of the process to identify what has been done and what needs to be done;
- A completeness screening checklist; and
- A manager's monthly status report to track progress against goals, the amount of funds committed and still available.

Some veteran administrators indicate that it takes on average about two weeks to screen a completed application. They report a dropout of people even after they clear screening – some indicate about 20% dropout for personal reasons even after they are qualified.

1.11.1 Program Marketing

In order to reach the largest pool of applicants, the marketing should be broad throughout the targeted community. Once you have determined the program parameters discussed above -- geographic restrictions, household composition, form of subsidy, and minimum and maximum incomes -- you can prepare flyers or brochures. Some things to keep in mind:

- All printed material must contain the Equal Opportunity Housing logo.
- Local newspapers or radio stations will usually help publicize the program.
- Your agency can make presentations to service clubs, women's or business organizations, church and parent groups, schools or similar gatherings.
- You may wish to request that local employers allow you to leave flyers
- Supermarkets and Laundromats often have bulletin boards suitable for announcements.

Affirmative Marketing.

- Each agency should consider those populations that are underrepresented among homebuyers. They may include female-headed households, Native Americans, or seasonal farm workers.

- It is illegal to discriminate in any aspect of a housing program on the basis of race, ethnicity, gender, religion or disability.
- Care should be taken in program design so the program is open to all qualified buyers and they are afforded the opportunity to apply.

An introductory presentation or seminar is an integral part of every program-marketing plan. It ensures potential participants are aware of program parameters prior to applying and saves both you and the buyer significant time and frustration. This public presentation is an opportunity for potential applicants to ask questions and make decisions about pursuing homeownership while in an informal setting.

Many low-income homeownership programs have designed successful public presentations that include a panel of lenders and Real estate professionals. These presentations, held at a school, city hall or other public location, are an orientation to the affordable homeownership process and options. The panel members explain the home purchase process and define roles and responsibilities.

If the geographic area served by your program is large, you should offer a number of these introductory sessions in different locations. Public presentations should be made in the evenings and on weekends to ensure broad attendance. Local employers interested in increasing employee homeownership rates will often provide free space and are an ideal place to make presentations.

In addition to introductory meetings, your marketing efforts will result in a significant number of phone calls requesting information or applications for participation.

Usually applications are made available to be picked up or mailed out. To avoid the frustrations of accepting applications from ineligible households, agencies should conduct a brief phone screening to determine whether the household qualifies. You may wish to use a brief pre-application and, after determining whether the family qualifies, complete a more detailed application for financial assistance.

Either on the application itself or as a separate attached sheet, the documents that will be needed for the eligibility review appointment should be listed. This will reduce frustration for both you and the applicant. It gives the applicant the time to assemble the documents prior to the review appointment.

Although the agency should request and review all information, not all of it will be used to determine eligibility of each household. For example, a household with a sound credit rating may not require the benefit of current landlord information and copies of recent utility bills. Other information may be used to determine eligibility in more than one category. For example, a divorce decree may identify members of the household (dependents) and may also provide income (child support or alimony) and asset information.

1.11.2 Determining Income Eligibility

Once the pre-application has been received and reviewed or the phone screening indicates the applicant is eligible, you should set an appointment to review the application in detail. To determine income eligibility you must verify all of the documents that evidence household income. These include:

- wages, salaries, tips and commissions,
- self-employment income,
- income maintenance programs such as AFDC or SSI,
- retirement benefits such as Social Security, Pensions or Veterans Benefits,
- interest, dividends or rental income,
- child support and alimony, and
- all other income for tax purposes for the Internal Revenue Service.

Remember that annual income includes income from all family members and is projected for the future based on the income at the time of application. If there are discrepancies between the tax returns and the pay stubs, award letters, bank statements or other documents, you need to discuss these inconsistencies with the applicants. The lender will also require the information the buyers provide to you. The buyer should be informed that providing false information is illegal.

1.11.3 Credit and Debt Considerations

A major factor in the failure of applicants to become homebuyers is their credit rating or debt status. Many people do not understand what it means to have “good credit”. Some potential purchasers will have a limited credit rating or low credit score because they generally use cash. However, most people have paid utility bills and rent or perhaps a car payment.

If the family did not attend a group seminar, you should spend a lot of time discussing credit and debt during the initial appointment. The liabilities of homeownership and the impact of installment debt on the family’s ability to qualify for a mortgage must be explained early in the application process.

It is important to conduct a credit check as part of the eligibility process. You may choose to incur credit-reporting charges as a program cost or require the applicant pay the fee. The credit report must be reviewed carefully with the applicant prior to their making loan application.

A few observations and recommendations about the intake process:

- It may go without saying, but this is an intensive customer service activity that requires everyone handling the customers to be careful about customer etiquette. Make sure everyone answering the telephone knows who has responsibility for every step of each program. Let everyone know what to say when they answer the phone or talk to customers. All staff must know how to transfer calls without losing people. Have a system for letting the receptionist know who is available to handle inquiries every day.
- You must also plan for reaching and serving those customers with disabilities. Is your office accessible? What about the meeting rooms used for briefings? Arrange for staff to make in-home interviews under special circumstances. How will you enable those with hearing or sight impairments to apply? Be sure you have contacted advocacy agencies for these people so they have an equal opportunity and can get appropriate support from those agencies to assist with the application. Locate a TTY machine for those with hearing impairments so you can identify this telephone number in your literature. Your customers will also include people with limited reading ability. Read over any of your marketing materials with an eye for keeping things clear and easily understood.
- Use pre-application briefings and screening to help people "self-select out." Try not to waste their time and yours processing detailed applications that have little chance of success.
- Avoid intake procedures that create a rush or lineup at the office. This inundates staff, and creates the impression that being first in line means you will get a house.
- Don't process and certify applicants that you aren't going to be able to serve – it's wasted effort. Also, income certifications have a shelf life – six months in HOME – so you'll have to recertify them if you can't deliver assistance within that time. Process only enough to fill the available slots, and keep the next few in a "standby" mode on the waiting list.
- Don't determine or announce program eligibility without pre-screening or pre-qualifying the applicant for mortgage eligibility. Once again, an eligible candidate assumes that they are going to get a home, so don't create that impression until you know they are able to qualify for a mortgage.
- Be sure to think about outplacement. You are likely to have many more people that don't qualify or don't get assistance – many programs have 8, 10, or 12 unsuccessful applicants for every homebuyer assisted. This means the community is going to hear about you from more unhappy customers than happy ones. Don't just reject them, "outplace" them. Say "no" gently. Explain the reasons they didn't qualify. Give them specific actions that they should take, or refer them to credit counseling and other assistance. Be sure to let them know they are welcome to apply after they have addressed the issue.

1.11.4 Housing Education and Counseling

Now that it has been determined that the family is eligible and probably qualified to buy a home, you will want to schedule another meeting or series of meetings to explain the home purchase process in detail. Buying a home is one of life's major decisions and the process is complex. Using a certified housing educator and housing counselor can ease the process for both the program and the buyer. Some lenders require that counseling be provided in a specific format.

The pros and cons of homeownership may be covered at a group orientation, but you should be prepared to repeat this discussion directly with the family.

During the initial session and again during the pre-purchase counseling session, you should explain the homebuyer assistance available through your program. The concept of recapture or resale requirements needs to be introduced; these will be explained in greater detail after a home is selected and financing obtained, but is important that the buyers understand that a lien will be placed on their property.

Homeownership education and counseling are generally recognized as essential tools in helping address barriers to homeownership while providing a foundation for long-term homeownership, particularly for low-income households and first-time buyers. Many jurisdictions, lenders and funding sources require homeownership education and counseling as a condition of receiving assistance or being eligible for specific mortgages or interest rates. Public subsidies can address some financial obstacles to homeownership, but other obstacles remain. For many potential first-time homebuyers the frame of reference for housing expenses is a monthly rent check; the concepts and jargon of the home buying process may prove intimidating or confusing.

The homeownership education industry differentiates between education and counseling. Education is generally a series of workshops focused on the process of becoming a homebuyer. The purpose of education is to create comfort level for the first-time or low-income homebuyer. Counseling is always a one-on-one effort focused on individual preparedness for and responsibilities of homeownership.

Homeowner education and counseling provide the following four benefits to homebuyer education and counseling programs:

- Education and counseling forge a critical link between first-time homebuyers and an increasingly complex housing industry
- Education and counseling helps families gain access to mortgage financing
- Education and counseling prepare families for the long-term financial and maintenance responsibilities of homeownership
- Education and counseling promote the success of homebuyer programs

Often, homebuyers require a combination of education and counseling assistance. There are five phases of homeownership education and counseling:

- Outreach. Many potential homebuyers, particularly members of traditionally under-served populations, are unaware that homeownership is a possibility for them. Outreach can be used to inform the community about homeownership and about available programs. Examples of outreach include homebuyer fairs, literature distributed at community centers, education programs in local churches, and adult education programs at schools.
- Pre-Purchase Education. Pre-purchase education occurs before the closing on the home and teaches borrowers about the steps involved in purchasing a home and the ongoing responsibilities of homeownership. Topics include obtaining and managing credit, selecting a home, conducting a home inspection, choosing appropriate financing, calculating closing costs, monthly budgeting and the need and importance of home maintenance and repair.
- Pre-Purchase Counseling. Pre-purchase counseling occurs after pre-purchase education but before the closing. Counseling focuses on the individual's credit and budget situation. It helps the homebuyer create a budget that incorporates the responsibilities of homeownership. It also helps to clear up existing credit concerns or problems and to create a plan for avoiding future budget and/or credit problems.
- Post-Purchase. Post-purchase education and counseling provide contact and support after the home has been purchased. The help the homebuyer handle ongoing responsibilities of homeownership, including maintaining credit, managing a financial crisis, and dealing with home maintenance. It also helps to educate owners about predatory lending practices.
- Foreclosure Prevention. Foreclosure prevention or intervention counseling is conducted when a homebuyer has difficulty keeping up with scheduled mortgage payments. If notified well before default occurs, a qualified intervention counselor can often suggest a remedy acceptable to both the homeowner and the lender.

There are literally hundreds of homeownership programs available throughout the country, all intending to educate first-time homebuyers. The quality of the materials varies widely and not all programs are equal!

Currently, no industry standards exist for evaluating the quality of homeownership education programs or those that certify educators or counselors. However, there are a number of resources available:

HUD's Housing Counseling Clearinghouse
1-800-217-6970 – General Information
1-800-569-4287 – Counselor Referral Line
1-800-358-6216 TTD Access
http://www.hud.gov

American Homeowner Education and Counseling Institute

1156 15th Street NW, Suite 1220
Washington DC 20005
1-888-AHECI-99
http://www.aheci.com

Neighborhood Reinvestment Corporation
1-800-438-5547

The National Foundation for Consumer Credit
1-800-388-2227

1.11.5 Follow-up

Your job is not over when the family moves into the home. Agencies should follow-up approximately three months after loan closing to ensure the family is not experiencing any immediate difficulty. This is a good time to remind the family of responsibilities of homeownership, especially maintenance and budgeting.

Agencies should be prepared to provide additional guidance in the event an assisted family becomes delinquent on their mortgage payment or other credit or budget problems arise. Don't be surprised to hear from the family the first time a major maintenance issue arises. The family is still in transition and may need your guidance regarding many issues.
You should invite the family to attend other briefing and housing counseling sessions that your agency provides. These sessions can refresh the family's understanding of their responsibilities.

1.12 Resale and Recapture

If your program is designed with recapture provisions to ensure the home is sold to another low-income buyer during a specified period of time, you must be prepared to respond quickly to assisted purchasers and title companies. Often, when the original buyer is ready to sell their unit they are purchasing another home, moving out of the area, or experiencing financial difficulty and you do not want to be in the position of delaying the sale of the unit. You may wish to keep a waiting list of qualified families or establish a fund that enables your agency to acquire the property for resale to a qualified buyer.

Because the sale of a home is time sensitive, it is essential that your agency retain original homebuyer records in a convenient location. With recapture programs you must be prepared to calculate the amount of subsidy that must be returned to your agency. During the period of resale or recapture, it is also necessary for your agency to ensure that at least one staff person understands the requirements of the program and can respond promptly and efficiently to all such requests.

1.13 The Buyer's Responsibilities

1.13.1 Finding a Real estate Professional and Selecting the Home

Now that the applicant is income eligible for the program, has sufficient resources to pursue homeownership in the local market and seems serious about the responsibilities, it is time to look for a house. In addition to understanding how much they can afford, the potential buyer needs to think about location, size, amenities, proximity to school, shopping or work and other factors. It is important that the buyer feel comfortable and safe in the selected area.

Because the process can be complex, it is advisable for buyers to obtain the services of a real estate professional. In some cases, a real estate professional will have referred the buyer to the program. In other cases, the buyer will need to find a real estate professional with whom they will work.

In smaller communities, the number of residential real estate professionals or brokers may be limited. You may have a list of real estate professionals interested in participating in the program, but you must allow the buyer to select.

1.13.2 Making an Offer

When the family has found a house they like and can afford, they are ready to make an offer. The offer should be based on the condition of the house and the local market. In rural areas, finding comparables may be difficult, but the real estate professional or listing agent for the house should be able to provide some type of listing or sales information for the area.

The buyer will submit a written offer to the seller through the real estate professional. The real estate professional is obligated to deliver the offer. The seller may accept the offer, reject it or make a counter offer. The real estate professional carries these offers back and forth until a final purchase price with contingencies is agreed upon. Explain to the buyer that they will have to deposit "earnest money" into an escrow account usually made out to the Title Company or the real estate broker.

The contract should include any items that stay with the house such as fans, appliances or other fixtures or furnishings. It will also include a time for the seller to move, usually by closing.

1.13.3 How the Agency Can Help the Buyer

- Advise the buyer to speak honestly about their preferences and what they can afford. The buyer should ask to see all available houses in their price range and desired location.
- Inform the buyer that they have the right to make a reasonable offer below the selling price and to negotiate. It is important that the buyer understand that real estate professionals and brokers often work for the seller.
- Let the buyers know it is critical to ask as many questions as they like about age and condition of the house, the neighborhood, and the schools.
- Remind the buyers that although they may need to lower their expectations, they should not offer to buy something that does not meet their needs or will require a substantial investment in major housing systems
- If they find a house they like, encourage them to go back more than once, at different times of the day and at night, before making an offer.

1.13.4 Contingencies

Because a public subsidy will be provided, there are likely to be some required contingencies in the purchase contract.

- To avoid relocation concerns, the home must be vacant or owner-occupied to avoid the payment of relocation benefits.
- The offer must be contingent upon the buyer obtaining financing. If the buyer is unable to secure a mortgage, the deposit is returned and the deal is canceled. However, your buyer must make a good faith effort.
- The buyer should include a contingency that the value of the home is confirmed with an appraisal or the sales price may be renegotiated based on the appraisal.
- When using federal or state funds for home purchase assistance, the home must meet minimum housing quality standards or local code prior to occupancy by the assisted buyer. Therefore, another contingency should be a home inspection.

1.13.5 Inspections and Appraisals

As part of your program design, arrangements should be made with a private contractor, licensed home inspector, City, County, or Housing Authority inspector to evaluate the condition of the house. The buyer needs to be advised regarding major systems that require repair or replacement, as well as about structural defects, and substandard items. In some cases, the seller may be persuaded to lower the price or make the repair prior to closing.

If the buyer has been advised of potential costly repairs and chooses to proceed, the agency should again discuss budgeting and saving. Most subsidized buyers cannot afford a major system failure during the first years of homeownership. If they need to replace the roof, major plumbing, electrical, cooling or heating, they may be unable to pay the mortgage. This sets up a dynamic of late payments that can lead to foreclosure.

A final inspection is often done just prior to closing to assure that all systems are working and that the seller has completed any agreed-upon repairs. Homes should also have a termite inspection paid for by the seller and completed prior to loan closing.

Whenever possible, the buyer should accompany the inspector to learn more about the home and to get an understanding of maintenance, code compliance, and the operation of heaters, coolers, water heaters and other systems. The inspector should give the buyer a written report detailing structural defects, condition of the sewer or septic system, roof, doors and windows and operation of the major systems.

1.13.6 Obtaining a Mortgage

Now that the offer has been accepted, the homebuyer will finalize the financing. Given the challenges facing most low-income and first-time homebuyers, the buyer should be pre-qualified for a loan. Depending upon the type of subsidy you are offering and your relationship with the lending institution, you may require the buyer go to a specific lender. However, if your program is not directly linked to a specific lending institution's product, the buyer must be allowed to select any mortgage lender they choose.

- The buyer should be advised to ask questions about interest rates, points, fixed or adjustable rate mortgages, fees and whether they qualify for VA or FHA loans.
- You will need to prepare the buyer for the difficult task of obtaining a mortgage and you may need to occasionally act as a liaison to assist the lender or the family.

The family must understand the need to cooperate very closely with the lender and provide complete, accurate and timely information. They need to be prepared for the long wait between mortgage application and approval -- sometimes from an out of state underwriter. At this stage, the relationship between you and the buyer may decrease as their primary contact is with the loan officer. However, you need to continue to reassure them and work closely with the loan officer regarding the subsidy to be provided. In some instances, you may wish to assist the buyer in completing the loan application.

1.13.7 Loan Processing

After the homebuyer has completed a loan application, an appointment will be scheduled with the loan officer. The buyer will be requested to bring:

- copy of the purchase contract
- bank account numbers, recent bank statements

- tax returns, pay stubs, other proof of income
- list of creditors, current loan amounts
- evidence of rental and utility payments

You will have screened the buyer and the buyer will have pre-qualified so there will be no surprises. Explain to the homebuyer that the lender is looking for capacity to repay, credit history, capital sufficient to make the down payment and maintain the house, and collateral.

There is usually an application fee that covers an appraisal and any credit reports. The homebuyer should be advised that fees must be paid at the time of mortgage application. You may choose to reimburse them in covered closing costs or let the homebuyers assume these payments on their own. At this time, based on the best information available, the lender will give the buyer a "Good Faith Estimate" describing the closing costs and other charges.

The lender will also arrange for an appraisal. If the appraisal is less than the sales price, the lender will loan less. If this is the case, the buyer will need to come up with additional down payment. If a contingency clause has been included in the contract, the purchase price may be renegotiated.

Once the loan is approved, a time will be set for closing.

- Make sure that your buyer understands all provisions of the loan including loan amount, down payment, monthly payments, points, and terms.
- You should also review the note and lien for the amount of subsidy so the buyer understands all the documents he will be signing at the closing.

1.13.8 Closing

The buyer normally pays for title insurance, fees and other charges. These will be part of the closing costs. In some parts of the state, a survey may be required to determine the exact boundaries of the property. This cost is also the buyer's. The buyer must also obtain homeowner's insurance, which is typically added to the monthly mortgage payment. The lender will require insurance for at least the replacement value of the home. The buyer will also want to include the value of the contents in the insurance coverage.

1.14 Summary

There are nine essential steps in designing a homeownership assistance program. The first of these steps is the identification of common barriers to homeownership. Common barriers are those associated with market conditions, buyer conditions or both. Each barrier may be addressed in one or more ways and multiple barriers generally exist in any given area.

The identification of available affordable housing in your service area is also a key step in homeownership program design. Like barriers, the type and cost of available housing in your service area will impact the goals and objectives of your program. The three primary goals of homeownership are to stabilize property values and the quality of life in an area, to stimulate development, and to increase the homeownership rate. You may have more than one goal for your program and each goal may have multiple objectives.

Your program design will be impacted by many considerations. Political considerations regarding the location of units to be purchased and the length of residency, will impact your pool of potential applicants. Each federal and state program that is accessed will have multiple requirements that must be met. Available private sector financing options will further define your options.

Strong relationships with your local, state and federal partners will enable you to deal effectively with the myriad of barriers, resources and requirements. The key partners at the local level are real estate professionals and lenders. Real estate professionals and lenders are familiar with the local housing market conditions and involving them early in the program design process will ensure your program operates successfully. If you are planning a new construction project, a developer is another key partner.

Implementing your program will require another set of skills. The program must be marketed to ensure that eligible beneficiaries are reached. You must be prepared to explain the program during public meetings and over the phone. Care should be taken to avoid the mutual frustration of ineligible buyers completing application forms. Your funding source(s) and lender(s) may provide the guidelines for program subsidy but you will need to design forms and other documents that are used during the application, screening, and counseling processes.

Pre- and post-purchase counseling are essential to the success of program participants. Even the most well designed program will not be considered a success unless it prepares participants for the responsibilities of homeownership. Many lenders will require a specific counseling format. Fannie Mae, FHA and other agencies provide useful counseling materials. Your program partners should also be a part of the counseling process.

The rewards and challenges of homeownership programs are many. Taking the steps outlined in this document will enable your agency to design and manage a program that meets the needs of low-income households and overcomes the barriers to homeownership