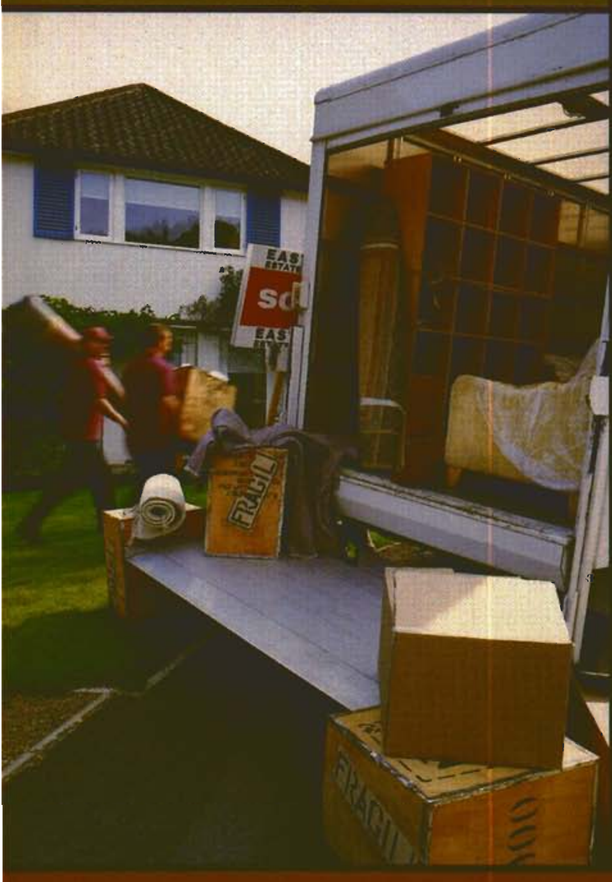
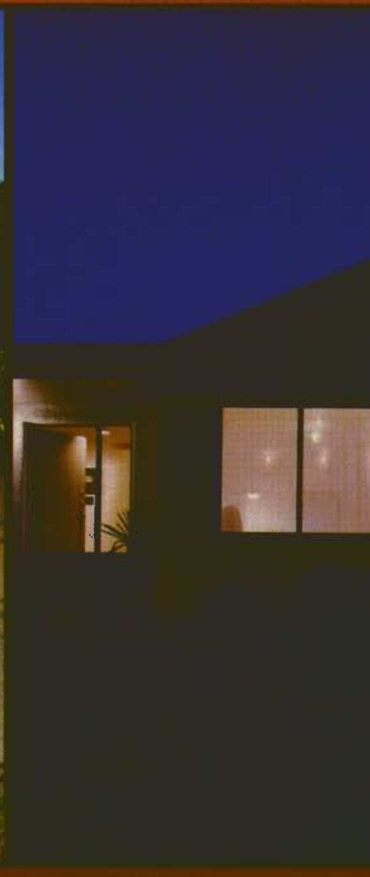
Volume I

Voucher Homeownership
Program Assessment





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Voucher Homeownership

Program Assessment

Volume I
Cross-Site Analysis

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Foreword

One of the top priorities of the U.S. Department of Housing and Urban Development is to expand homeownership opportunities for low-income families. Homeownership provides a family with a stable environment to live and raise their children. Homeownership increases a family's stake in the community. When a family owns their own home they build equity and accumulate wealth, which helps the family live the American Dream and improves the national economy by increasing the family's purchasing power.

The homeownership option in the housing choice voucher program (Voucher Homeownership Program) offers public housing agencies the administrative flexibility to expand homeownership efforts in their communities. The basic premise of the homeownership option is that the subsidy payment that assists a program participant with the rent may instead be used to help a first-time homeowner pay for their monthly homeownership expenses. The idea to permit tenant-based rental assistance to be used as homeownership assistance was first authorized when the Housing and Community Development Act of 1992 created section 8(y) of the United States Housing Act of 1937. However, the program as initially enacted was not viable, and Congress subsequently amended section 8(y) as part of the Quality Housing and Work Responsibility Act of 1998. HUD issued the proposed and final rules for the Voucher Homeownership Program in 1999 and 2000 respectively.

This study is an assessment of the early implementation of the Voucher Homeownership Program. The purpose of this study is to provide insight into aspects of the program that are working well and those that are problematic. Although it is too premature to conduct a complete evaluation of the program at this time, this study provides useful information about how the Voucher Homeownership Program has been designed and implemented in different parts of the country, the characteristics of program purchasers and properties purchased, and the local factors that affect program implementation.

The overall results of this early study are encouraging – the program can work to provide low-income working families with the opportunity to afford decent, safe, and sanitary housing that is their own. In a geographically diverse sample of 12 housing agencies, this study found that more than three-quarters (78 percent) of the purchasers in the sample are female heads of household, the median income of purchasers in the sample is $17,377, and almost half (48 percent) of the purchasers in the sample are minorities. The majority of voucher homeownership program participants in the sample purchased two- or three-bedroom single-family detached houses in neighborhoods with slightly higher incomes and greater residential stability than the neighborhoods where they had been renting.

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Executive Summary

The idea of allowing low-income families to use voucher assistance to purchase housing is not a new one. In 1992, section 8(y) of the United States Housing Act of 1937 authorized the use of tenant-based assistance for eligible families who occupied homes purchased and owned by family members. However, it was not until the passage of the Quality Housing and Work Responsibility Act of 1998 and HUD's issuance of proposed and final rules for the voucher homeownership program that PHAs were able to offer low-income households the option to use their vouchers for homeownership.

The voucher homeownership program is a component of the housing choice voucher program. The principal difference between the housing choice voucher rental program and the voucher homeownership program is that homeownership program participants use the monthly housing assistance provided by the voucher to help pay the homeownership expenses on a housing unit that they purchase, rather than to pay rent. The homeownership program also has some distinct regulations. (The differences between the rental and homeownership components of the housing choice voucher program are summarized in Appendix B of this report.) The regulations for the voucher homeownership program were established in the proposed and final rules for the program, published in April 1999 and September 2000 respectively.

As of September 2002, HUD estimates that the voucher homeownership program has helped approximately 500 low-income families become homeowners. (Exhibit A-2 in Appendix A of this report provides a list of the approximately 100 PHAs offering the program as of September 2002.) The families who have purchased through the voucher homeownership program include families with children, families headed by persons with disabilities, and families headed by persons aged 62 and over. Minorities make up a substantial share of purchasers to date. The annual incomes of the program purchasers sampled for this study range from approximately \$5,800 to \$35,000.[1] The purchase prices of the homes purchased range from \$32,500 to \$167,300.

Overview of the Study

HUD contracted with Abt Associates Inc. in 2001 to describe the early implementation of the voucher homeownership program and to provide insight into aspects of the program that are working well and those that are problematic. The study examines how the program has been designed and implemented in different parts of the country, the characteristics of program purchasers and properties purchased, and the local factors that affect program implementation. The study also provides practical information to PHAs that may be interested in offering the voucher homeownership program.

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1 This study includes PHAs authorized to operate the voucher homeownership program under the proposed rule as HUD pilot sites as well as PHAs operating the program under the final rule. The proposed rule did not establish a minimum income requirement for program participation. Under the final rule, which applies to all PHAs with the exception of the HUD pilot sites, households must have an annual income of at least \$10,300 in order to participate in the program.

This study is the first assessment of the program at this early stage of its implementation. The study focuses on program implementation in 12 locations across the country:

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

The 12 study sites were selected to include both PHAs that are operating their programs without outside resources (beyond the voucher program) to defray the cost of administering the program and PHAs that are offering the program as part of the Neighborhood Reinvestment Corporation (NR)'s voucher homeownership demonstration. Under the demonstration, as of May 2002, NR has provided funding to 21 of its local NeighborWorks affiliates—community-based organizations that work with low-income homebuyers and homeowners—to partner with PHAs to implement the voucher homeownership program. In fiscal year 2001, Congress provided $5 million to NR to support this initiative. In fiscal year 2002, Congress appropriated an additional $10 million to continue support for these local partnerships.

A second site selection criterion was that at least one family at the site had purchased through the program as of November 2001 when site selection was conducted. After satisfying these two criteria, we selected sites covering a range of program designs, geographic locations, and PHA characteristics. However, the 12 study sites were not intended to be representative of any broader pool of homeownership programs, housing markets, or PHAs.

Data Collection and Analysis

Abt Associates assembled a team of experienced site visitors to spend two days at each of the 12 study sites interviewing program staff, partners, and participants. In addition to these in-depth interviews, we gathered data on families who have purchased through the program and on families who are planning to purchase, as well as detailed information on how the purchases are financed. Finally, we collected Census data at the neighborhood level to evaluate how the neighborhoods in which families purchase compare to the neighborhoods in which they were renting.

Together, these sources of information provide a rich picture of the early implementation of the voucher homeownership program in 12 quite different local contexts. Because the program is at such an early stage and the questions of interest about the program are wide ranging, we attempted to provide as complete a picture as possible of the program's early implementation, even if in some cases the results must be considered preliminary.

The study draws on complementary analytical techniques—case studies and cross-site analysis. The study findings are organized into two volumes based on these different modes of analysis. Volume 1 of the report—the *Cross-Site Analysis*—highlights common themes and patterns across the study sites, including lessons learned from the early implementation of the voucher homeownership program. Volume 2 of the report—the *Case Studies*—provides a detailed examination of the program at each study site and tells the story of program implementation from the point of view of local program staff, partners, and participants. The case studies discuss in detail the choices made regarding program design—including eligibility and recruitment, financing arrangements, and counseling—as well as the experiences of PHA staff and program participants to date.

Findings on Program Design and Implementation

One of the goals of this study was to document how the voucher homeownership program is being implemented across the country. Unlike the regulations applicable to many other HUD programs, the voucher homeownership regulations established mandatory requirements covering only a few areas of program operations, such as minimum income and employment requirements, mandatory pre-purchase counseling, and term limits on the provision of homeownership assistance. Otherwise, the regulations give PHAs flexibility in tailoring the program to local conditions.

We found that within the program's regulatory framework, the decisions that PHAs and their partners made in designing and implementing the program were shaped by local opportunities and limitations. Key contextual factors include staff capacity at the PHA, the availability of local partners, lender support for the program, the local housing market, and the characteristics of the PHA's voucher population. The study examined how these and other factors influenced five areas of program design and implementation: targeting and outreach; pre-purchase counseling; home search and inspections; home purchase financing; and post-purchase activities.

Targeting and Outreach

- ***The study sites took varied approaches to identifying prospective homebuyers for the program.*** Some sites conducted broad outreach to current voucher participants, many of whom were not expected to be ready to purchase in the short term. Others focused outreach efforts more narrowly, targeting households believed to be able to purchase quickly. Decisions about how many and what type of households to target for the program were shaped by the local availability of key program resources, such as resources for homeownership counseling.

- ***Several study sites initially planned to target participants in the PHA's Family Self Sufficiency (FSS) Program, but subsequently either eliminated the FSS participation requirement or reduced the emphasis on FSS participation as a selection criterion.*** These sites initially saw the voucher homeownership program as a logical extension of FSS activities. However, most sites found sufficient numbers of voucher households with stable employment and adequate incomes to make the homeownership program feasible without focusing solely on FSS participants.

Pre-Purchase Counseling

- ***Ten of the 12 study sites rely on outside agencies to provide the pre-purchase homeownership counseling required for the program.*** At eight of the 12 sites, the counseling is being offered by an NR-affiliated NeighborWorks organization. These eight sites include five sites participating in NR's voucher homeownership demonstration and three sites that are not part of the demonstration but have nevertheless partnered with local NeighborWorks organizations to provide counseling to program participants. Of the four study sites not offering the counseling through NeighborWorks organizations, two sites are working with HUD-approved counseling agencies that provide the counseling free of charge. At the other two sites, the PHA chose to provide the counseling in-house. In one case, the PHA could not identify an appropriate counseling provider in the area. In the other case, the PHA would have had to pay the outside provider for counseling services.

- ***The content of the pre-purchase counseling is similar across the study sites and generally covers the topics recommended in the final rule***. These topics include: budgeting and money management; credit; what to look for in a home and neighborhood; how to obtain financing; how to avoid predatory lending; Fair Housing issues; and home maintenance. The number of hours of counseling required ranges from a low of four hours in Colorado to a high of 16 hours in San Bernardino. Most of the study sites use a combination of individual and classroom training formats.

Home Search and Inspections

- ***The program does not require that PHAs provide search assistance to participants as they look for houses to purchase, and few of the study sites have done so.*** All of the sites cover the search process in the pre-purchase counseling. In addition, some sites have reached out to local realtors to educate them about the program and to build support for the program, although other sites were concerned about steering participants to particular realtors. Program participants' opinions of realtors were somewhat mixed. Some participants reported that they had a good experience with their realtor, but others went through one or two realtors before finding one they felt understood the program and had their best interests in mind.

- ***Homes purchased through the program must have an independent inspection in addition to passing HUD's Housing Quality Standards (HQS).*** The dual inspection requirement has played an important role in preventing some families from buying homes that may have required major repairs in the first few years of homeownership. Program staff noted several cases in which participants opted not to pursue a sale following problems identified by either the HQS or the independent inspection.

Home Purchase Financing

- ***The study sites are using three different models for applying the voucher assistance to home purchase transactions***. In the first model, the voucher subsidy (the Housing Assistance Payment, or HAP) is counted as an addition to the household's monthly income and the lender uses this combined income to determine the amount of the mortgage for which the household qualifies. In the second model, the amount of the mortgage is determined by adding the full amount of the HAP to the monthly payment that the purchaser could have made based on his/her own income. In this way, the HAP is not counted as income but is used directly to offset the monthly mortgage payment. In the third model, the HAP is used to pay a second mortgage while the borrower's income is used to pay the first mortgage.

- ***The financing models have different implications for the borrowing power of program participants and for the payment burden that participants may face at the end of the term of assistance.*** For example, the second model, known as the *HAP as offset* model, creates the greatest borrowing power for the participant but also carries the greatest risk that the participant will face a high payment burden at the end of the term of voucher assistance (10 or 15 years for non-elderly, non-disabled buyers and 30 years for elderly buyers or buyers with disabilities, depending on the term of the mortgage). Chapter 4 provides a full discussion of the different financing models and their implications.

- ***All of the PHAs in the study have established basic policies to help prevent program participants from obtaining financing that will not be affordable over the long term***. For example, all of the sites prohibit mortgages with balloon payments. Some sites also disallow seller financing and/or adjustable rate mortgages.

- ***Many program purchasers need—and all of the study sites make available—additional subsidies beyond the voucher assistance***. These additional subsidies include grants and loans to cover down payment and closing costs and first mortgages with below-market interest rates. Across the 12 study sites, the amount of additional subsidy that participants received *at the time of purchase* (mainly through grants and forgivable loans) ranged from $1,500 to $13,500, with an average subsidy at purchase of $4,784. All participants also receive an *ongoing monthly subsidy* through the voucher program and, in some cases, through below-market interest rate loans. The value of the ongoing monthly subsidy over the life of the mortgage is typically much greater than the value of the subsidy at purchase. The majority of the monthly subsidy comes from the voucher assistance. The amount of voucher assistance can vary significantly based on the income of the purchaser, the purchaser's household size, and total housing costs. The monthly voucher assistance among the purchasers sampled from the study sites ranged from $87 to $762, with an average of $341.

Post-Purchase Activities

- ***Thus far, the sites have focused their resources on the pre-purchase components of the program—helping families to get to the point of purchasing.*** Few sites have developed a counseling component for program participants *after* they purchase. The program regulations do not require PHAs to provide post-purchase counseling; however, such counseling is advisable to help program participants learn to budget effectively for home repairs and other homeownership expenses beyond the mortgage. In addition to not providing post-purchase counseling, most sites have not yet developed effective mechanisms for monitoring participants' monthly mortgage payments and providing early intervention in the case of delinquency.

Findings on Program Outcomes

An important goal of the study was to analyze the early outcomes of the voucher homeownership program based on information gathered during site visits and supplemented by data from HUD and the U.S. Census Bureau. Because the program is still at an early stage of implementation, the study overall focuses more on process issues than on program outcomes. However, the study findings on outcomes—*based on a sample of 84 purchasers*—provide an initial picture of the characteristics of program participants, the units they have purchased, how the purchases were financed, and participants' views of the program.

Characteristics of Program Participants

- ***More than three-quarters (78 percent) of the purchasers in the sample are female heads of household.*** Seventy-two percent of purchasers in the sample are households with children. By comparison, female heads of household make up 75 percent of participants in the rental voucher programs at the 12 sites. Households with children make up 55 percent of participants in the rental voucher programs at the 12 sites.

- ***The voucher homeownership program is serving the same share of persons with disabilities as the rental program.*** In one of the 12 study sites, the voucher homeownership program serves exclusively persons with disabilities. In two other sites, the PHAs have partnered with local organizations that help persons with disabilities become homeowners. Overall, 35 percent of the purchasers in the sample were persons with disabilities. Persons with disabilities represent approximately the same share (35 percent) of rental voucher participants across the 12 study sites.

- ***The median income of the purchasers in the sample is $17,377, which is more than twice that of rental voucher participants at the sites.*** The voucher homeownership program has generally been successful in serving higher income voucher-eligible families who are most likely to be able to afford homeownership. However, households with annual incomes at the program minimum ($10,300) have also been able to purchase through the program.[2]

[2] At the HUD pilot sites authorized to offer the program under the proposed rule, in which there was no minimum income requirement, households with incomes as low as $5,800 have been able to purchase homes.

- ***Almost half (48 percent) of the purchasers in the sample are minorities.*** In addition, 58 percent of the households working toward homeownership across the 12 study sites are headed by minorities. By comparison, 54 percent of the households in the rental voucher program across the 12 sites are headed by minorities.

Characteristics of Units and Neighborhoods

- ***The majority of voucher homeownership program participants in the sample bought two- or three-bedroom single-family detached houses.*** However, some purchasers have bought condominiums and townhouses. About one in five purchasers bought units built within the last two years.

- ***The program participants in the sample tended to purchase in neighborhoods with slightly higher incomes and greater residential stability than the neighborhoods where they had been renting.*** Based on neighborhood characteristics measured from 1990 and 2000 Census data, participants tended to purchase in neighborhoods with slightly higher homeownership rates and more single-family detached housing than existed in the pre-purchase neighborhood. In addition, the average poverty rate in the neighborhoods where participants purchased is slightly lower (based on 1990 data) than in the pre-purchase neighborhoods (16 versus 18 percent). Twelve of the 84 purchasers in the sample bought the unit that they had been renting through the voucher program.

Characteristics of Home Purchase Financing

- ***The voucher homeownership program has the capacity to serve families with a range of incomes in a range of housing markets. However, in sites where housing is particularly expensive, additional subsidy may be needed beyond the voucher to make homeownership affordable to program participants.*** The additional subsidy typically includes: mortgages with below-market interest rates; grants, forgivable loans, or deferred loans for down payment and closing costs; or some combination of these types of subsidies.

- ***Analysis of the sample of 84 purchase transactions suggests that more than half of program purchasers have loan-to-value ratios of 100 percent or higher.*** These purchasers have no equity in the property at the time of purchase, although they will gradually build equity as they pay the mortgage. Many participants also receive loans at the time of purchase (for example, to help with the down payment) that are forgivable and will become equity if the purchaser remains in the home for a certain period of time, usually five years.

- ***Monthly homeownership expenses (which include the monthly mortgage payment plus utilities and additional estimated expenditures for maintenance and repairs) represent less than 50 percent of gross monthly income for 87 percent of program purchasers.*** The monthly mortgage payment alone (principal and interest plus taxes and insurance) represents less than 30 percent of gross monthly income for close to 90 percent of program purchasers.

Participant Views

- ***Program participants are generally satisfied with their houses and neighborhoods, comfortable with their financing terms, and pleased with the assistance provided by PHA staff, counselors, and lenders during the purchase process.*** Most participants interviewed were overjoyed at having been able to purchase a home. Several conveyed a sense of disbelief that they had achieved their long-held goal of homeownership.

- ***Most participants reported that they chose the voucher homeownership program as a way to stabilize their families and build an asset for the future.*** Many described the program as a chance to do better for themselves and their children.

- ***Participants generally found the counseling useful, but given the many details associated with the home purchase process, they also described it as overwhelming.*** Several participants suggested that they would benefit from additional counseling now that they are homeowners, particularly on budgeting and home maintenance.

Findings on Implementation Challenges

A final goal of the study was to investigate the challenges that PHAs and their partners have faced in implementing the program and to identify issues that might present future challenges for the program. Among the 12 study sites, the main implementation challenges were developing relationships with lenders, preparing voucher households for homeownership, and finding staff resources to administer the program.

- ***Developing partnerships with local lenders has been one of the biggest challenges to program implementation.*** Building effective partnerships with lenders is crucial to assisting households to purchase. In some communities, however, lenders have been reluctant to participate in the program due to concerns about loan servicing and selling the loans on the secondary market. These sites are still struggling to build effective lender relationships.

- ***Preparing households for homeownership has been a challenge for all sites, particularly given the poor credit of many program applicants.*** Most sites have partnered with local nonprofit counseling agencies to provide the required pre-purchase homeownership counseling to program participants and to help prepare participants for homeownership. However, the need for an extended period of support (in some cases one to two years) to help program applicants repair their credit and build savings has strained staff capacity at some sites.

- ***Even with effective partnerships in place, the voucher homeownership program at this early stage requires considerably more PHA staff time than the rental voucher program.*** At several sites, program staff reported that staff capacity at the PHA and partner agencies is a limiting factor on the number of households that can be served through the program. Planning and designing the voucher homeownership program tends to require a high level of staff effort by senior PHA staff, such as the Executive Director or Housing Choice Voucher Program Director. Once the program is implemented, the amount of staff time and the involvement of senior staff decrease significantly, but assisting families to purchase continues to require a high level of staff effort. However, the likelihood that homeowners are much less likely to move, coupled with the fact PHAs do not evaluate and approve rent increases and are not required to conduct annual HQS inspections for homeowners, should eventually offset the "up-front" costs of implementation and the initial transition of families into homeownership.

Program Outlook

At this point in the implementation of the voucher homeownership program, less than two years since the publication of the final rule, PHAs and their partners have focused on assisting qualified households to purchase houses in good condition and under financing terms that will be affordable over the long-term. The 12 programs that form the basis of this study have been effective in developing the partnerships, financing arrangements, and management strategies necessary to maximize the opportunities presented by their local markets and minimize the constraints.

Given the experiences of the study sites, it is reasonable to expect that the program will be able to assist eligible households to purchase modest housing in a variety of housing markets, with the possible exception of the most expensive markets in the country. However, homeownership vouchers are unlikely to become a large share of the overall voucher programs at those PHAs offering the homeownership option. Most PHAs in this study anticipated that between 10 and 20 households would be able to purchase through their programs each year. The size of a PHA's voucher homeownership program is constrained by the number of qualified households (particularly households with sufficient credit standing to qualify for a mortgage), the availability of staff resources to assist households to become purchase ready, the availability of additional subsidies beyond the voucher (such as below-market interest rate loans and down payment assistance), and the availability of affordable housing stock for purchase.

Supporting program participants after they purchase—through counseling, loan tracking, and other activities—is likely to be a key challenge for PHAs and their partners as the number of homebuyers grows. The ultimate measure of the program's success will be the extent to which participants are able to meet their mortgage payments, build equity, and become self-sufficient over the long term. Although it is too early in the program's history to evaluate its success along these dimensions, this study sets the stage for continued assessment and monitoring that will be critical to understanding the long-term results of the program.

Chapter 1
Introduction

In 2001, Abt Associates Inc. began a HUD-sponsored study of the early implementation of the voucher homeownership program. The program is also known as the Housing Choice Voucher Homeownership Program or the Housing Choice Voucher Program—Homeownership Option. (For the remainder of this study, we refer to the program as the voucher homeownership program.) Abt assembled a team of site visitors with experience in the housing choice voucher program to study 12 public housing agencies (PHAs) across the country that had implemented voucher homeownership programs.

This document presents the final report on the study findings. The report is structured in two parts. Volume 1 presents the findings on program implementation and outcomes across the 12 study sites.[1] Volume 2 presents case studies on the 12 study sites that describe in detail the individual voucher homeownership programs and form the basis for the cross-site analysis.

The remainder of this chapter introduces the study and the report, discussing the study background, objectives, site selection process, data collection approach, and report structure.

1.1 Study Background

The voucher homeownership program is authorized by section 8(y) of the Housing Act of 1937, as amended by section 555 of the Quality Housing and Work Responsibility Act of 1998. Under the program, homeownership is considered a "special housing type," like shared housing or group homes. Like other special housing types, PHAs have the choice of whether or not to offer homeownership as part of their housing voucher programs. Furthermore, like other special housing types, HUD does not provide additional units or special funding for PHAs that elect to provide the homeownership option for program participants.

The proposed rule for the voucher homeownership program was published in the Federal Register on April 30, 1999.[2] Fifteen PHAs, including six sites in this study, were ultimately approved to operate pilot programs under the proposed rule. When the final rule was issued, these PHAs were given the choice to continue operating under the proposed rule or to amend their policies and procedures to comply with the final rule. HUD issued the final rule for the voucher homeownership program on September 12, 2000.[3] After the study was conducted, HUD issued a final rule on October 18, 2002, and an interim rule on October 28, 2002, that made several changes to the voucher homeownership program regulations that were in effect at the time of the site visits.[4]

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1 The study sites are: Bernalillo County, NM; Colorado (statewide program); Danville, VA; Green Bay, WI; Milwaukee, WI; Missoula, MT; Montgomery County, PA; Nashville, TN; San Bernardino, CA; Syracuse, NY; Toledo, OH; and Vermont (statewide program).

2 64 Fed. Reg. 23,488 (April 30, 1999).

3 65 Fed. Reg. 55,134 (September 12, 2000).

4 67 Fed. Reg. 64,484 (October 18, 2002) and 67 Fed. Reg. 65,864 (October 28, 2002).

The differences between the proposed rule for the pilot sites and the final rule that were in effect at the time of the site visits are discussed in detail in the text of the final rule. For the purposes of this study, the most significant differences include: the establishment of a national minimum income requirement; the establishment of a national minimum employment requirement;[5] the provision that homes that are either under construction or already existing are eligible for purchase through the program; and the requirement that PHAs wishing to offer the voucher homeownership option demonstrate the capacity to operate a successful homeownership program.

There are currently more than 100 PHAs at various stages of implementing voucher homeownership programs. The majority of these PHAs are operating under the final rule, although a handful of former pilot sites have continued to operate under the proposed rule. In several areas, the Neighborhood Reinvestment Corporation (NR) has made funding available through its local NeighborWorks affiliates to provide technical assistance and capital funds for homeownership efforts as part of its voucher homeownership demonstration. In fiscal year 2001, Congress provided $5 million to NR to develop partnerships between PHAs and NeighborWorks organizations to implement the voucher homeownership program. In fiscal 2002, Congress appropriated an additional $10 million to expand these activities.[6] As of May 2002, approximately 30 PHAs were participating in NR's voucher homeownership demonstration and offering the voucher homeownership option in partnership with 21 NR-funded NeighborWorks organizations.[7]

Unlike the regulations applicable to many other HUD programs, the voucher homeownership regulations established guidelines and specific mandatory requirements covering only a few broad areas of program operation—minimum income and employment requirements, mandatory pre-purchase counseling, and term limits on the provision of homeownership assistance. Otherwise, the regulations allow—and PHAs have exercised—broad flexibility in tailoring the program to local conditions. Exhibit 1-1 provides a schematic of the components of the voucher homeownership program, highlighting some of the key program regulations at each stage of the process.[8]

As noted above, HUD continues to work at fine-tuning the program design and has made several rule changes subsequent to the time the case studies for this report were conducted. These changes include:

- the establishment of a separate HUD minimum income eligibility requirement for disabled families and PHA administrative flexibility to set higher minimum income requirements for both disabled and non-disabled families;

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5 The employment requirement does not apply to households headed by elderly persons or persons with disabilities. In addition, for elderly and disabled families, the income used to determine whether the family meets the minimum income requirement may include welfare assistance.

6 Ellen Lazar, "Helping Section 8 Families Move to Home Ownership," NeighborWorks *bright ideas,* Spring 2002.

7 NeighborWorks organizations are autonomous, locally funded, nonprofit corporations that are supported by NR and Neighborhood Housing Services of America. The NeighborWorks organizations in this study are housing counseling providers, nonprofit lenders, and, in some cases, affordable housing developers. It is possible for NeighborWorks organizations to provide counseling or other services to PHAs even if those PHAs are not participating in NR's voucher homeownership demonstration.

8 For detailed program regulations, readers should consult the proposed and final rules for the program.

- clarification that otherwise eligible units owned or controlled by the PHA may be purchased by program participants provided certain conditions are met: and
- the elimination of the requirement that the PHA recapture some or all of the housing assistance provided if the family subsequently sold the home.

On June 13, 2001, as required under the American Homeownership and Economic Opportunity Act of 2000, HUD issued a proposed rule for one-time down payment assistance for eligible homebuyers as an alternative to the provision of monthly homeownership assistance during the term of the mortgage. This proposed rule proposed other "streamlining" amendments to the final rule, which when finalized would allow PHAs to set local eligibility income and work requirements, explicitly authorize the use of manufactured housing in the homeownership program, and eliminate the requirement for recapturing some or all of the housing assistance provided when a unit is sold.

Exhibit 1-1
Key Concepts in the Voucher Homeownership Program

Eligibility Screening

- ✓ First-time homebuyers only
- ✓ Under the proposed rule, pilot PHAs may set minimum income and employment requirements
- ✓ Under final rule at the time of the site visits, the income of the adult members of the family who will own the home must equal or exceed the Federal minimum wage multiplied by 2,000 hours ($10,300), and welfare assistance may not be considered unless the family is elderly or disabled
- ✓ Non-elderly, non-disabled families must be employed full-time for a year before purchasing

Homeownership Counseling

- ✓ Pre-purchase counseling is required under both the proposed and final rules (post-purchase counseling is optional)
- ✓ Counseling may be provided by the PHA, an entity retained by the PHA for this purpose, or a local HUD-sponsored counseling agency
- ✓ Format and content of counseling may vary

Home Search

- ✓ Units purchased can be single-family units, co-ops, or condo units, including manufactured homes on owned property
- ✓ Units purchased must be existing units or already under construction
- ✓ The family is responsible for finding a unit to purchase
- ✓ The PHA may set time limits for finding and purchasing units

Home Inspections

- ✓ Units purchased must pass an HQS inspection by the PHA *and* have a professional home inspection by a qualified independent home inspector

Home Purchase Financing

- ✓ The family has the primary responsibility for securing financing, but the PHA may review the proposed financing to determine whether the lender and loan terms meet the PHA's requirements
- ✓ The voucher subsidy is equal to *the lower of* the monthly homeownership expenses or the voucher payment standard, minus the family total tenant payment (typically 30 percent of monthly adjusted income)
- ✓ The term of assistance is 15 years for a mortgage term of 20 years or longer, or 10 years for a shorter mortgage term. The term limits do not apply to elderly or disabled families.

Post-Purchase Activities

- ✓ Families must complete annual and interim reexaminations in accordance with the PHA's voucher program policies
- ✓ The PHA may conduct post-purchase HQS inspections; require post-purchase counseling; or establish procedures to track families' mortgage payments

1.2 Study Objectives

The primary objective of the Voucher Homeownership Program Assessment is to provide HUD with an analysis of the ***early implementation*** of the voucher homeownership program at 12 sites across the country. The study is intended to describe how PHAs have designed and are implementing their local programs and to provide insight into the aspects of the program that are working well and those that are problematic. Thus, one of the study goals is to identify the "best practices" that have emerged at this early stage of the voucher homeownership program as well as the key implementation challenges that PHAs have encountered.

The study is not designed to evaluate long-term outcomes of the program, such as program participants' ability to meet their mortgage obligations, to build equity, or to reduce their dependence on housing assistance. The voucher homeownership program is simply too new for that type of analysis—most PHAs have been operating programs for less than two years and most participants who have purchased have owned their homes for less than one year. However, the study does explore fully the lessons learned in the program thus far and highlights areas for future research.

The objectives of the study may be summarized as follows:

- Provide a comprehensive description of voucher homeownership program development and early implementation;

- Document organizational aspects of the homeownership initiatives, including management and staffing structure, roles of program partners and other participating agencies, and performance monitoring systems;

- Describe outreach and recruitment methods, including determining eligibility criteria and identifying eligible participants;

- Document the status of program implementation, including the number of households who have applied for the program, the number who have completed each component of the program, the characteristics of program applicants and participants, the types of financing arrangements used, and the number of program participants who have purchased homes;

- Describe the characteristics of program purchasers, the characteristics of the properties purchased, and the sources and level of financing for home purchases accomplished through the program; and

- Describe key contextual factors in the areas where the voucher homeownership program has been implemented. These include characteristics of the local housing market, availability of housing stock for purchase, and the willingness of local lenders to provide access to loans, as well as characteristics of the PHAs implementing the program.

1.3 Site Selection

In identifying the sites to include in this study, we began with two basic selection criteria. First, we wanted to strike a balance between PHAs that are operating their programs without outside resources (beyond the voucher program) and PHAs that are offering the program in partnership with local NeighborWorks organizations as part of NR's voucher homeownership demonstration. We did not want a majority of the study sites to be places where the PHA has partnered with NR and NeighborWorks, because the NR partnerships give PHAs access to technical assistance and capital funds that are not provided under the regular voucher homeownership program. However, we thought that it would be beneficial to include some sites where PHAs have partnered with NR and NeighborWorks because these are some of the sites with the most experience administering the program. In addition, at the time of the site selection, the NR-affiliated sites accounted for approximately one quarter of all of the sites identified that had closings through the program, and more than half of the total number of closings. Finally, we anticipated that it would be useful to compare the experiences of PHAs in NR's demonstration to PHAs implementing the program without these formal partnerships and attendant additional funding.

The second criterion for selecting the study sites was the number of home purchases completed to date. We thought that it was important that the study sites have experience managing purchases through the program. The more purchases a PHA had managed, the more likely it was to have insights into the different aspects of program implementation and administration. However, given the modest number of purchases through the program when we began the site selection, we agreed to consider PHAs with just one closing.[9]

In addition to these two basic criteria, we considered program design, geographic location, and PHA characteristics in selecting the study sites to cover a range of these characteristics. However, the 12 study sites were not intended to be representative of any broader pool of homeownership programs, housing markets, or PHAs.

To identify the potential sites to be included in the study, we initiated a reconnaissance effort in October 2001 to generate a list of PHAs offering the voucher homeownership program. The reconnaissance effort involved a variety of outreach activities, including:

- Literature and media searches;
- Discussions with HUD headquarters and Field Office staff;
- Solicitations from a posting on the National Association of Housing and Redevelopment Officials (NAHRO) web site; and
- Discussions with Fannie Mae, Freddie Mac, the Local Initiatives Support Corporation (LISC), and the National Housing Law Project (NHLP).

Following these outreach efforts, we conducted brief telephone interviews in October and November 2001 with all PHAs identified as having had purchases through the program or approaching that stage in their program implementation. Based upon these efforts, we identified 47 PHAs that had

[9] Based on early reconnaissance, we estimated that as of November 2001 there had been between 100 and 150 closings nationwide. As of September 2002, HUD estimates that the program has grown to approximately 500 closings nationwide.

implemented the voucher homeownership program and either had or expected to have a closing by early 2002. Exhibit A-1 in Appendix A presents the list of 47 PHAs and the number of closings that they reported as of November 2001. Taken together, the 47 PHAs reported approximately 140 closings. The candidate list was narrowed to 14 sites and, upon further review, the following 12 study sites were chosen:

- ***Bernalillo County, New Mexico*** (Bernalillo County Housing Department)
- ***Colorado*** (Department of Human Services, Division of Supportive Housing and Homeless Programs)
- ***Danville, Virginia*** (Danville Housing and Redevelopment Authority)
- ***Green Bay, Wisconsin*** (Brown County Housing Authority)
- ***Milwaukee, Wisconsin*** (Housing Authority of the City of Milwaukee)
- ***Missoula, Montana*** (Missoula Housing Authority)
- ***Montgomery County, Pennsylvania*** (Montgomery County Housing Authority)
- ***Nashville, Tennessee*** (Metropolitan Development and Housing Agency)
- ***San Bernardino, California*** (Housing Authority of the County of San Bernardino)
- ***Syracuse, New York*** (Syracuse Housing Authority)
- ***Toledo, Ohio*** (Lucas Metropolitan Housing Authority)
- ***Vermont*** (Vermont State Housing Authority)

Since November 2001, when the site selection for this study took place, the voucher homeownership program has grown significantly. As of September 2002, HUD estimates that there are approximately 100 PHAs with active voucher homeownership programs and that approximately 500 families have purchased homes through the program. Exhibit A-2 in Appendix A presents the list of PHAs offering the program and the number of closings that they reported as of September 2002.

1.4 Data Collection Approach

This study combines qualitative and quantitative data collection and analysis methods. The most important source of data was ***in-depth interviews*** conducted in the course of two-day visits to each site. The majority of the site visits were conducted in March and April 2002. Although the respondents differed from site to site depending on the structure of the program and the role of partners, on-site interviews were typically conducted with:

- PHA staff responsible for designing and implementing the voucher homeownership program;
- Staff from partner organizations providing homeownership counseling or other services;
- Participating lenders and representatives from other entities assisting with financing purchases through the program; and
- One to two program participants who had purchased houses through the program.

The in-depth interviews with PHA staff, partners, and program participants were the principal source of information on the main topic areas of the study. We also conducted a property and neighborhood assessment for three properties purchased through the program (or fewer if the site had fewer than three closings).

We collected two types of quantitative data from the study sites. First, at each site we collected detailed data on ***up to 10 households who had purchased homes through the program***. For the five sites that had fewer than 10 closings at the time of the site visit, we collected data on all purchases to date. For the seven sites with 10 or more closings, we collected data on a sample of 10 closings, including closings from early on in the program as well as recent purchases. For each purchase transaction, we collected information on the:

- Demographic characteristics of the purchasers (including income, race/ethnicity, and household size);
- Characteristics of the property purchased (including the size and type of unit and what kinds of repairs were required prior to purchase); and
- Financing of the purchase (including purchase price, closings costs, loans, grants, and level of voucher subsidy).

At each site, we also collected demographic data on ***up to 20 households who had begun homeownership counseling but had not yet purchased through the program.*** These data include income, race/ethnicity, and household size.

In addition to the data collected on program participants, we collected data from HUD's ***Multifamily Tenant Characteristic System (MTCS)*** on the characteristics of the rental voucher populations at each of the study sites. At the time of the site visits, the latest MTCS data available were from May 2001.

Finally, we collected ***1990 and 2000 Census data*** to analyze the characteristics of the neighborhoods where program participants purchased houses, using census tract as a proxy for neighborhood. As of July 2002, when this report was being written, several key variables were not yet available from the 2000 Census at the census tract level. As a result, we based our analysis on a combination of data from 1990 and 2000. For each of the study sites, we collected data on the PHA's jurisdiction, and on the individual census tracts where the sample of program participants had purchased houses and where they had been living prior to purchasing. The Census data collected include: poverty rate, race/ethnicity, homeownership rate, vacancy rate, age of housing, type of housing units, and housing tenure by race.

1.5 Report Contents

The remainder of this report details the study findings. They are presented using complementary analytical techniques—cross-site analysis and case studies. The cross-site analysis—which forms Volume 1 of the report—highlights common themes and patterns across the study sites, including lessons learned from the early implementation of the voucher homeownership program. The cross-site analysis also provides a forum for analyzing the quantitative data collected on site, which for the most part has too few observations to analyze at the individual site level. The case studies—Volume 2 of the report—are an essential complement to the cross-site analysis in that they provide the details of the voucher homeownership programs at each study site and tell the story of program implementation from the point of view of program staff, partners, and participants.

Chapter 2
Overview of Study Sites

The 12 sites selected for this study were not designed to be representative of the voucher homeownership program as it has been implemented across the country. Nevertheless, the sites reflect a range of housing markets, PHA types, and program types. In addition, the sites exhibit a variety of experiences implementing the voucher homeownership program. Some sites, particularly those that began offering the program more than two years ago, have made substantial progress in assisting program participants to purchase. Other sites have only had a few closings to date, either because of the relative newness of their programs or because they have encountered significant implementation challenges.

Exhibit 2-1 presents the list of sites and PHAs participating in the study, the year they started offering the program, and the number of closings that they reported through May 2002. The remainder of this chapter provides an overview of the markets that these PHAs serve, the characteristics of their voucher programs overall, key elements of their voucher homeownership programs, and the common challenges they have faced in implementing the program. The chapter concludes with brief descriptions of each study site.

Exhibit 2-1

Study Sites and PHAs, Ordered by Number of Closings as of May 2002

Site Name	PHA Name	Start Date	Closings
Nashville (TN)	Metropolitan Development and Housing Agency	2000	33
Colorado	Department of Human Services, Supportive Housing and Homeless Programs	2000	21
Vermont	Vermont State Housing Authority	2000	15
Bernalillo County (NM)	Bernalillo County Housing Authority	2001	15
Syracuse (NY)	Syracuse Housing Authority	2000	12
Montgomery County (PA)	Montgomery County Housing Authority	2000	12
Green Bay (WI)	Brown County Housing Authority	2001	11
Danville (VA)	Danville Housing and Redevelopment Authority	2000	10
Missoula (MT)	Missoula Housing Authority	2001	5
Milwaukee (WI)	Milwaukee Housing Authority	2001	3
San Bernardino (CA)	Housing Authority of the County of San Bernardino	2000	3
Toledo (OH)	Lucas Metropolitan Housing Authority	2001	2

2.1 Market Characteristics

The 12 study sites represent a range of geographic locations and market characteristics. Exhibit 2-2 provides select demographic, economic, and housing market data for each of the sites based on the 2000 Census. In this table, the study sites are ordered by median house value, moving from the lowest median house value to the highest. The geographic boundaries of the study sites are defined by the PHA's jurisdiction, which also determines where voucher homeownership program participants can purchase, unless they choose to "port" their vouchers to another PHA's jurisdiction.[1]

Two of the 12 programs under study (Vermont and Colorado) cover entire states, eight cover single counties, and two (Milwaukee and Missoula) cover cities. At half of the sites, at least 10 percent of the population lives in rural areas (based on 1990 Census data). In Vermont, 68 percent of the population lives in rural areas.

The sites represent a range of income levels and poverty rates. The poorest sites are Milwaukee and Missoula, which both have median household incomes under $35,000 and poverty rates around 20 percent. At the other end of the spectrum is Montgomery County, PA, with a median household income of $60,829 and a four percent poverty rate.

There is significant variation among the study sites in the cost of housing, but for the most part the sites are not located in the most expensive housing markets in the country. Seven of the 12 sites have median house values at or below $119,600, the median house value for the country as a whole. The other five sites have median house values less than 150 percent of the national median.

Among the study sites, Danville and Milwaukee have the least expensive housing—with median house values just over $80,000—and Montgomery County and Colorado have the most expensive housing—with median house values over $160,000. At some sites, however, housing appears to be either particularly affordable relative to the overall wealth of the population or particularly expensive. For example, Syracuse, which has a relatively high median income level (higher than 7 of the 12 sites), has the third lowest median house value ($85,400). By contrast, Missoula has the lowest median income ($30,366) but the third highest median house value ($132,500). The University of Montana, which is located in Missoula, drives up housing costs in this area.

Although the average income of purchasers and the prices of units purchased vary across the study sites, 80 percent of the voucher homeownership program participants sampled for this study bought houses for less than $100,000. The percentage of the housing stock valued at less than $100,000 is, therefore, another important indicator of housing affordability across the study sites.

[1] Generally, households determined eligible for homeownership assistance by the initial PHA may purchase a unit outside of the initial PHA's jurisdiction, if the receiving PHA is administering a voucher homeownership program and is accepting new homeownership households. None of the study sites had had a participant port in or out of the jurisdiction to purchase through the voucher homeownership program.

Exhibit 2-2

Characteristics of Study Sites, Ordered by Median House Value in 2000

Site Name	**Danville**	**Milwaukee**	**Syracuse**	**Toledo**	**Vermont**	**Nashville**
Jurisdiction	Pittsylvania County, VA	City of Milwaukee, WI	Onondaga County, NY	Lucas County, OH	State of Vermont	Davidson County, TN
Total Population	61,745	596,974	458,336	455,054	608,827	569,891
Percent of Pop. in Rural Areas (1990)	15.6%	0%	16.7%	5.2%	67.9%	0.1%
Percent of Pop. in Poverty	11.8%	21.3%	12.2%	13.9%	11%	13.0%
Median Household Income	$35,153	$32,216	$40,847	$38,004	$39,417	$39,797
Homeownership Rate	80.1%	45.3%	64.5%	65.4%	70.6%	55.3%
Homeowner Vacancy Rate	1.4%	1.3%	2.0%	1.4%	1.4%	2.0%
Rental Vacancy Rate	9.2%	6.0%	9.4%	8.3%	4.2%	6.5%
Age of Housing Stock						
1990 to 2000	24%	3%	8%	8%	12%	16%
1980 to 1989	17%	4%	11%	9%	16%	19%
1940 to 1979	48%	59%	54%	56%	41%	57%
1939 or earlier	11%	34%	27%	27%	31%	8%
Value of Owned Units						
Less than $50,000	16%	19%	6%	16%	4%	4%
$50,000 to $99,999	55%	54%	61%	41%	35%	36%
$100,000 to $149,999	19%	21%	21%	22%	35%	30%
$150,000 to $199,999	6%	3%	7%	10%	15%	13%
$200,000 or more	4%	2%	5%	10%	11%	18%
Median House Value	$80,300	$80,400	$85,400	$90,700	$115,288	$115,800

Source: 2000 Census unless otherwise noted.

Exhibit 2-2 (cont.)

Characteristics of Study Sites, Ordered by Median House Value in 2000

Site Name	**Green Bay**	**Bernalillo Co.**	**San Bernardino**	**Missoula**	**Montgomery Co.**	**Colorado**
Jurisdiction	Brown County, WI	Bernalillo County, NM	San Bernardino County, CA	Missoula, MT	Montgomery County, PA	State of Colorado
Total Population	226,778	556,678	1,709,434	57,053	750,097	4,301,261
Percent of Pop. in Rural Areas (1990)	16.8%	4.4%	7.1%	24.1%	9.8%	17.6%
Percent of Pop. in Poverty	6.9%	13.7%	15.8%	19.7%	4.4%	8.8%
Median Household Income	$46,447	$38,788	$42,066	$30,366	$60,829	$46,733
Homeownership Rate	65.4%	63.7%	64.5%	50.2%	73.5%	67.3%
Homeowner Vacancy Rate	0.9%	1.8%	3.1%	1.0%	1.0%	1.4%
Rental Vacancy Rate	3.8%	11.5%	7.3%	3.6%	5.6%	5.5%
Age of Housing Stock						
1990 to 2000	22%	21%	17%	8%	13%	21%
1980 to 1989	15%	19%	27%	9%	12%	23%
1940 to 1979	50%	56%	52%	64%	55%	46%
1939 or earlier	13%	4%	4%	17%	20%	10%
Value of Owned Units						
Less than $50,000	2%	2%	3%	1%	1%	1%
$50,000 to $99,999	35%	24%	27%	18%	12%	9%
$100,000 to $149,999	37%	39%	33%	47%	31%	28%
$150,000 to $199,999	16%	18%	19%	20%	26%	27%
$200,000 or more	10%	16%	18%	14%	31%	35%
Median House Value	$116,100	$128,300	$131,500	$132,500	$160,700	$168,896

Source: 2000 Census unless otherwise noted.

In addition to the cost of housing, the age of the housing stock varies across the study sites. The age of the housing stock—particularly the portion of the stock that is affordable to program participants—affects the voucher homeownership program because any repairs required for the unit to pass HUD's Housing Quality Standards (HQS) must be done at the seller's expense. As a result, program participants have a better chance at purchasing if they can find units that are in good condition. Across the 12 study sites, Milwaukee, Vermont, Syracuse, and Toledo have the oldest housing stock. At these sites, more than 25 percent of the housing stock was built before 1940. By contrast, in Colorado, San Bernardino, Danville, and Bernalillo County, more than 40 percent of the housing stock was built after 1979, and less than 12 percent was built before 1940.

Several sites noted that the local housing market presents a challenge for their voucher homeownership programs and a potential limiting factor on program growth. These sites include Colorado, Vermont, Montgomery County, Missoula, and San Bernardino. With the exception of Green Bay, these sites have the highest median house values of the sample. Moreover, they also tend to be places where the local Fair Market Rent (FMR) is low relative to the cost of owned housing (represented by the median house value).

The FMR is used in the rental voucher program and is designed to approximate the average rent at the middle of the market (in most markets, the FMR is set at the 40th percentile of local rents). The voucher payment standard is typically set at between 90 and 110 percent of the FMR. The voucher payment standard, which applies to the homeownership program as well as the rental program, forms the upper bound on the amount of subsidy that a program participant can receive. If the FMR is high relative to the median house value, housing will be more affordable to program participants because the amount of subsidy available (based on the FMR) is high relative to the local cost of housing for purchase. By contrast, if the FMR is low relative to the median house value, housing will be less affordable to program participants because the amount of subsidy available will be low relative to the local cost of housing for purchase.

Exhibit 2-3 compares the local FMRs to the median house values at each of the sites. Using this measure, Missoula, Green Bay, and San Bernardino have the least affordable housing markets of the 12 study sites, because their FMRs are the lowest relative to their median house values. Milwaukee, Syracuse, and Toledo, by contrast, have high FMRs relatively to their median house values, indicating that these sites have the most affordable housing markets for program participants.

Exhibit 2-3

Two-Bedroom Fair Market Rent (2002) as a Percentage of Median House Value (2000)

Study Site	Fair Market Rent	Median House Value	FMR as a % of Median House Value
Milwaukee	$658	$80,400	0.818%
Syracuse	$588	$85,400	0.689%
Toledo	$561	$90,700	0.619%
Vermont	$815[a]	$135,000[a]	0.604%
Nashville	$660	$115,800	0.570%
Danville	$452	$80,300	0.563%
Montgomery Co.	$839	$160,700	0.522%
Bernalillo Co.	$654	$128,300	0.510%
Colorado	$893[a]	$176,600[a]	0.506%
San Bernardino Co.	$656	$131,500	0.499%
Green Bay	$563	$116,100	0.485%
Missoula	$540	$132,500	0.408%

[a] For the two state programs, Vermont and Colorado, we did not have a single FMR for the whole area. For Vermont, we used the FMR (and median house value) for the Burlington MSA, the only metropolitan area in the state. For Colorado, we used the FMR (and median house value) for the Denver PMSA, where many program participants have purchased and where affordability is a particular problem.

Sources: 2000 Census; HUD FY 2002 Fair Market Rents.

2.2 Housing Choice Voucher Program Characteristics

The 12 study sites reflect a variety of PHA types and sizes. The size of the housing choice voucher programs (including both homeownership and rental vouchers) ranged from about 700 vouchers (Missoula) to about 7,800 vouchers (San Bernardino).[2]

In addition to differences in program size, the study site PHAs serve somewhat different populations. Exhibit 2-4 presents select data on the characteristics of housing choice voucher program participants at each of the sites. Most notably, Colorado's Supportive Housing and Homeless Programs (SHHP), a division of the state Department of Human Services, primarily serves persons with disabilities. Vermont, Syracuse, Toledo, and Green Bay also serve a relatively high percentage of persons with disabilities, although non-elderly, non-disabled households make up the largest share of their housing choice voucher populations.

The median annual income of housing choice voucher program participants across the sites ranges from $6,654 (Danville) to $10,998 (Milwaukee). The four sites with the lowest income housing choice voucher populations are Danville, Colorado, Missoula, and Toledo. In the case of Colorado, the low median income reflects the fact that the majority of housing choice voucher participants are persons with disabilities. In the other three sites with the lowest income housing choice voucher populations, the median income for the population of the PHA's jurisdiction as a whole is also relatively low.

The 12 study PHAs vary in the racial and ethnic composition of their housing choice voucher populations. More than half of housing choice voucher participants in the Milwaukee, Nashville, Syracuse, Toledo, Montgomery County, and Danville sites are African American. In the Vermont, Colorado, Green Bay, and Missoula sites, more than three-quarters of the housing choice voucher participants are white. The Bernalillo County and San Bernardino housing choice voucher programs serve a significantly higher proportion of Hispanic households than the other sites. In Bernalillo County, 68 percent of BCHD's housing choice voucher participants are Hispanic. In San Bernardino, 25 percent of HACSB's housing choice voucher participants are Hispanic.

Finally, 10 of the 12 PHAs have active Family Self Sufficiency (FSS) programs for housing choice voucher program participants.[3] Among the study sites, Syracuse and Toledo have the largest FSS programs as a proportion of their total housing choice voucher programs. These are also the only two sites where enrollment in FSS is required for participation in the voucher homeownership program (discussed further in Chapter 3).

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2 These figures reflect the size of the voucher programs in March and April 2002, when we conducted the majority of the site visits for this study. The program sizes reported in Exhibit 2-4 are based on an extract of MTCS data from May 2001.

3 Two sites—Danville and Milwaukee—have FSS programs targeted at public housing residents and not voucher participants.

Exhibit 2-4

Housing Choice Voucher Program Characteristics at Study Site PHAs, Ordered by Program Size

Site PHA	San Bernardino HACSB	Milwaukee HACM	Nashville MDHA	Vermont VSHA	Syracuse SHA	Toledo LMHA
Number of Households	7,228	4,533	4,258	2,977	2,652	2,552
Percent Elderly	18%	10%	6%	22%	14%	10%
Percent with Disabilities	24%	23%	16%	41%	32%	34%
Percent Non-Elderly/Non-Disabled	58%	67%	78%	38%	55%	56%
Percent Female-Headed	86%	94%	92%	75%	87%	83%
Mean Household Size	2.9	2.8	2.9	2.1	2.8	2.4
Percent with any Wage Income	36%	50%	47%	28%	38%	39%
Median Household Income	$10,049	$10,998	$8,537	$8,364	$9,732	$7,595
Race/Ethnicity of Household Head						
White, non Hispanic	24%	10%	11%	99%	34%	33%
Black, non Hispanic	48%	86%	88%	0%	57%	63%
Hispanic	25%	3%	1%	0%	7%	4%
Other Races, non Hispanic	3%	0%	0%	0%	2%	0%
Number of Voucher Participants Currently Enrolled in FSS	589	--	117	158	412	344

Source: HUD's Multifamily Tenant Characteristics System, May 2001.

Exhibit 2-4 (cont.)

Housing Choice Voucher Program Characteristics at Study Site PHAs, Ordered by Program Size

Site Name **PHA**	**Colorado** **SHHP**	**Green Bay** **BCHA**	**Montgomery Co.** **MCHA**	**Bernalillo Co.** **BCHD**	**Danville** **DRHA**	**Missoula** **MHA**
Number of Households	2,381	2,128	1,592	1,454	642	567
Percent Elderly	5%	17%	13%	13%	19%	22%
Percent with Disabilities	88%	32%	28%	23%	24%	30%
Percent Non-Elderly/Non-Disabled	7%	51%	60%	64%	58%	48%
Percent Female-Headed	14%	77%	87%	77%	88%	79%
Mean Household Size	1.4	2.3	2.7	2.8	2.5	2.3
Percent with any Wage Income	36%	49%	45%	44%	33%	40%
Median Household Income	$6,876	$9,590	$9,896	$8,580	$6,654	$7,284
Race/Ethnicity of Household Head						
White, non Hispanic	80%	77%	37%	20%	23%	86%
Black, non Hispanic	7%	6%	56%	4%	76%	1%
Hispanic	12%	4%	7%	68%	0%	2%
Other Races, non Hispanic	1%	13%	1%	8%	0%	11%
Number of Voucher Participants Currently Enrolled in FSS	42	25	90	76	--	54

Source: HUD's Multifamily Tenant Characteristics System, May 2001.

2.3 Voucher Homeownership Program Design

This section discusses the basic elements of the voucher homeownership programs at the 12 study sites. The program features at each site are described in detail in the case studies. In addition, Appendix B provides a chart highlighting the key differences between the rental voucher program and the homeownership voucher program.

Five of the 12 study sites (Nashville, Vermont, Syracuse, San Bernardino, and Toledo) are offering the voucher homeownership option as part of NR's voucher homeownership demonstration. As mentioned in Chapter 1, as of May 2002, NR has made funding available to 21 of its local NeighborWorks affiliates to provide technical assistance and capital funds for voucher homeownership programs across the country. In NR's program, PHAs offer the voucher homeownership option in partnership with these local NeighborWorks affiliates. Exhibit 2-5 shows the capital and operating funds that the NeighborWorks organizations at the five NR-affiliated sites in our sample received from NR in fiscal year 2001 for voucher homeownership program activities.

Exhibit 2-5

Funds Awarded by NR to NeighborWorks Organizations at the Five NR-Affiliated Study Sites in Fiscal Year 2001

Site	Expendable Grant	Capital Grant	Total
Nashville	$37,700	$196,250	$233,950
San Bernardino	$80,000	$240,000	$320,000
Syracuse	$102,000	$213,000	$315,000
Toledo	$15,400	$80,080	$95,480
Vermont	$203,280	$411,720	$615,000

Source: Neighborhood Reinvestment Corporation (confirmed by the sites).

Exhibit 2-6 provides an overview of the key elements of the voucher homeownership programs across the 12 study sites. Three of the five sites participating in the NR program (Nashville, Syracuse, and Vermont) were also authorized by HUD in 1999 and 2000 to develop pilot programs under HUD's proposed rule for the voucher homeownership program. Three study sites not participating in the NR program (Colorado, Montgomery County, and Danville) were also authorized to develop pilot programs. The HUD pilot sites did not receive any additional resources, but had the option to offer the program under the proposed rule (Montgomery County and Vermont have since switched to the final rule) and generally started their programs earlier than the other sites, which had to wait for the publication of the final rule in 2000. Generally, the HUD pilot sites are the furthest along in program implementation among the 12 study sites. Bernalillo County, with 15 closings, is an exception.

Exhibit 2-6

Overview of Voucher Homeownership Program by Study Site, Ordered by Number of Loans Closed through May 2002

Study Site	Nashville	Colorado	Vermont	Bernalillo Co.	Syracuse	Montgomery Co.
Program Affiliation (HUD Pilot, NR)	HUD Pilot and NR	HUD Pilot	HUD Pilot and NR	None	HUD Pilot and NR	HUD Pilot
Rule (Proposed or Final)	Proposed	Proposed	Final	Final	Proposed	Final
Requirements for Participation[a]	$15,000 income 3 yrs. work	1 yr in HCVP[b] Disability	None	None	1 yr in HCVP $15,000 income FSS	None
Counseling Provider	Partner	Partner	Partner	Partner	Partner	PHA
Financing Model	Two-mortgage	HAP as offset	HAP as income	HAP as income HAP as offset	HAP not counted in lender calculations	HAP as income
Number of Loans Closed	33	21	15	15	12	12
Number of Closings Expected	25 per year	10 per year	30-40 per year	20 per year	Not specified	10-15 per year

[a] Beyond the requirements established by the final rule.

[b] Housing Choice Voucher Program (HCVP).

Exhibit 2-6 (cont.)

Overview of Voucher Homeownership Program by Study Site, Ordered by Number of Loans Closed through May 2002

Study Site	Green Bay	Danville	Missoula	Milwaukee	San Bernardino	Toledo
Program Affiliation (HUD Pilot, NR)	None	HUD Pilot	None	None	NR	NR
Rule	Final	Proposed	Final	Final	Final	Final
Requirements for Participation[a]	None	None	1 yr in HCVP	1 yr in HCVP	None	FSS
Counseling Provider	Partner	PHA	Partner	Partner	Partner	Partner
Financing Model	HAP as offset	HAP as offset HAP as Income	HAP as offset	HAP as offset HAP as income	Two-mortgage	Two-mortgage
Number of Loans Closed	11	10	5	3	3	2
Number of Closings Expected	8-10 per year	20 per year	30 total	Not specified	20 per year	10-15 per year

[a] Beyond the requirements established by the final rule.

As will be discussed in more detail in the next chapter, seven of the 12 study sites have imposed requirements for participation in the voucher homeownership program in addition to the minimum income and employment requirements established by the final rule. At five sites, the voucher homeownership option is only available to households who have been participating in the PHA's rental voucher program for at least a year. In Colorado, the program is also restricted to persons with disabilities. Two sites operating under the proposed rule (Nashville and Syracuse) require program participants to have incomes above the $10,300 minimum established by the final rule. Finally, two sites (Syracuse and Toledo) require FSS participation.

As shown in Exhibit 2-6, all but two of the study sites have contracted with one or more outside agencies to provide the required homeownership counseling to program participants. Two sites, Montgomery County and Danville, are conducting the counseling in-house using PHA staff and guest speakers. Danville initially partnered with a local nonprofit agency to provide the counseling but later made the decision to bring the counseling in-house. The two state agencies in the study, Colorado and Vermont, work through multiple agencies to provide homeownership counseling statewide.

There are three main "models" that have been used to finance purchases through the voucher homeownership program. These models refer to how lenders treat the voucher subsidy, known as the Housing Assistance Payment (HAP), during the mortgage underwriting process. Throughout this report, we refer to the models as (1) HAP as income, (2) HAP as offset, and (3) the two-mortgage model. The three models are briefly introduced below and summarized in Exhibit 2-7. In Chapter 4, we revisit the financing models in more detail and discuss their comparative advantages and drawbacks.

In the ***HAP as income*** model, the amount of the HAP is considered by the lender to be part of the program participant's monthly income. In this model, the lender qualifies the participant for a mortgage based on earned income plus the HAP ("grossed up" by 25 percent to account for the fact that it is not taxable), using the lender's qualifying ratio. For example, if the lender has a qualifying ratio of 28 percent, the lender will be willing to make a loan to the participant based on a monthly mortgage payment equal to or less than 28 percent of the participant's total monthly income (the participant's own income *and* the grossed up HAP). Under this model, therefore, only 35 percent of the grossed up HAP (125 percent of the HAP times 28 percent) is considered when qualifying the participant for a mortgage. The HAP as income model gives participants the least borrowing power of the three models, but it also carries the least risk because it results in the lowest participant contribution to the monthly mortgage payment.

In the ***HAP as offset*** model, the lender first determines the monthly mortgage payment for which the participant qualifies on the basis of his or her own income alone (based on the lender's qualifying ratios). The lender then adds the amount of the monthly HAP to that monthly mortgage payment amount, to generate a maximum monthly mortgage payment that the participant can afford (based on the participant's own income *and* 100 percent of the HAP). The lender then calculates the total mortgage amount from this maximum monthly payment. Because 100 percent of the HAP is used to directly offset monthly mortgage payments, this model gives participants the most borrowing power of the three models. However, this model is also considered to have the most risk relative to the other models because of higher payment burdens over the total term of the mortgage, as discussed further in Chapter 4.

In the ***two-mortgage*** model, the participant qualifies for a first mortgage on the basis of his or her own income alone. The participant then obtains a second mortgage on the basis of the HAP. This second mortgage typically has a term that is shorter or the same as the term of the HAP assistance (10 or 15 years for non-elderly, non-disabled borrowers, depending on the term of the first mortgage), so that by the time the assistance runs out, the second mortgage is paid off. This model yields less borrowing power than the HAP as offset model (because the HAP is amortized over a shorter period of time) but greater borrowing power than the HAP as income model. This model is considered to have a moderate amount of risk relative to the other models because it has payment burdens over the life of the mortgage that are higher than those in the HAP as income model, but lower than those in the HAP as offset model, as discussed further in Chapter 4.

Exhibit 2-7

Overview of Voucher Homeownership Financing Models

	HAP as Income	HAP as Offset	Two-Mortgage
How the HAP is used to determine the amount of the mortgage[a]	The HAP is grossed up by 25 percent and added to the participant's monthly income. The lender qualifies the participant based on 28 percent of his/her total monthly income (including 35 percent of the HAP, i.e. 125 percent of the HAP times the 28 percent qualifying ratio).	The HAP is counted as a direct offset to the monthly mortgage payment. The lender qualifies the participant based on 28 percent of his/her monthly income (not including the HAP) and adds 100 percent of the monthly HAP to that amount.	The lender qualifies the participant for a first mortgage based on 28 percent of his/her own income (not including the HAP). The lender qualifies the participant for a second mortgage (typically with a 10- or 15-year loan term) based on 100 percent of the monthly HAP.
Relative Borrowing Power and Risk	Lower	Higher	Moderate

[a] Assumes that the lender's qualifying ratio is 28 percent of gross monthly income.

Among the 12 study sites, two sites are using only the HAP as income model, three are using only the HAP as offset model, and three are using only the two-mortgage model. In addition, three sites are using both the HAP as offset and the HAP as income models to finance purchases through the program. Finally, in Syracuse the HAP is not considered in the mortgage calculation and is paid to families who qualify for the mortgage on the basis of income from other sources.

The number of loans closed through the voucher homeownership program varies across the study sites. Nashville has produced by far the most closings, with 33 closings as of May 2002. Three sites—Colorado, Vermont, and Bernalillo County—have produced between 15 and 20 closings. Four sites—Syracuse, Montgomery County, Green Bay, and Danville—have produced between 10 and 15 closings. Four sites—Missoula and Missoula, Milwaukee, and San Bernardino, and Toledo—have produced fewer than 10 closings.

The number of closings can be indicative of the presence or absence of implementation challenges. However, it is also important to remember that the HUD pilot sites (Nashville, Colorado, Vermont, Syracuse, Montgomery County, and Danville) were authorized to offer the program in early 2000, some nine months before the publication of the final rule, and have therefore had more time to help families to purchase. Although the number of closings to date may be an indicator of a site's success in implementing the program, the ultimate measure of the program's success will be the extent to which participants are able to meet their mortgage payments, build equity, and become self-sufficient. It is too early in the program's history to evaluate its success along these key dimensions.

2.4 Site Descriptions

The remainder of this chapter provides brief descriptions of the study sites and their voucher homeownership programs. Readers interested in a more detailed description of one or more programs should refer to the case studies in Volume 2 of this report.

Nashville

The Metropolitan Development and Housing Agency (MDHA) administers approximately 4,600 housing choice vouchers in Davidson County, Tennessee, which includes the city of Nashville. MDHA is part of NR's voucher homeownership demonstration and offers the voucher homeownership program in partnership with Affordable Housing Resources, a housing counseling agency and nonprofit lender. MDHA began operating the voucher homeownership program as a HUD-approved pilot site under the proposed rule. Through May 2002, 33 households had purchased houses through the program. At this time, the only other PHA in the country with as many closings was the Burlington Housing Authority (not included in this study). MDHA's voucher homeownership participants have bought houses in the city of Nashville and its inner-ring suburbs. Most have purchased in revitalizing city neighborhoods. The incomes of the 10 voucher homeownership purchasers sampled at this site ranged from $15,392 to $33,803, with an average income of $23,180.

Colorado

Colorado's Supportive Housing and Homeless Programs (SHHP), a division of the state Department of Human Services, administers approximately 2,600 housing choice vouchers statewide, mostly for persons with disabilities. SHHP began operating the voucher homeownership program as a HUD-approved pilot site under the proposed rule. SHHP's program is limited to persons with disabilities. Through May 2002, 21 households had purchased houses through the program. Below-market interest rate loans and multiple sources of down payment assistance have allowed a particularly low-income group of people to purchase. The incomes of the 10 voucher homeownership purchasers sampled at this site ranged from $5,796 to $14,280, with an average income of $8,310.[4]

[4] The family with an annual income of $5,796 purchased a house for approximately $94,900. The family obtained a first mortgage of $75,900 at a three percent interest rate, $16,000 in deferred loans, and a forgivable loan for $3,500. The household's monthly mortgage payment is $372, all of which (at the time of purchase) was covered by the HAP. Colorado is a HUD pilot site operating under the proposed rule. A family with an income of $5,796 at the time of purchase would not be eligible to participate in the program under the final rule because of the minimum income requirement of $10,300.

Vermont

The Vermont State Housing Authority (VSHA) administers approximately 3,500 housing choice vouchers across the state of Vermont. VSHA is part of NR's voucher homeownership demonstration and offers the voucher homeownership program in partnership with five NR-funded Homeownership Centers across the state. VSHA began operating the voucher homeownership program as a HUD-approved pilot site under the proposed rule. Through May 2002, 15 households had purchased houses through the program. VSHA administers its own statewide program but also provides technical assistance to other PHAs in the state interested in offering the program. VSHA helps these PHAs design voucher homeownership programs and may administer homeownership vouchers on behalf of these agencies if necessary. The incomes of the 10 voucher homeownership purchasers sampled at this site ranged from $12,098 to $35,148, with an average income of $19,004.

Bernalillo County

The Bernalillo County Housing Department (BCHD) administers approximately 1,700 housing choice vouchers in Bernalillo County, New Mexico, which includes the city of Albuquerque. BCHD began operating the program in 2001 under the final rule. Through May 2002, 15 households had purchased houses through the program. BCHD has partnered with the New Mexico Mortgage Finance Agency to provide below-market first mortgage loans and down payment assistance to program participants. BCHD has also partnered with two nonprofit organizations to provide homeownership counseling. One of these organizations provides counseling specifically for persons with disabilities and has been instrumental in helping program participants to use loan products designed for persons with disabilities. The incomes of the 10 voucher homeownership purchasers sampled at this site ranged from $13,338 to $25,092, with an average income of $15,662.

Syracuse

The Syracuse Housing Authority (SHA) administers approximately 2,900 housing choice vouchers in Onondaga County, New York. SHA is part of NR's voucher homeownership demonstration and offers the voucher homeownership in partnership with Home Headquarters, a housing counseling agency and nonprofit lender. SHA is a HUD-approved pilot site and is operating the program under the proposed rule. Through May 2002, 12 households had purchased houses through the program. SHA's program is targeted to FSS program participants earning at least $15,000 a year. The relatively high income of the households admitted to SHA's voucher homeownership program, together with the local affordability of units for purchase, has allowed the 12 purchasers to qualify for mortgages on their own income alone (not including the voucher subsidy). The voucher subsidy is not used to determine the mortgage amount but is paid directly to the participant for the duration of the period of housing assistance to offset the monthly mortgage payment and other allowable homeownership expenses. SHA is unique among the 12 study sites in this respect. The incomes of the nine voucher homeownership purchasers sampled at this site ranged from $15,017 to $32,984, with an average income of $21,932.

Montgomery County

The Montgomery County Housing Authority (MCHA) administers approximately 2,900 housing choice vouchers in Montgomery County, Pennsylvania. MCHA began operating the voucher homeownership program as a HUD-approved pilot site under the proposed rule. Through May 2002, 12 households had purchased houses through the program. MCHA is one of two PHAs in the study providing homeownership counseling to program participants in-house. This requires a higher than average level of staff effort devoted to the program. MCHA also has an unusually large number of lenders participating in the program. The incomes of the 10 voucher homeownership purchasers sampled at this site ranged from $15,480 to $33,208, with an average income of $26,004.

Green Bay

The Brown County Housing Authority (BCHA) administers approximately 2,800 housing choice vouchers in Brown County, Wisconsin, which includes the city of Green Bay. BCHA began operating the program in August 2001 under the final rule. Through May 2002, 11 households had purchased houses through the program. BCHA has partnered with Neighborhood Housing Services (NHS) of Green Bay to provide homeownership counseling for program participants. In the first nine months of the program, BCHA has faced relatively few challenges to program implementation and expects to exceed its goal for the number of closings in the first year. The incomes of the four voucher homeownership program participants who had purchased at the time of the site visit ranged from $10,377 to $24,283, with an average income of $19,818.

Danville

The Danville Housing and Redevelopment Authority (DHRA) administers just over 700 housing choice vouchers in Pittsylvania County, Virginia, located near the North Carolina border. BCHA began operating the voucher homeownership program as a HUD-approved pilot site under the proposed rule. Through May 2002, 10 households had purchased houses through the program. The city of Danville, the largest in the county, has lost population and jobs in recent years and has a relatively affordable housing market. However, the poor credit of program applicants has limited the number of closings to date. The incomes of the 10 voucher homeownership purchasers sampled at this site ranged from $7,371 to $17,923, with an average income of $11,209.[5]

Missoula

The Missoula Housing and Redevelopment Authority (MHA) administers approximately 700 housing choice vouchers in Missoula, Montana. MHA began operating the program in 2001 under the final rule. Through May 2002, five households had purchased houses through the program. MHA's program has benefited from strong partnerships that the PHA has developed with lenders and counselors. The main challenge facing the program is the rising cost of housing in Missoula and the inability of participants to afford to purchase unless the full amount of the voucher subsidy can be used to qualify the participant for a mortgage (the HAP as offset model). The incomes of the five voucher homeownership purchasers at this site ranged from $10,774 to $24,160, with an average income of $18,087.

[5] Danville is a HUD pilot site operating under the proposed rule. A family with an income of $7,371 at the time of purchase would not be eligible to participate in the program under the final rule because of the minimum income requirement of $10,300.

Milwaukee

The Housing Authority of the City of Milwaukee (HACM) administers approximately 4,900 housing choice vouchers in the City of Milwaukee. HACM began offering the voucher homeownership option in October 2000, shortly after the publication of the final rule. Through May 2002, three households had purchased houses through the program. Program staff attribute the small number of closings to a lack of lender support and the poor credit of program applicants. In addition, the two nonprofit organizations providing counseling to program participants have only limited capacity to serve households requiring extensive counseling and credit repair before being able to purchase. As of May 2002, HACM expected 8 to 10 more households to purchase over the next six months. The income of the program participant who had purchased at the time of the site visit was $13,773.

San Bernardino

The Housing Authority of the County of San Bernardino (HACSB) administers approximately 7,800 housing choice vouchers in San Bernardino County, in the Los Angeles metropolitan area. HACSB began offering the voucher homeownership option in October 2000 under HUD's final rule. Through May 2002, three households had purchased houses through the program. HACSB has been concerned about lender participation and the availability of second mortgage financing for program participants and has taken a conservative approach to program outreach and recruitment. At the time of the site visit, HACSB was still resolving issues related to program financing but expected the number of closings to increase over the next year. Program staff do not see San Bernardino's relatively tight housing market as a major obstacle, although finding houses in good neighborhoods can be challenging. The incomes of the three voucher homeownership purchasers at this site ranged from $20,800 to $24,777, with an average income of $22,278.

Toledo

The Lucas Metropolitan Housing Authority (LMHA) administers approximately 3,400 housing choice vouchers in the Toledo metropolitan area. LMHA began operating the program in 2001 under the final rule. Through May 2002, two households had purchased houses through the program. Toledo has a large stock of housing that is affordable to voucher program participants. However, the number of closings has been limited by the poor credit of program participants and a lack of participation by private lenders, who thus far have been unwilling to tailor loan products to voucher program participants. LMHA anticipates that the rate of purchases will increase over the next six months as clients who have been working on their credit begin to qualify for mortgages. The incomes of the two voucher homeownership purchasers at this site were $11,300 and $13,065.

Chapter 3
Program Design

This chapter discusses the design of the voucher homeownership program across the 12 study sites. The chapter focuses on four main components of the program: targeting and outreach; homeownership counseling; home search and inspections; and post-purchase activities. A fifth component of the program—home purchase financing—is discussed separately in Chapter 4. Exhibit 3-1 provides a schematic of how the program components fit together and some of the key choices that PHAs and their partners have to make in implementing these components. Common to all of the program components are decisions about staffing and management. The final section of this chapter discusses staffing and management decisions and the level of staff effort that PHAs and their partners have committed to program implementation.

This chapter suggests that the decisions that PHAs and their partners make in designing and implementing their voucher homeownership programs are shaped by the opportunities and limitations presented by the local context in which they operate. Key contextual factors influencing local programs include:

- The size and staff capacity of the PHA;
- The availability of local partners to provide homeownership counseling;
- Lender support for the program;
- The availability and affordability of the local housing stock; and
- The income and credit characteristics of the pool of program applicants.

Each of these factors played a role in shaping program design at each of the study sites, but the relative importance of these factors—and the extent of their influence on program design—varied considerably across sites. Some of these differences are discussed in this chapter, but the case studies (Volume 2 of the report) are the richest source for understanding how the confluence of factors came into play at each site. The cross-site analysis presented here is designed to highlight the key patterns across the sites to suggest some of the common themes that have emerged from the sites' experiences with program implementation.

Exhibit 3-1
Program Components and Key Decisions

Targeting and Outreach

- Who should be served?
- How should applicants be recruited?
- Who is responsible for outreach, recruitment, and eligibility screening?

Homeownership Counseling

- Who will provide the counseling and how will it be funded?
- Which applicants can attend counseling and when?
- How much counseling will be required and in what format?
- How will long-term needs, such as credit repair, be addressed?

Home Search and Inspections

- What assistance will be provided to homeownership candidates during the home search process?
- How will the two inspections be managed?

Home Purchase Financing

- Which financing model(s) will work in the local market?
- Which financing model(s) will lenders accept?
- What subsidies will be available to finance the purchase in addition to the voucher housing assistance payment?
- How will the loans be serviced?

Post-Purchase Activities

- Will post-purchase counseling be required?
- Will the PHA conduct post-purchase HQS inspections?
- What kind of tracking should be done of participants after they purchase?

3.1 Targeting and Outreach

The study sites took varied approaches to identifying prospective homebuyers for the voucher homeownership program. Some programs elected to "cast a wide net," conducting broad outreach to current voucher program participants (and in some cases waiting list applicants), many of whom were not expected to be ready to purchase in the near term. Other programs elected to focus recruitment efforts more narrowly, targeting households believed to be likely to capitalize quickly on the homeownership option. In addition, some programs elected to impose additional requirements for participation in the voucher homeownership program. Programs that chose to limit the number of families who may use the homeownership option—either by imposing additional requirements, by marketing the program more narrowly, or some combination of the two—typically did so because of limited staff resources to handle a large number of program applicants. This section examines the approaches taken to targeting and outreach. Exhibit 3-2 summarizes some of the key features of the targeting and outreach approaches at each site.

Defining the Target Population

HUD requirements for participating in the homeownership option are few. For programs operating under the final rule, participants must have at least 12 months of employment with wages equivalent to 30 hours per week at the Federal minimum wage (currently an income of $10,300).[1] The final rule does not allow PHAs to establish other eligibility standards for minimum income and employment. However, PHAs may impose additional requirements for participation that are not related to income and employment, such as requiring that households rent through the housing choice voucher program for at least a year before pursuing voucher homeownership. PHAs authorized to begin pilot programs under the proposed rule are not subject to the minimum income and employment requirements, so long as they are operating under the proposed rule.

Six of the 12 study sites (Colorado, Missoula, Milwaukee, Green Bay, Syracuse, Nashville) impose additional requirements for participation in the voucher homeownership program. Colorado's program is unique among the 12 sites in that it is restricted to persons with disabilities. This is because the PHA (the state Department of Human Services, Supportive Housing and Homeless Programs) primarily serves persons with disabilities. At the other study sites, the homeownership option is available to persons with disabilities as well as non-disabled households. In Colorado, Missoula, and Milwaukee the homeownership option is only available to households who have been participating in the rental voucher program for at least one year. Program staff in these programs reported that this allows staff to use participants' rental payment history as an indicator of their readiness and ability to make mortgage payments.

In Green Bay, although there are no income or employment requirements beyond those in the final rule, applicants must pre-qualify for a mortgage before beginning homeownership counseling. Green Bay staff report that this was a strategic decision motivated by limited staff capacity. PHA and counseling agency staff have found that current targeting methods yield as many applicants as staff can support.

[1] The employment requirement is waived for households headed by elderly persons or persons with disabilities. In addition, for elderly and disabled families, the income used to determine whether the family meets the minimum income requirement may include welfare assistance.

Exhibit 3-2

Targeting and Outreach Strategies

	Nashville	Colorado	Vermont	Syracuse
Rule operating under	Proposed	Proposed	Final	Proposed
Started by targeting FSS participants?	Yes	No	No	Yes
Current target population	Annual income of $15,000; 3 yrs. employment; and FSS participation *or* paying at least $300 in rent [a]	Persons with disabilities who have participated in voucher program for 1 year; no income or employment requirements	Minimum income and employment per final rule	Minimum annual income of $15,000; 1 yr. employment; and FSS participation [a]
Reason for target population	Perceived increased opportunity for success in obtaining a mortgage and purchasing	PHA primarily serves persons with disabilities; site did not set income requirements because did not want to screen out households who might be able to obtain a mortgage	Site did not want to limit applicant pool	Site wants to focus resources on households who are nearly ready to buy
Current outreach strategy	Annual reexaminations and word of mouth	Annual reexaminations and word of mouth	Letters sent to voucher participants when local counseling agency has capacity to serve new clients	Targeted mailings, newsletters, flyers, special events, and word of mouth
Reason for outreach strategy	Large backlog of eligible applicants; number of applications processed limited by partners' capacity for orientation sessions	Current outreach methods yield as many applicants as program staff can handle	Capacity of counseling agencies shapes marketing strategy	Site continuing to recruit applicants to the program to increase the number of closings

[a] Exceptions apply to households headed by elderly persons and/or persons with a disability.

Exhibit 3-2 (cont.)

Targeting and Outreach Strategies

	Montgomery Co.	Bernalillo Co.	Danville	Green Bay
Rule operating under	Final	Final	Final	Final
Started by targeting FSS participants?	No	No	No	Yes
Current target population	Minimum income and employment per final rule	Minimum income and employment per final rule; some screening for credit before applicants are referred to homeownership counseling	Minimum income and employment per final rule	Minimum income and employment per final rule; applicants must pre-qualify for a mortgage before starting homeownership counseling
Reason for target population	Site did not want to limit applicant pool because anticipates that only a fraction of applicants will be able to purchase	Site did not want to limit applicant pool because anticipates that only a fraction of applicants will be able to purchase	Site did not want to limit applicant pool because anticipates that only a fraction of applicants will be able to purchase	Targeting strategy motivated by staffing constraints of PHA and partners
Current outreach strategy	Targeted mailings	Briefings and annual reexaminations	Targeted mailing to new admissions, annual reexaminations, and word of mouth	Word of mouth, brochures, and mention in newsletters
Reason for outreach strategy	Current outreach methods yield as many applicants as program staff can handle	Site has sufficient backlog of eligible applicants	Initial newspaper ad generated large response; current outreach methods yield as many applicants as program staff can handle	Initial press conference generated considerable interest; current targeting yields as many applicants as program staff can handle

Exhibit 3-2 (cont.)

Targeting and Outreach Strategies

	Missoula	**Milwaukee**	**San Bernardino**	**Toledo**
Rule operating under	Final	Final	Final	Final
Started by Targeting FSS participants?	No	No	Yes	Yes
Current target population	Minimum income and employment per final rule *and* 1 year participation in PHA's voucher or public housing program	Minimum income and employment per final rule *and* 1 year participation in PHA's voucher program	Minimum income and employment per final rule; priority given to families earning two times the voucher payment standard and with 2 years employment	Minimum income and employment per final rule *and* FSS enrollment
Reason for target population	Site did not want to limit applicant pool and thought that lenders should have the ultimate decision as to who can purchase	Site did not want to limit applicant pool because it anticipated that many would have poor credit	Site thinks that higher income families will have a better chance to qualify for a mortgage and purchase in the local housing market, but does not restrict participation to higher income families.	Site initially thought that FSS participants would be better prepared to purchase. Site has since broadened the potential applicant pool by allowing FSS enrollment after admission to the homeownership program.
Current outreach strategy	Annual reexaminations and word of mouth	Annual reexaminations, resident newsletter, and word of mouth	Briefings, annual reexaminations, and word of mouth	Mailings to voucher participants and flyers
Reason for outreach strategy	Site thinks it is most efficient to recruit applicants through the annual reexamination process versus conducting broader outreach	Site had huge response to initial outreach and is now constrained by capacity of counseling agencies	Initial press event generated large response; current conservative strategy reflects concerns about availability of financing and tight housing market	Site is currently trying to identify marketing methods that are more effective in attracting qualified applicants to the program

Two of the HUD pilot sites operating under the proposed rule—Syracuse and Nashville—require incomes above the minimum amount subsequently established by the final rule. Syracuse requires one year of employment and an annual income of $15,000, because program staff believe the program's resources should be targeted to households nearly ready to purchase. Noting similar concerns about targeting households likely to purchase, Nashville requires three years of employment, $15,000 in income, and either a monthly household rent payment of at least $300 or participation in the PHA's FSS program.

In San Bernardino, the PHA gives priority to households with annual incomes equal to twice the annualized voucher payment standard (currently $17,500 for a two-bedroom voucher) and with 24 months of employment. Program staff think that these households have the best chance of qualifying for a mortgage and purchasing in San Bernardino's increasingly tight housing market. However, households who meet the minimum income and employment criteria established by the final rule and are able to pre-qualify for a mortgage are given equal priority.

Five of the study sites initially planned to target participants in the PHA's FSS programs. Staff in these sites explained that the homeownership option was a logical extension of FSS activities. FSS participants were likely to be preparing for employment or already employed, and at least some would have accumulated savings in FSS escrow accounts that could be used for a home purchase. Despite the apparent logic of this strategy, two sites (Nashville and Green Bay) dropped the FSS participation requirement and two sites (San Bernardino and Toledo) reduced the importance of FSS participation as a selection criterion. Syracuse remains committed to requiring FSS participation, although in both Syracuse and Toledo families may enroll in FSS at the time they express interest in homeownership (and therefore may not have participated in the FSS program for long before purchasing).

Of the sites that have dropped the FSS requirement, the main factor contributing to the decision was that many FSS participants were not close to being ready to purchase, while there were other voucher program participants who were not in FSS but nevertheless had the income, employment history, and credit to purchase relatively quickly. For example, Nashville staff analyzed data on their rental voucher program and learned that more than one-third of voucher program households had relatively high incomes and a history of stable employment. Approximately 1,800 Nashville households met the local homeownership program eligibility requirements, even though the local criteria are substantially more restrictive than the final rule requirements. San Bernardino staff similarly report that they found a substantial number of eligible applicants outside their FSS program. Staff at these sites argue that there are enough voucher households with stable employment and high enough incomes to make the homeownership program feasible without focusing on FSS participants.

To test whether this argument applies across the study sites, we analyzed the income distribution of voucher program participants at each site, comparing FSS and non-FSS participants. We limited our analysis to non-elderly, non-disabled households earning at least 80 percent of their income from wages.[2] We also assumed that a PHA would need at least 50 voucher program participants in its FSS program to make restricting the homeownership option to FSS participants a reasonable strategy. We

[2] The MTCS does not contain information on the number of weekly hours worked by the head of household. We chose to proxy full-time employment (defined as at least 30 hours worked per week) by counting as eligible only those households with at least 80 percent of income coming from wages.

found that 8 of the 12 sites had fewer than 50 voucher households enrolled in FSS.[3] Moreover, the four sites with large enough FSS programs all had a substantial number of non-FSS households in the $15,000 to $25,000 income range. These findings confirm the view of site staff that focusing on FSS participants for voucher homeownership recruitment may not make sense for all PHAs offering the program.

Conducting Outreach

Many of the study sites began by "casting a wide net" in their efforts to educate current and prospective voucher program participants about the homeownership option. The outreach methods employed by these agencies included newspaper advertisements (Danville), press events (San Bernardino), mailings to all voucher program participants (Montgomery County, Bernalillo County, Toledo, and Missoula), and notices in a housing agency newsletter (Milwaukee). These approaches tended to attract far more applicants than the programs could serve, including households who were not eligible for the program or who needed extensive credit repair and other preparation before they would be ready for homeownership. For example, in Danville, where the housing agency only administers about 700 vouchers, nearly 500 households expressed interest in the program after the initial announcement. In Bernalillo County and Nashville more than 200 voucher participants responded to early outreach. Obviously, the volume of applicants can strain the capacity of available staff to provide screening, referrals, homeownership counseling, and other support.

Sites that have reached out to a broadly defined applicant pool—despite resource constraints—generally did so because they wanted to get the word out about the homeownership option, even to households who might not be able to take advantage of the program. Staff in both the Missoula and Colorado programs indicated they preferred to reach out broadly to prospective homebuyers and then let lenders determine who would qualify to purchase. Further, staff in several sites including Montgomery County, Bernalillo County, Danville, and Toledo indicated they knew that only a few of those who received the general mailing sent out by the PHA would qualify and choose to pursue homeownership, but they did not want to risk missing interested, eligible applicants by limiting the outreach.

As shown in Exhibit 3-2, a number of sites now limit their outreach to more passive approaches such as mentioning the homeownership option at annual reexamination meetings with voucher program participants and in newsletters or flyers. As the number of closings increases, word of mouth also becomes an increasingly common source of new referrals to the program.

Sites that either initially or over time adopted more passive outreach strategies commonly reported that limited local resources contributed to their decisions about outreach. Concerns about staff capacity to work with potential homebuyers led some programs to use targeting to keep the program's size within the capacity of available staffing. Staff in Syracuse cited limited staff capacity as a factor in their decision to limit the program to families participating in FSS and meeting more stringent income and employment requirements than those established in the final rule. Staff in Missoula, a small community with a voucher program of about 700 households, found that one-on-one contacts with families at reexamination was more efficient than general mailings to identify promising candidates.

3 The validity of this analysis depends upon the accuracy of the MTCS data on FSS enrollment.

In Milwaukee, disagreement over targeting has become a source of debate among the program partners. A broad outreach strategy generated extensive interest in the program, but the partner counseling agencies did not have sufficient staff to enroll interested applicants in homebuyer education. The PHA has resisted adopting the stricter screening criteria recommended by the counseling agencies. The resulting mismatch between the PHA's interest in marketing the program broadly and the counseling agencies' limited capacity to train the high volume of prospective purchasers has caused tension among the Milwaukee partners and has resulted in fewer closings than local staff expected they would achieve.

Outcomes of Outreach

Interest in the voucher homeownership option has been high at all sites. The challenge has been achieving a balance in getting the word out to all who may be eligible and interested while keeping enrollment at levels that available staff can support. In some cases, such as Nashville and Bernalillo County, a large backlog of applicants will keep available staff busy for some time to come, assuming applicants do not lose interest if they are not admitted to the program right away. Given that most sites do not exclude participants with problematic credit histories or other barriers to homeownership, staff expect that a significant proportion of eligible applicants will require several months to two years to prepare to purchase.

3.2 Homeownership Counseling

Homebuyer education and counseling efforts have experienced rapid growth in recent years as part of a concerted effort by Federal, state, and local governments, nonprofit community organizations, and others in the housing industry to expand homeownership opportunities for low- and moderate-income households. Homeownership counseling has long been thought to be an effective tool for enhancing the success of individual homebuyers and for preventing mortgage default. Recent empirical evidence supports this belief. A study prepared by Abdighani Hirad and Peter Zorn assessed 90-day mortgage delinquency rates among nearly 40,000 mortgages originated under Freddie Mac's Affordable Gold program, a loan program aimed at buyers with incomes at or below 100 percent of area median income.[4] The study found that buyers who received pre-purchase counseling had a 19 percent lower 90-day delinquency rate than buyers who did not receive such counseling.

The final rule requires that a family receiving assistance under the voucher homeownership option must participate in a housing counseling program provided by the PHA. The rule requires that a family must attend and satisfactorily complete this training prior to the commencement of homeownership assistance, but PHAs have wide latitude in designing the components of the counseling programs and in designating counseling providers. In this section we describe the approaches in place in the study PHAs to provide homebuyer counseling. We focus on the providers of homebuyer counseling, the format and content of the counseling, the amount of counseling required, and the sources of funding for the counseling. These characteristics are summarized in Exhibit 3-3.

[4] Abdighani Hirad and Peter M. Zorn, "A Little Knowledge is a Good Thing: Empirical Evidence of the Effectiveness of Pre-Purchase Homeownership Counseling," Joint Center for Housing Studies of Harvard University, Low Income Homeownership Working Paper Series, August 2001.

Exhibit 3-3

Overview of Pre-Purchase Counseling

	Nashville	Colorado	Vermont	Syracuse
Criteria for referral to counseling	Applicants meeting site's eligibility criteria and determined (through an individual assessment) to be able to purchase within 6 months	Applicants meeting site's eligibility criteria	Applicants meeting site's eligibility criteria	Applicants meeting site's eligibility criteria and determined (through an individual assessment) to be able to purchase within 6 months
Required hours and sessions	9 hrs in 2 sessions	4 hrs in 1 session (although some providers may conduct longer sessions)	8 hrs in 1 session	10 hrs in 2 sessions
Format of required sessions	Group session with other first-time homebuyers	Group session with other first-time homebuyers[a] AND one individual session for some participants	Group session with other first-time homebuyers AND at least one individual session	Group session with voucher program participants only
Provider of counseling	One outside agency	Multiple outside agencies	Multiple outside agencies	One outside agency
Guest speakers	Lenders and realtors	Varies	Varies	Usually none
Strategy for clients needing more time to qualify for a mortgage	Referred to other agency for credit counseling, maintain contact with lead counseling agency	Varies; some may be referred to other agency for credit counseling	Varies by agency; some offer long-term "financial fitness" class	Referred to a "Homebuyer Club" run by a local lender, which includes an IDA-like savings account
Main source(s) of funding for counseling	NR funds, and other counseling agency funds	State Housing Finance Agency fees and other counseling agency funds	NR funds, and other counseling agency funds	NR funds and other counseling agency funds

[a] Some agencies in Colorado's network offer specialized counseling for persons with disabilities.

Exhibit 3-3 (cont.)

Overview of Pre-Purchase Counseling

	Montgomery Co.	Bernalillo Co.	Danville	Green Bay
Criteria for referral to counseling	All applicants	Applicants who self-certify that they meet the site's eligibility criteria	Applicants meeting site's eligibility criteria and have good credit	Applicants meeting site's eligibility criteria and pre-qualified for a mortgage
Required hours and sessions	10 hrs in 5 sessions	7-8 hrs in 1-2 sessions	8 hrs in 5 sessions	6 hrs in 2 sessions
Format of required sessions	Group session with voucher program participants only	Group session with other first-time homebuyers; persons with disabilities also have an individual session	Group session with voucher program participants only AND at least one individual session	Group session with other first-time homebuyers (videotape for non-English speakers) AND individual counseling as needed
Provider of counseling	PHA staff	Two outside agencies[a]	Housing authority staff	One outside agency
Guest speakers	Fannie Mae and Freddie Mac; credit bureau	Lenders and realtors	Lenders, realtors, and credit counselors	Usually none
Strategy for clients needing more time to qualify for a mortgage	Optional credit repair workshop at PHA and referrals to credit counseling agencies	Agencies develop action plan with clients and follow up by mail	Applicants with poor credit are referred to a credit counseling agency	Applicants who cannot pre-qualify for a mortgage are referred to other agencies for counseling but do not enroll in the voucher homeownership program
Main source(s) of funding for counseling	PHA resources	Counseling agency funds	PHA resources	$6,000 grant from PHA

[a] One of the agencies focuses on persons with disabilities.

Exhibit 3-3 (cont.)

Overview of Pre-Purchase Counseling

	Missoula	**Milwaukee**	**San Bernardino**	**Toledo**
Criteria for referral to counseling	Applicants meeting site's eligibility criteria	Applicants meeting site's eligibility criteria	Applicants meeting site's eligibility criteria	Applicants who self-certify that they meet the site's eligibility criteria
Required hours and sessions	10 hrs in 4 sessions	6-8 hrs in 3-4 sessions	16 hours in 2 sessions	10-12 hrs in 5 sessions
Format of required sessions	Group session with other first-time homebuyers AND at least one individual session	Group session with other first-time homebuyers AND individual sessions as needed	Group session with other first-time homebuyers	Group session with other first-time homebuyers (one session with voucher participants only) AND at least one individual session
Provider of counseling	One outside agency	Two outside agencies[a]	One outside agency	One outside agency and PHA
Guest speakers	Realtor	None	Lenders, realtors, and escrow officers	Lenders, realtors, and insurance agents
Strategy for clients needing more time to qualify for a mortgage	Additional individual counseling as needed	Additional individual counseling as needed for up to 2 years	"Financial Fitness" program with group and individual counseling (happens before required homebuyer education)	Additional individual counseling as needed and periodic follow up by counseling staff
Main source(s) of funding for counseling	Counseling activities are funded by state NR-affiliate	Lender fees and other counseling agency funds	NR funds	NR funds, lender fees, and other counseling agency funds

[a] One of the agencies focuses on persons with disabilities.

Providers of Homeownership Counseling

Most of the PHAs in the study (10 of the 12 agencies) rely on outside agencies working in partnership with the PHA to provide counseling to participants. Among the 10 sites, all but two are using NR-affiliated NeighborWorks organizations to provide the counseling. The exceptions are Milwaukee and Colorado, which are using HUD- or state Housing Finance Agency-approved counseling agencies not affiliated with NR. Only two of the 12 study sites, Montgomery County and Danville, are providing the counseling exclusively in-house.

Typically, the decision about whether to provide the counseling in-house or through a partner is based on an assessment of the expected level of resources and expertise required. Providing the counseling in-house requires a substantial commitment of time and resources, and there are no separate voucher funds or PHA administrative fees provided to PHAs to conduct the counseling.[5] Even though many examples of curricula are available, the PHA would still need to adapt a curriculum for its program. In addition, the PHA would need to arrange for outside speakers, prepare a staff person to lead the sessions, and coordinate the invitation, registration, and attendance of participants. In addition to the planning and design time, the homebuyer education classes are usually provided on an ongoing basis, requiring a continuous commitment of staff resources to the counseling component. In contrast, HUD-approved counseling agencies and NR affiliates provide the type of counseling called for in the program and provide the counseling to the PHA at no cost. As a result, for many PHAs engaging an outside counseling agency may be the most attractive option.

Despite the advantages of using an outside counseling provider, two of the study sites are using PHA staff to provide homebuyer counseling. In Danville, an outside agency provided the counseling during the first 18 months of the program, but the PHA began offering the counseling in-house in early 2001. PHA staff found that they could provide continued follow-up with participants and individual assistance more readily than the outside provider. In addition, despite having to devote PHA staff resources to counseling, providing the counseling in-house resulted in lower program costs because the partner agency would have begun charging the PHA for the counseling services. Finally, the PHA is more centrally located and accessible to participants than the partner organization. In Montgomery County, PA, PHA staff originally planned to provide the counseling through an outside partner but were unable to locate a HUD-approved counseling agency in the area that they thought would meet the needs of the program. In addition, PHA staff wanted to ensure that they developed a personal relationship with program participants and that pre-purchase counseling was tailored to the unique circumstances of each individual. Conducting the training in-house allowed them to achieve these goals.

The agencies providing counseling in-house are able to tailor the counseling to the specific requirements and rules of the voucher program because the counseling sessions are offered exclusively to voucher participants. In sites where the counseling is provided by an outside agency, participants attend the sessions along with other homebuyers, often not receiving financing information specific to the voucher homeownership program. Syracuse and Toledo have avoided this issue by including a session with PHA staff as part of the counseling requirement.

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[5] However, HUD does provide funding for HUD-approved counseling agencies for counseling (which could include a PHA or a PHA partner who is counseling voucher homeownership families) and has made limited funding available for a homeownership coordinator through the FSS Notice of Funding Availability.

Regardless of whether the counseling is provided in-house or by an outside agency, the homebuyer education typically includes presentations by guest speakers. Lenders, realtors, home inspectors, and previous homebuyers are among the types of presenters included in the counseling sessions. Guest speakers offer in-depth information about their area of expertise and can respond to the specific questions and concerns of homebuyers. Having lenders, realtors, and inspectors participate in the homebuyer education also helps program participants to familiarize themselves with the various entities involved in the purchase process before they start looking for a house.

Content of the Homeownership Counseling

The final rule for the voucher homeownership program suggests a variety of topics to be included in the required pre-purchase homeownership counseling:[6]

- Home maintenance (including care of the grounds);
- Budgeting and money management;
- Credit counseling;
- Methods to use in negotiating the purchase price of a home;
- How to obtain homeownership financing and loan pre-approvals (including a discussion of the types of financing that might be available and the pros and cons of different types of financing);
- How to locate a home for purchase (including information about homeownership opportunities, schools, and transportation in the PHA's jurisdiction);
- Advantages of purchasing a home in an area that does not have high concentrations of low-income families and how to locate homes in such areas;
- Information on fair housing, including fair housing lending, and potential support from local fair housing enforcement agencies; and
- Information about the Real Estate Settlement Procedures Act, state and Federal truth in lending laws, and how to identify and avoid loans with oppressive terms and conditions.

These topics are suggestions—the final rule allows PHAs to adapt the content of the homeownership counseling to local circumstances and the specific needs of participating families. For the most part, the study sites are covering the recommended topics and are implementing similar curricula for homebuyer education, with variation arising more often in the timing and format of the sessions. In most cases, reference materials and workbooks are provided at the sessions, and many participants report that these are quite useful. One example is the "Keys to Homeownership" publication developed by the National Foundation for Credit Counseling.

Individual Versus Group Counseling

Most of the PHAs in the study (10 of the 12) use a combination of group and individual counseling formats. The consensus is that group sessions are most effective for presenting an overview of the homebuying process, the basics of obtaining a mortgage, home maintenance, and the roles of realtors, inspectors, appraisers, and others involved in the purchase process. Individual sessions are best when it comes to discussing the purchasing power of individual buyers and credit problems and credit repair strategies. A combination of individual and group sessions allows for efficient handling of overview issues and the ability to delve into the individual circumstances of each participant. The

6 Pages 55138-55139 of the final rule.

study by Hirad and Zorn found that the benefits of pre-purchase counseling are more pronounced for recipients of individual counseling than for group counseling.[7] Specifically, the study found that borrowers receiving counseling through individual programs experienced a 34 percent reduction in delinquency rates, while borrowers receiving classroom and home study counseling experienced 26 percent and 21 percent reductions respectively.

There is variation in the timing of the individual and group sessions across the study sites. Some sites conduct an individual session before the group sessions (but after confirming eligibility for the program). In these cases, the individual session is used to review credit reports, income, and purchasing power, to determine whether the participant is ready to purchase, and if not, how long it might take to resolve credit issues or other barriers to purchase. In Nashville, counseling staff use the individual session to decide whether a participant should go directly to the homebuyer education class (those ready to purchase) or to a more lengthy financial fitness course (for those expected to be ready to purchase in six months or longer). In other sites, an individual session is conducted after the group sessions, either as a requirement for all participants, or as an option available to participants who request additional assistance.

Problems associated with either a lack of credit history or poor credit are by far the most common reasons for requiring more intensive, longer-term counseling beyond that provided in the standard homebuyer education curriculum. Some counseling agencies refer participants who cannot obtain mortgage financing to specialized credit counseling agencies for assistance in developing payment plans to resolve credit problems. Others provide this longer-term assistance on their own. It is not uncommon for the resolution of credit problems to take as much as one or two years. Some of the PHAs in the study have found that the number of participating families who need this type of long-term credit repair has been larger than anticipated. In Toledo, for example, credit concerns among potential participants have been particularly difficult.

In addition to previous credit problems, some families may not have an extensive credit history, which can also make it difficult to qualify for a mortgage. In such cases, counselors often assist families to develop a record of non-traditional credit by working with landlords, childcare providers, utility companies, insurance companies, or other entities to document a history of on-time payments and good credit.

Hours of Counseling Required

The number of hours of homebuyer counseling required in the study sites varies, ranging from four hours in Colorado to 16 hours in San Bernardino. Most of the agencies (8 of the 12) require between 8 and 10 hours of pre-purchase counseling. The sessions are generally scheduled during evening or weekend hours to accommodate the working schedules of program participants. Multiple sessions are held in every site except Colorado, where the counseling may be provided in one session. In Colorado, Bernalillo County, and Milwaukee, specialized counseling is offered for participants with disabilities, to explain the special features of the program for these participants.[8] In Green Bay, the agency serves a large proportion of Hmong-speaking families and has developed a videotaped

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[7] Hirad and Zorn, 2001. See footnote 4 for full citation.

[8] Other study sites also serve persons with disabilities but do not offer specialized counseling for these program participants.

presentation in Hmong for those families. Future plans include developing similar videotapes in Spanish.

Sources of Funding for Homeownership Counseling

We did not collect detailed information on the cost to PHAs or partner agencies of providing homeownership counseling. We did learn, however, that the costs of counseling are most often funded through NR funds, other grants to the counseling agencies, state Housing Finance Agency funds, and fees paid by lenders to the counseling agency for households that purchase. At 9 of the 10 sites where the counseling is provided through a partner agency, the counseling is provided at no cost to the PHA. The exception is Green Bay, where the PHA pays the counseling agency $250 per client for counseling, using funding from a PHA grant. The Montgomery County and Danville PHAs incur costs associated with the staff time and materials required to provide the counseling in-house.

At two sites, participants were (at the time of the site visits) paying for all or part of the required homeownership counseling. At one site, for example, participants were paying up to $200 for counseling. Under the housing choice voucher program (including special housing types such as the homeownership option), PHAs *may not* require program participants to pay for any mandatory program component, which includes the required pre-purchase counseling under the homeownership option. The preamble of the final rule clarified that such a practice is prohibited. All study sites were subsequently reminded by HUD that participants may not be required to pay for the mandatory counseling requirement and were directed to immediately cease such practice and reimburse the program participants who had previously paid for the cost of the counseling themselves if the PHA was operating in error.

At present, the cost of counseling does not appear to be a major barrier to the growth of the program, because local resources are available to serve qualified first-time homebuyers. However, the cost of counseling is a constraint that PHAs must address in operating the program, as counseling agencies do not have unlimited resources to devote to voucher homeownership participants. At sites where local counseling capacity is particularly limited, PHAs may have to modify their targeting and outreach strategies to ensure that they can meet their program goals of helping a certain number of households to purchase without exhausting available counseling resources. For example, some PHAs have opted to limit the households referred to homeownership counseling to households with sufficient income and credit to qualify for a mortgage, so as not to overwhelm the counseling agencies (some of whom rely on lender fees) with clients who are unlikely to be able to purchase. The case studies (Volume 2 of this report) explore in detail the different strategies that the study PHAs have adopted to achieve program goals in the face of local resource constraints.

3.3 Home Search and Inspections

Home Search

Program staff in all of the study sites report they cover the home search process as part of the homebuyer education curriculum. The issues covered vary somewhat, but typically include how to identify and work with a realtor, how to assess the condition of a home, and how to balance the household's "wants" and "needs" when choosing a home and neighborhood.

Most sites provide only limited home search assistance beyond what is provided in the counseling component. Some sites (Syracuse, Toledo, and Nashville) provide information about nonprofit housing developers that may have homes available for purchase by first-time homebuyers. Nashville, Colorado, Green Bay, and Danville provide lists of realtors that program participants may (but are not required to) contact. Staff in Montgomery County and Missoula recommend that participants find a realtor (and offer tips as to what to look for in a realtor) but do not provide any specific referrals.

Staff in a few sites have made extra efforts to reach out to realtors. In Bernalillo County, the Executive Director of the PHA and the Executive Director of one of the partner agencies, both former real estate brokers, have used their professional backgrounds and industry connections to educate local realtors about the voucher homeownership option. Realtors were recruited to attend a training workshop run by PHA and counseling organization staff. Staff at a second counseling organization in Bernalillo County have assisted Vietnamese participants to make contact with a local Vietnamese realtor. Although staff are careful not to "steer" participants to a particular broker, the organization's Executive Director noted that it is often beneficial for program participants to have the option to work with a broker who is fluent in their native language. Similarly, in Green Bay, a local Hmong-speaking realtor has worked with several of the program's Hmong-speaking participants.

Inspections

The voucher homeownership program requires that all units purchased through the program undergo two separate inspections: an HQS inspection conducted by the PHA and an independent home inspection conducted by a professional home inspector (not PHA staff) at the participant's expense. Both inspections must have taken place and the unit must have passed the HQS inspection (including re-inspections as necessary) before homeownership assistance can begin. All repairs required for the unit to pass HQS must be done at the seller's expense and prior to closing. PHAs may also require or recommend additional repairs identified by the independent inspector, over and above what is needed for the unit to pass HQS. HUD regulations, however, only require that the unit pass the HQS inspection.

Both the initial HQS inspection and the independent inspection are statutory requirements of the voucher homeownership program. It may appear redundant for the voucher homeownership program to require two separate inspections, especially given that only the independent inspection is standard practice in the private market. However, the inspections serve different purposes in the program. The goal of the initial HQS inspection is to ensure that at the time of purchase, the unit is safe and otherwise habitable. In the homeownership program, where annual HQS inspections are not required, the initial HQS inspection may also be the only time that PHA staff are able to see the unit to assess its quality.[9]

The independent inspection may be more important than the HQS inspection in helping to ensure that program participants do not purchase units that will require outlays by the participant beyond the expected costs for maintenance and replacement. The HQS inspection *does not* include an assessment of the adequacy and life span of the major building components, building systems, appliances, and other structural components. These long-term repair and structural issues are supposed to be covered by the independent home inspection. However, relying solely on the independent inspection (as is done in the private market) may not be advisable. A poor quality independent inspection may have more serious consequences for voucher-eligible buyers than for buyers at a higher income level, because the voucher-eligible buyers may have very little financial capacity to address major unanticipated repairs. The HQS inspection process is regulated to ensure that units that pass the inspection meet HUD's national standards for housing quality. By contrast, the regulation of independent inspections (and inspectors) varies widely by state. Some states require that home inspectors be licensed or certified by the state, while other states set no requirements for home inspectors at all.[10]

Although all units purchased through the voucher homeownership program must undergo both HQS and independent inspections, PHAs may opt to conduct the HQS inspection before or after the independent inspection is conducted. In 8 of the 12 study sites, the HQS inspection is conducted first. Staff in these sites reported that they prefer to do the HQS inspection first because the PHA inspectors have a chance to check for any major problems with the home before the participant incurs the cost of hiring an independent inspector. In two sites (Colorado and Green Bay), staff encourage scheduling the two inspections nearly concurrently so that repairs recommended by both inspectors can be presented to the owner at the same time. The remaining sites (Vermont and Bernalillo County) recommend conducting the independent inspection first because it is more likely to identify significant problems that might lead the buyer to reconsider the purchase.[11]

At most sites, program staff reported that a majority of units purchased through the voucher homeownership program fail HQS on the first inspection, but that the repairs required are typically minor and easily made by the seller. None of the study sites reported that sales had fallen through because the seller refused to make HQS repairs. However, program staff reported that it was more common for participants to decide not to purchase a particular unit as a result of problems identified during the independent inspection. The requirement for an inspection satisfactory to the buyer is a typical contingency clause in private market contracts of sale.

9 The PHA must review the home inspector's report to determine whether repairs are necessary prior to purchase and to assess whether the purchase transaction makes sense in light of the overall condition of the home and the likely cost of future repairs. The PHA may disapprove the sale based on this assessment.

10 An alternative solution to the dual inspection requirement, although one that would take time to develop, would be for HUD to create a new set of Housing Quality Standards more suitable for homeownership.

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

3.4 Post-Purchase Activities

PHAs offering the voucher homeownership option have considerable discretion in determining what will be required of program participants after they purchase. As in the rental voucher program, PHAs are required to reexamine annually participants' income and household composition to confirm their eligibility for the program and, if necessary, adjust the amount of the PHA's monthly housing assistance payment. Post-purchase homeownership counseling and HQS inspections are not required; however, PHAs may include requirements in these areas in the statement of homeowner obligations that participants sign before receiving homeownership assistance. In addition, the study sites have developed different procedures for tracking participants' loan payments and intervening as necessary to prevent loan default and/or foreclosure.

Post-Purchase Counseling

Post-purchase counseling typically focuses on two topic areas thought to be critical to people's ability to be successful homeowners over the long-term: budgeting and home maintenance. These topics are always covered to some extent in the pre-purchase counseling, but the PHAs requiring post-purchase counseling argue that it is important to revisit these issues once the participant has been in the house for a few months and has a better idea of the challenges associated with paying the mortgage and maintaining the house. Post-purchase counseling sessions also give the PHA or partner agency an opportunity to reconnect with program participants and offer additional individualized assistance to participants who appear to be struggling. Several of the lenders interviewed argued that proactive post-purchase counseling reduces the likelihood of loan default, although this has not been tested empirically.

The drawback to post-purchase counseling for PHAs is that it is another program activity to be funded. In addition, several of the PHAs in the study argue that it is difficult to get program participants to attend additional counseling after they purchase. Participants see themselves as independent and do not necessarily want further involvement with the PHA or counseling agency. However, several of the program participants interviewed at sites where no post-purchase counseling was offered suggested that they would welcome an opportunity to gain further training on budgeting and on home maintenance.

Nine of the 12 study sites currently require or plan to require post-purchase counseling for some or all program participants (see Exhibit 3-4). At three sites—Nashville, Toledo, and San Bernardino—post-purchase counseling is required of all program participants. In Toledo, for example, participants are required to complete eight hours of group counseling in one or two sessions. The counseling includes a "hands-on" home maintenance component that takes place at a model house set up by the counseling agency for this purpose. The three PHAs currently requiring post-purchase counseling for all program participants are offering the program in partnership with local NeighborWorks organizations, which receive funding from NR for both pre- and post-purchase counseling. At this point in the program, only a small number of purchasers have actually completed post-purchase counseling. In addition to the three sites where post-purchase counseling is required, two sites—Green Bay and Syracuse—are in the process of developing such a requirement.

The remaining four sites where some form of post-purchase counseling is required are Danville, Bernalillo County, Colorado, and Missoula. In Danville and Bernalillo County, individual counseling is required for participants who encounter difficulty maintaining their house or making their mortgage payments. In Colorado and Missoula, post-purchase counseling is required for participants receiving certain forms of down payment assistance.

As an alternative to requiring post-purchase counseling, several sites have developed other means of offering assistance to program participants after they have purchased. For example, the Housing Authority of the City of Milwaukee (HACM) was awarded a $20,000 Local Housing Organization Grant through the State to provide post-purchase advice to program participants. HACM plans to use the funds to offer an optional post-purchase inspection session, in which a home inspector will go to the house shortly after the purchase to advise the homeowner on home repair and maintenance issues. The inspector will also show the homeowner how the major systems in the home operate and how to make simple repairs.

Colorado's Supportive Housing and Homeless Programs (SHHP) decided not to require post-purchase counseling based on feedback from its network of counseling agencies that mandatory post-purchase counseling is generally not effective because people are not motivated to attend. Instead, SHHP plans to reinforce the key messages conveyed in the pre-purchase counseling through regular mailings to program participants of postcards, calendars, and refrigerator magnets with tips on budgeting and maintenance and information on who to call if they run into difficulty. SHHP and its partners also hold an annual reunion for households who have purchased through the voucher homeownership program and through SHHP's HOPE 3 program. During the reunion, there is an informal counseling session that revisits issues of budgeting, maintenance, and predatory lending. The reunion also gives SHHP staff an opportunity to check in with program participants.

Exhibit 3-4

Post-Purchase Counseling

Post-purchase counseling required for all purchasers:	
Nashville	Eight hours of post-purchase counseling is provided in group sessions by the partner agency (also the second mortgage lender). Four purchasers had completed this counseling as of May 2002.
Toledo	Eight hours of post-purchase counseling is provided in group sessions by the partner agency (also the second mortgage lender). Counseling includes a "hands on" session to demonstrate repair and maintenance techniques. No purchasers had completed this counseling as of May 2002.
San Bernardino	Eight hours of post-purchase counseling is provided in group sessions by the partner agency (also the second mortgage lender). No purchasers had completed this counseling as of May 2002.
Post-purchase counseling required for some purchasers:	
Colorado	Purchasers who receive down payment assistance from certain sources must have a home visit from a counselor within two years of purchasing. In addition, purchasers are encouraged to attend an annual reunion where informal counseling takes place.
Danville	PHA will provide individual post-purchase counseling on an as-needed basis. In addition to homeownership counseling, the PHA plans to offer job search assistance to participants who are laid off.
Bernalillo Co.	PHA will require post-purchase counseling for purchasers who miss a mortgage payment. These purchasers will work with the partner agency to develop a plan of action and obtain additional individual counseling as needed.
Missoula	Purchasers who receive down payment assistance from certain sources receive telephone follow-up from counselors every three months for one year after purchase.
Post-purchase counseling under development or not currently required:	
Green Bay	PHA intends to require eight hours of post-purchase counseling, provided by the partner agency. This requirement will be included in the statement of homeowner obligations signed by all purchasers.
Syracuse	PHA intends to require two, two-hour sessions per month for one year after the participant purchases. The partner agency will provide the counseling. The curriculum is expected to include budgeting and credit, predatory lending, and working with contractors.
Milwaukee	Post-purchase counseling is not currently offered. PHA intends to offer an optional HQS inspection as a way to provide additional training on maintenance issues.
Montgomery Co.	Post-purchase counseling is not currently offered.
Vermont	PHA does not currently require post-purchase counseling but counseling is offered or required by some second mortgage lenders from whom participants are obtaining loans.

Post-Purchase HQS Inspections

In addition to requiring post-purchase counseling, a PHA may require or offer periodic inspections of homeownership units while participants are receiving voucher assistance. Seven of the 12 study sites do not require program participants to undergo any kind of unit inspection after they purchase or offer such inspections on an optional basis (see Exhibit 3-5). Several of these sites noted that they did not think that they could do anything to enforce the HQS or other standards if the program participant refused to make the repairs. Other sites said that they thought that ongoing inspections would be an invasion of participants' privacy and could be stigmatizing if the inspections distinguished voucher homeowners from unassisted homeowners. Finally, some sites noted that not having to conduct annual HQS inspections was a cost-saving component of the voucher homeownership option and a way that PHAs can recoup some of the up-front costs of assisting households to purchase. By not requiring post-purchase HQS inspections, however, PHAs (and HUD) run the risk of subsidizing purchasers to live in units that may fall into disrepair and become substandard over the term of assistance.

Of the five sites requiring some form of post-purchase HQS inspection, only one site suggested that a program participant could lose the voucher assistance as a result of persistent HQS deficiencies. For most sites, post-purchase HQS inspections are primarily an opportunity for the PHA or the counseling agency to keep in touch with participants and to provide additional training and intervention as necessary. For example, the Toledo program requires HQS inspections every six months for the first two years of the program. Program staff believe that the first two years of homeownership are crucial for long-term success, and the biannual inspections give staff an opportunity to confirm that program participants understand the maintenance needs of their houses and are taking steps to ensure that the houses do not fall into disrepair. If a unit fails the post-purchase HQS, the partner agency that provides counseling and second mortgage loans to program participants can use its position as the second mortgage lender to encourage the family to receive additional counseling. The counseling agency can also work with the family to access whatever sources of funding may be available for maintenance.

In Nashville, program participants agree to have HQS inspections every two years for as long as they receive housing assistance payments. Any deficiencies found during these inspections are communicated to the homeowner and to the agency that provides counseling and second mortgage loans to program participants, but there is no threat of the loss of voucher assistance based on the condition of the home.

The Vermont State Housing Authority (VSHA) has taken a unique approach to determining whether post-purchase HQS inspections are warranted. At the time of the annual reexamination, participants in VSHA's homeownership program complete a questionnaire about their homeownership experience over the previous year. The questionnaire includes questions on participants' post-purchase experience such as:

- At any time over the past year, have you had difficulty making your monthly mortgage, tax, or utility payments? If so, how many delinquencies have you had?

- How do you feel about the condition of your home? Are there any repairs that need to be made?

Program staff discuss the participant's responses with the participant during the annual reexamination meeting and use the discussion to determine whether the PHA should conduct an inspection or take other steps to assist the participant with home maintenance or budgeting.

Exhibit 3-5

Post-Purchase HQS Inspections

Post-purchase HQS inspections required for all participants:

Green Bay	Annual HQS inspections are required for the full term of the voucher assistance, with the possibility of losing the assistance for persistent violations.
Nashville	HQS inspections are required every two years for the full term of the voucher assistance, with no risk of losing the assistance for HQS deficiencies.
San Bernardino	PHA plans to require post-purchase HQS inspections on an annual basis for all homes purchased through the program (requirement is still under development).
Toledo	HQS inspections are required biannually for two years after purchase, with no risk of losing voucher assistance for HQS deficiencies.

Post-purchase HQS inspections required for some participants:

Vermont	HQS inspections are required on a case-by-case basis based on findings from annual questionnaire completed by purchasers at the time of annual reexamination.

Post-purchase HQS inspections not required or offered:

Bernalillo County; Colorado; Danville; Milwaukee; Missoula; Montgomery County; Syracuse

Loan Tracking

In addition to deciding whether to require post-purchase counseling and HQS inspections, PHAs offering the voucher homeownership program must decide how much emphasis to place on tracking participants' loan payments and intervening in the case of a late payment or delinquency. Program staff at all of the study sites are sensitive to the potential for program participants to get behind on their mortgage payments and want to do everything in their power to help participants avoid foreclosure. The threat of foreclosure is a major concern for many program staff, who describe a "nightmare scenario" of foreclosures publicized in the local press as examples of program failure. At the same time, there are significant challenges associated with tracking program participants' mortgage payments over the long-term. In order to be able to monitor participants' loan payments effectively, program staff must have access to timely information on late payments and other payment problems from lenders and from program participants themselves. How to respond once they have this information raises a different set of issues related to staff capacity and expertise.

The ability of program staff to track participants' mortgage payments depends to a large extent on the relationships that they have with the lenders making first and second mortgage loans to program participants. PHAs that are working with a single lender or with one or two lenders who service their own loans may have an easier time gaining access to information on late payments than PHAs working with multiple lenders or lenders who transfer the servicing function to another entity. Access to information on participants' loan payments also depends on the processes in place to service the loans. Most loan servicers do not have a way of flagging a loan as belonging to a voucher program participant and requiring a different intervention (such as notifying the PHA) in the case of a late payment.

All of the PHAs in this study want and expect lenders to notify them in the event of a late payment. To this end, all of the sites have developed consent forms that participants sign allowing the lender and PHA to share information on the participant's mortgage payments. In addition, some sites have made particular arrangements with lenders to receive notification of late payments in a timely manner. This is more often the case for sites working with a small number of lenders. For example, the five purchasers in Missoula's voucher homeownership program have all worked with one lender in the community, who has agreed to hold the loans in portfolio and service them in-house. This lender has agreed to notify the PHA if a participant is more than five days late on a payment.

In the Colorado site, the Colorado Housing and Finance Authority (CHFA) buys all loans made to program participants and services the loans in-house. At the time of purchase, program participants authorize CHFA to withdraw their share of the monthly mortgage electronically, from their bank accounts, on the fifth day of each month. One of CHFA's servicing staff then manually matches these payments against the HAP amounts, which are wired from the PHA to CHFA on the first of the month, to ensure that each borrower has made the full payment. In the event of a late payment, CHFA immediately notifies the PHA. This system is effective for gaining timely information about participants' mortgage payments, but it is time consuming for CHFA staff, particularly as the number of purchasers grows.

Montgomery County's program has been successful in gaining the participation of multiple private market lenders. As of May 2002, seven lenders had made first mortgage loans to Montgomery County's 12 purchasers. Program staff in Montgomery County continue to recruit new lenders to the program because they would like program participants to have the same choice of loan products and lenders as other first-time homebuyers. With so many lenders involved, however, it is not possible for program staff to develop a loan tracking process for each lender. As a result, the PHA has created a form, included in the closing documents, that gives lenders permission to inform the PHA if a program participant is delinquent on their payments. Most of the lenders participating in the program thus far have been mortgage companies who sell their loans on the secondary market and also do not retain the servicing contract. As the loans get sold and serviced by different entities, there is some concern among program staff that a given servicer may not know to get in touch with the PHA prior to the participant going into default.

The study sites operating programs in partnership with local NeighborWorks organizations as part of NR's voucher homeownership demonstration typically rely on these organizations to take the lead in loan tracking. For most of the sites, the NeighborWorks organization provides second mortgage loans to program participants as well as homeownership counseling. As the second mortgage lender, the NeighborWorks organization often has more access to program participants—particularly in cases where the NeighborWorks organization receives a monthly payment from the participant and from the PHA—as well as a stake in the successful repayment of the first and second mortgage loans. NeighborWorks organizations also typically have relationships with local lenders that may facilitate communication with the first mortgage lender. However, unless these relationships are well established, the second mortgage lender may not be informed if the borrower is delinquent on the first mortgage.

In Nashville, the one site in the study that has experience with a loan delinquency, this system worked. The first mortgage lender notified the NeighborWorks organization of the delinquency, which happened when the purchaser lost her job and was unable to make the payment on her mortgage for a month, and the NeighborWorks organization was able to provide the purchaser with short-term assistance while the purchaser drew unemployment. After receiving her tax refund, the purchaser made her mortgage payment and covered the delinquency fee. At the time of the site visit, the purchaser had a new job and was back on track with her payments.

In conclusion, the three main post-purchase components of the voucher homeownership program—post-purchase counseling, post-purchase HQS inspections, and loan tracking—are not generally as well developed as their pre-purchase counterparts—counseling, inspections, and purchase financing. At this early stage in the program, most sites have focused on the activities needed to assist program participants to purchase and have not yet focused on post-purchase issues. It is also too early in the program to determine which post-purchase activities will be most important for the long-term success of the program. However, post-purchase components will undoubtedly play a more prominent role as the program matures and the number of purchases reaches a point where some of the informal processes currently in place—such as requiring post-purchase counseling on an as-needed basis or working out loan tracking processes with individual lenders—are no longer efficient. The experience of Nashville, which has the highest number of closings and has one of the longest running programs, suggests that attention to post-purchase components is warranted, even if the PHA does not have the staff resources to fulfill these functions itself. In Nashville, in addition to the one delinquency mentioned above, program staff were surprised to find that several purchasers claimed that they were no longer part of the voucher program when they received notification of their annual reexamination. That such a misunderstanding could occur despite the pre-purchase counseling was a reminder of the need for ongoing communication of critical information.

3.5 Management and Staffing

Across all of the study sites, there is consensus that the voucher homeownership program is labor intensive. The program requires a substantial commitment of staff resources, both in the design and planning stages and in the ongoing operations. The activities that must be done during the design phase—developing program strategies, drafting policies, procedures, and forms, vetting the homeownership program through the Agency Plan process, developing partnerships, lining up resources, and recruiting lenders—generally have taken more time than most PHAs expected. As the program is implemented, the ongoing operations also require a significant staff investment. Although PHAs generally have found recruitment for the program relatively easy, all report that helping families to resolve credit issues has been a major and time-consuming obstacle to interested families participating fully in the program. The amount of individual assistance required during the home purchase process has also exceeded PHAs' expectations; as one PHA staff person put it, "each transaction is a custom transaction." However, the likelihood that homeowners are much less likely to move over time, coupled with the fact that the PHAs do not evaluate and approve rent increases and are not required to conduct annual HQS inspections for homeowners should, as the PHA's homeownership program matures, offset the "up-front" costs of implementation and initially transitioning households into homeownership. Since sales at all sites studied were relatively recent (mainly within the previous 13 months of the site visit), the level of effort required to perform the ongoing administrative functions for homeowners over time as compared to rental participants has not yet been determined.

In the course of our study, we attempted to identify and quantify the workloads associated with the administration of the voucher homeownership program and how this workload changes over the different phases of program administration—program planning, home purchase, and ongoing program administration.[12] For the most part we only attempted to quantify the level of staff effort for PHA staff working on the program. However, for five sites where a local NeighborWorks organization plays a key role in program administration, we were also able to obtain estimates of the level of effort by NeighborWorks staff.

Phase 1: Program Planning

During the planning phase, PHAs are for the most part working to get all their program essentials in order so that the first wave of program hopefuls does not catch them unprepared. The tasks that PHAs emphasized as important during this period include:

- Incorporating homeownership into the Agency Plan process;
- Amending the tenant-based Administrative Plan to address policies related specifically to homeownership;
- Developing procedures, forms, and informational materials;
- Identifying resources in the community that can provide expertise, program services, and funding for program enhancements;
- Recruiting program partners—housing counseling agencies, agencies serving special needs families, experienced low-income homeownership agencies;
- Recruiting lending partners—banks and other private lenders, community development agencies, state Housing Finance Agencies, Rural Housing Service, and secondary lenders; and
- Identifying additional resources—nonprofit housing developers, Land Trust administrators, and local sources of grant funds

Two additional tasks were not specifically addressed by site staff, but generally are considered necessary to the planning process. The first is assessing the local housing market to determine whether there is an adequate supply of desirable homes that will be affordable to families with a voucher. If the answer appears to be "no," the PHA will have to work especially hard to identify additional subsidy resources and/or reconsider its timing for converting rental vouchers to homeownership assistance. The second is staff training: when the program planners "pass the torch"

[12] We began by asking each PHA staff person involved in the voucher homeownership program to estimate the amount of time that they currently devote to homeownership program activities on a daily, weekly, or monthly basis. Although we were most interested in estimates of the current level of effort devoted to the program, we also asked the staff to differentiate between the different phases of program administration by asking them the amount of time they spent on the program in the past at key stages of the program's development. Once we had a secure estimate of the number of hours that each staff person devoted to the program (accounting for different work weeks and full- and part-time schedules), we summed these hours and divided them by 40 (assuming a 40-hour work week) to get an estimate of the total level of staff effort in full-time equivalent (FTE).

to staff who will actually be responsible for the day-to-day operation of the program, all of the intimate knowledge of the homeownership process that they have acquired must be passed as well.

Although all of the sites reported having made a substantial commitment of time to program development, only a few were able to provide estimates of the actual staff time required to make the program fully operational. Those who did respond indicated that at least one full-time equivalent employee (FTE) or more was required during the planning period, which lasted from four to 12 months. Further, the staff involved at this stage tended to be more senior-level staff: Executive Directors, Deputy Executive Directors, and Housing Choice Voucher Program Directors.

The recruitment of suitable partners for the operation of the program is widely regarded as a critical if time-consuming task during the planning phase. In addition, sites that partnered early on in the planning process had better information available to them and were able to benefit from the partners' prior experience with homeownership—experience that the PHAs generally lacked. Several PHAs acknowledged that their program partners had also invested large amounts of high-level staff time during the development stage, in some instances actually taking the lead in identifying families to whom the program should be targeted, recruiting lenders, and identifying additional program resources or desirable partnerships.

Phase 2: Home Purchase

PHAs were able to provide the most detailed information about the home purchase phase of program operations, perhaps because it is the phase in which all of the sites are currently involved. The activities in this phase are:

- Selecting eligible families for participation in the homeownership program;
- Providing mandatory housing counseling, directly or indirectly;
- Working with families during the housing search period;
- Conducting HQS inspections and coordinating with the independent inspector;
- Matching up program participants with lenders and other financial resources;
- Reviewing and approving financing documents; and
- Initiating HAP payments.

The study PHAs generally reported that the staffing demands in the home purchase phase were not as high as they were during the planning phase. In particular, the number of staff hours declined once the planning process was complete and the program was up and running. Furthermore, staffing costs were reduced as the amount of time devoted to the program by senior level staff decreased and line staff assumed a greater role in program administration.

Although less than during the planning phase, the level of PHA staff effort required for the home purchase phase was still significant. Most of the study sites (8 of 12) had committed 0.5 to 1 FTE to the operation of the program: estimates ranged from a low of 0.2 to a high of 1.5 in-house FTEs, with an average of 0.78 in-house FTEs (see Exhibit 3-6). In many instances, the *direct* staffing burden may have been reduced from the planning phase, but staff members at the partner agencies, whose time was not reported, were picking up the slack.[13] Four of the five sites that did report on the

[13] Based on which program tasks were performed by program partners, we estimated the partner workload at each site as "high," "medium," or "low."

estimated staff time contributed by partner agencies reported participation by the partner agencies in the range of 0.4 to 2.0 FTEs, with an average of 1.0 FTE per partner. (The fifth agency reporting on partner time gave an estimate of 0.66 FTE contributed by just one of the five homeownership centers with which the PHA was working.) In summary, it appears that most sites use just under two full-time staff—in-house or partner FTEs—to run the program.

Exhibit 3-6

Level of Staff Effort During Home Purchase Phase[a]

	Voucher Program Size	Purchases through May 2002	Expected annual purchases	Estimate of Partner workload	Level of staff effort by PHA in FTE
Bernalillo Co.	1,693	15	20	High	0.3
Colorado	2,600	21	10	High	1.0
Danville	722	10	20	Low	0.8
Green Bay	2,790	11	8-10	Medium	0.5
Milwaukee	4,400	3	Not specified	Medium	0.9
Missoula	713	5	10	High	0.55
Montgomery Co.	2,600	12	10-15	Low	1.5
Nashville	4,600	33	25	High	0.75
San Bernardino	7,800	3	20	Medium	1.1
Syracuse	2,900	12	Not specified	High	0.6
Toledo	3,400	2	10-15	High	0.2
Vermont	3,100	15	30-40	High	1.1

[a] Level of staff effort mainly reflects activities required during the home purchase phase, because most sites have not yet focused staff effort on post-purchase activities.

In comparison with the amount of staffing generally required to run the tenant-based voucher program, this represents a large investment of PHA resources. In a recent study of housing voucher program utilization and costs conducted for HUD, Abt Associates found that—based on a sample of 48 PHAs nationwide—the average participant to staff ratio was 124 participants per staff person (FTE).[14] In other words, for every 124 vouchers administered by a typical PHA, there was 1 staff person (or FTE). In providing funding for the operation of the presumably more labor-intensive Family Self-Sufficiency (FSS) program, HUD has allowed 1 FSS coordinator for every 50 FSS participants. Based on the levels of home purchase activity projected by the PHAs in this study, it appears that they are generally staffing the program at ratios of 10 to 1, or 10 families who will purchase their own homes annually for every 1 staff person or FTE (in-house and/or partner). Furthermore, although there is a drop in the level of staff effort required once the planning phase is complete and the program is up and running, there do not appear to be significant economies of scale to the ongoing operations of the program, at least with respect to initially assisting families through the purchase process. That is to say, the study sites with the highest number of purchasers through the program did not report that the level of staff effort *per program purchaser* has decreased as the number of program purchasers has grown.

[14] Meryl Finkel *et al.*, "Costs and Utilization in the Housing Choice Voucher Program," draft report prepared by Abt Associates for the U.S. Department of Housing and Urban Development under Contract No. C-OPC-21702, Task Order DEN-T0003, June 2002.

This finding highlights the importance to PHAs of finding local partners who will share the administrative responsibilities of the voucher homeownership program. One area in which the majority of PHAs studied (10 of 12) had enlisted outside assistance was pre-purchase homeownership counseling. In some instances, established fees for homeownership counseling were paid by the PHA or by grants obtained by the PHA. In other instances, housing counseling services were provided by partner agencies free of charge to the PHA. Once a PHA has recruited a partner, it is very important to keep communications open about issues of mutual concern. Some of the agencies providing free counseling, for example, raised concerns about the adequacy of the PHA's screening of families referred for homeownership counseling. The agencies found that they were being overwhelmed by large numbers of homeownership candidates referred prematurely by the PHA, families who had little chance for success. Without the PHA taking a more selective approach to which families are referred to counseling, resource limitations at the counseling agency might delay the receipt of counseling by families who are ready to purchase.

Another area where we found a high degree of collaboration between PHAs and partner agencies was locating (or providing) mortgage loans and additional forms of subsidy. PHAs working with NR-affiliated NeighborWorks organizations benefited both from these organizations' experience in dealing with local loan originators and secondary lenders and from second mortgage and/or down payment assistance available directly from the organizations. At other sites, PHAs found it useful to recruit partner agencies with real estate and financing experience that could help them navigate these unfamiliar waters and locate and recruit lenders willing to work with voucher program participants. Only two PHAs made the decision to obtain this real estate and expertise in-house, although both report that they have been happy with their decision. One PHA enlisted the assistance of board members who work for local lending institutions to get advice on which financial model would work best for the program and on how to encourage local lenders to participate.

Perhaps because cooperative mortgage lenders and gap financing have been so much harder to find than initially assumed, more staff power than expected has gone into identifying and setting up financing opportunities for participating families, and less appears to have gone into the review of financing documents. However, once the program becomes more established nationally, reviewing financial documents to protect program families from predatory lenders may well be an area that will require a greater level of effort than currently expended by the PHA and its partners.

Finally, 9 of the 12 study sites had made the decision not to provide direct housing search assistance, although most offered some level of informal support and encouragement. The exceptions were three programs that provided some level of search assistance through established relationships with agencies serving families with special needs. One program had enlisted the aid of a disability services provider in helping program families with disabilities search for homeownership units. Two programs had established informal relationships with agencies that provided some level of search assistance to non-English speaking households.

Phase 3: Ongoing Program Operations

As noted above, sales at all sites studied were relatively recent (mainly within the previous 13 months), and levels of effort required to perform the ongoing functions associated with the operation of the voucher homeownership program had yet to be determined. After families purchase a home, the PHA is required to conduct annual eligibility reexaminations and adjust the HAP amount accordingly. In contrast to the rental voucher program, the PHA is *not* required to evaluate and approve rent increases. The PHA also is not required to conduct annual HQS inspections, although some PHAs have decided to do so.

Given the current average size of the rental voucher programs at the study sites, the staff burden for performing a limited schedule of standard tenant-based annual functions can be rolled into the PHA's workload with relative ease. Other tasks identified by the PHAs are unique to the homeownership program, however, and must be considered in assessing staffing needs.

Most of the PHAs studied, for example, envision some effort to monitor the timeliness of the families' mortgage payments, although few have developed formal mechanisms for doing this. Some PHAs are working with lenders to arrange for notification in the case of late or missed payments. Others plan to require participating families to provide evidence that they are current with mortgage and other homeownership expenses at the time of the families' annual reexamination. In most instances, the PHAs are looking for passive, non-labor intensive strategies for knowing when program families are in trouble and keeping them from default.

As the program matures, it is inevitable that there will be defaults, and dealing with them—by counseling families in foreclosure prevention, helping them to transition out of homeownership, and making the decision to provide them with rental assistance (or not) in accordance with their Administrative Plans—may again require the PHA to free up staff resources, acquire new areas of expertise, or identify partners who can provide the required services.

Interestingly, only one site—Colorado—specifically identified monitoring ongoing program performance as a task in the post-purchase phase. The Colorado PHA is a State program that contracts out the ongoing management of the voucher rental and homeownership programs. The PHA anticipated committing one FTE on an ongoing basis to program monitoring. Presumably other sites that administer their own vouchers plan to do their program monitoring on a more informal basis, but none had quantified the staffing needs associated with that task.

Voucher Homeownership Organization and Staff Qualifications

We also gathered information about how the PHAs have chosen to staff and organize the voucher homeownership programs and how to pay for that staff. In most cases, PHAs have relied on existing Housing Choice Voucher Program (HCVP) staff and/or FSS program staff. Staff costs are usually funded through PHA administrative fees, but some agencies are using other funding from HUD, such as the Section 5(h) homeownership program.[15]

An exception to the use of existing staff is San Bernardino, California, in which a new staff member was hired specifically to operate the program. This agency looked for someone with extensive real estate experience, arguing that it would be easier to teach the nuances of the voucher program to a homeownership expert than to retrain existing HCVP staff on the many details of real estate acquisition and mortgage financing. The local lender involved in the program participated in the recruitment and hiring of the homeownership coordinator. The individual hired to operate the

[15] The Section 5(h) program gives PHAs authority to sell selected public housing units to qualified households, while HUD continues to service the debt on the original acquisition, construction, or modernization costs. PHAs may retain and reuse the proceeds of sale of public housing units to meet other low-income housing needs.

program spends 100 percent of her time on the homeownership program, and her position is located within the administrative department of the PHA rather than the HCVP department. She brings more than 30 years experience in real estate, with knowledge of home inspection, mortgage financing, and homebuyer counseling.

In most cases, the PHAs rely on partner organizations to supply much of the technical expertise on homeownership, including counseling, information on locating realtors and home inspectors, and information on financing options. As a result, the training that has been necessary for PHA staff has focused more on the administration of the program than on the details of the home purchase transaction. For example, staff have been trained on the eligibility criteria for participants, understanding the steps in the process and the point at which participants are to be referred to counseling, how to calculate the monthly homeownership expenses, and how to monitor the participants' progress.

In the two agencies that provide homeownership counseling in-house, more extensive staff experience and training have been needed to ensure that staff are prepared to offer the counseling classes. In Montgomery County, the staff person designated as the lead counselor had previous experience in real estate and mortgage finance and did not receive special certification. In Danville, HCVP staff received training and were certified by the state Housing Finance Agency to provide homeownership counseling.

It would seem reasonable to expect PHAs with larger HCVP programs and departments to be able to devote a more substantial level of effort to the voucher homeownership program. In fact, the site that hired a new staff person to coordinate the program (San Bernardino) also has the largest voucher program among all the study sites (a total of 7,800 vouchers) and one of the highest FTE commitments to ongoing program operations (1.1).

The voucher programs ranged from 713 to 7,800 across the 12 study sites. When we group the study sites according to program size and compare this to the distribution of FTEs devoted by the PHA, we find that among the six largest programs, three also had the highest FTE commitments to the program. Likewise, among the six smallest programs, three also had the lowest level of staff commitments. On the other hand, there are three large programs that have among the lowest FTE commitments (Syracuse, Toledo, and Nashville). These programs, however, are working in partnership with NR, and the partners contribute substantial staffing resources to the program. There are also three PHAs with small voucher programs (Danville, Colorado, and Montgomery County) that are among the agencies with the highest FTEs devoted to the program. Danville and Montgomery County are providing counseling in-house, which accounts for their higher FTE commitments.

Given the high level of staff effort required to operate the program, the study PHAs did not anticipate that homeownership vouchers would ever make up a large share of their housing choice voucher programs. None of the study sites expected to have more than 40 closings per year, and 8 of 12 sites expected to have 20 or fewer closings per year.

If the sites achieve the number of closings that they expect, assuming that the PHAs' allocation of vouchers remains constant, in five years' time homeowners will represent approximately three percent of all voucher program participants across the 12 study sites. As a result, program staff interviewed for the study (including Executive Directors of the PHAs) did not express concern about serving higher-income voucher-eligible families and potentially crowding out service to the most needy families. Program staff did not believe the homeownership program would grow enough to threaten the availability of rental assistance. Moreover, several sites noted that having a homeownership option helps to promote self-sufficiency among voucher participants. Program staff at these sites view the homeownership option as rewarding families who have achieved steady employment and earnings and providing an incentive for others to do so.

Given the modest expectations for the growth of the program across the 12 study sites, it seems likely that the most significant driver of the growth of the program on a national scale—particularly the growth in the number of homeownership vouchers relative to rental vouchers—will be the extent to which additional PHAs choose to offer the program. These decisions in turn will be shaped by: PHAs' desire and ability to commit staff resources to program start-up and ongoing administration; the availability of funding to offset these administrative costs; the willingness of lenders in the PHA's jurisdiction to participate in the program; and, particularly in expensive housing markets, the availability of subsidies in addition to the voucher, such as below-market interest rate loans and grants for down payment and closing cost assistance.

Chapter 4
Voucher Homeownership Purchase Financing

This chapter discusses how voucher homeownership purchases have been financed across the 12 study sites. The chapter describes the different financing models in use and analyzes payment burdens differ under the models and how the burdens may change over time. The chapter then examines the loan servicing issues that sites have had to address. The chapter also discusses the procedures that sites have established to help ensure that the financing is affordable to program participants. We conclude by examining how the study sites have combined up-front and ongoing subsidies to increase the buying power of voucher homeownership purchasers.

This chapter assumes a basic understanding of how the voucher subsidy is calculated. In the voucher homeownership program, the amount of the voucher subsidy (the HAP) is equal to the lower of the voucher payment standard *or* the total monthly homeownership expenses, minus the total tenant payment.[1]

- The ***voucher payment standard*** in the homeownership program is the same payment standard (based on the local Fair Market Rent) that applies in the rental voucher program.

- Total ***monthly homeownership expenses*** include the principal, interest, taxes, and insurance (PITI) on the mortgage(s), any refinancing of such debt, and any mortgage insurance premium; a utility allowance based on the utility allowance schedule that applies to the rental voucher program; and allowances for maintenance and replacement that are set by the PHA at the amount the PHA thinks appropriate for repair and replacement needs. If the purchaser or a member of the purchaser's household is a person with disabilities, the monthly homeownership expenses may also include debt incurred by the family to finance costs needed to make the home accessible as a reasonable accommodation.

- The ***total tenant payment (TTP)*** typically equals 30 percent of the participant's adjusted monthly income, as in the rental voucher program.

The calculation of the HAP ensures that all voucher homeownership program participants pay at least 30 percent of their adjusted monthly income each month toward homeownership expenses. The discussion of the financing models in this chapter focuses on the mortgage PITI, which is one component of the monthly homeownership expenses. However, the HAP is supposed to help the participant pay the total monthly homeownership expenses, not just the PITI. The greater the share of the HAP that is used to pay the mortgage PITI, the less that is available to pay the remaining homeownership expenses.

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1 In order to determine the amount of the HAP, the PHA compares the voucher payment standard to the total monthly homeownership expenses, chooses the lower of the two amounts, and subtracts from it the total tenant payment. For example, if the voucher payment standard is $800, the total monthly homeownership expenses are $950, and the total tenant payment is $500, the HAP will be $300 ($800 - $500 = $300). By contrast, if the voucher payment standard were $800 and the total monthly homeownership expenses were $750, the HAP would be $250 ($750 - $500 = $250).

4.1 Financing Models

There are three main financing models being used in the voucher homeownership program at this time. These models differ in how the voucher subsidy (HAP) is treated during the mortgage underwriting process. Each model has advantages and drawbacks, and each is in use in at least three of the 12 study sites.

Consistent with most discussions of the voucher homeownership program by HUD staff, lenders, and representatives of the secondary mortgage market, we refer to the three financing models as:

- HAP as income;
- HAP as offset; and
- the two-mortgage model.

All three financing models can be used with multiple mortgages. The "two-mortgage model" refers specifically to the financing model (described below) in which the HAP is used exclusively to pay down a second mortgage.

HAP as Income Model

In the HAP as income model, underwriters consider the HAP as an additional source of income when determining how much a voucher homeownership program participant can borrow. Since the HAP, unlike other income sources, is not taxable, many underwriters inflate (or "gross up") the HAP by 25 percent and add it to other income sources to derive total gross income. Underwriters then use qualifying ratios, usually in the range of 28 to 30 percent of gross monthly income, to determine the monthly principal, interest, taxes, and insurance (PITI) payments that the participant can afford, and thus the total loan amount that the participant can borrow given the interest rate and other terms of the lending products being used. Because the HAP is considered as a source of income (and thus subject to the lender's qualifying ratios), the lender typically only counts 35 percent of the HAP (including the 25 percent "gross up") when qualifying the participant for a loan.[2]

Exhibit 4-1 shows the relative buying power and payment burdens of the HAP as income model (and the other two models) for a sample voucher participant with a gross annual income of $22,000 and annual deductions of $1,360. This sample voucher participant is assumed to qualify for a voucher payment standard of $800.[3] The exhibit assumes that only one mortgage is used in the HAP as income transaction.

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2 For example, if the HAP is $100, the lender grosses it up by 25 percent ($100 x 1.25 = $125) and then counts it as income. The lender then qualifies the participant based on 28 percent of his/her monthly income, the HAP portion of which is $35 ($125 x 0.28), or 35 percent of the original HAP.

3 Exhibit 4-1 assumes that monthly homeownership expenses are higher than the voucher payment standard, thus the voucher payment standard minus the TTP is less than homeownership expenses minus TTP. As a result, the HAP is assumed to equal the voucher payment standard minus the TTP.

Exhibit 4-1

Comparative Buying Power and Payment Burden of the Three Financing Models

	HAP as Income	HAP as Offset	Two-Mortgage
Assumptions			
Voucher payment standard	$800	$800	$800
Gross annual income	$22,000	$22,000	$22,000
Gross monthly income	$1,833	$1,833	$1,833
Annual deductions from income [a]	$1,360	$1,360	$1,360
Monthly deductions from income	$113	$113	$113
Monthly adjusted income	$1,720	$1,720	$1,720
Total tenant payment (TTP = 0.3 x $1,720)	$516	$516	$516
Maximum HAP ($800-$516)	$284	$284	$284
Lender Calculations			
HAP with 25 percent gross-up	$355	N/A	N/A
Gross monthly income (non-HAP)	$1,833	$1,833	$1,833
Total gross monthly income	$2,188	$1,833	$1,833
Assumed qualifying ratio	28%	28%	28%
Monthly PITI based on qualifying ratio [b]	$613	$513	$513
PITI offset	N/A	$284	N/A
Total Resources for 1st Mortgage PITI	**$613**	**$797**	**$513**
Family share of 1st mortgage PITI (assuming HAP is paid directly to lender)	**$329** (= $613 - $284)	**$513** (= $797 - $284)	**$513**
TTP remaining to apply to other expenses	$197	$3	$3
PITI Payment Burden (family share of 1st mortgage PITI as a percentage of gross monthly income)	**18%** (= $329 / $1,833)	**28%** (= $513 / $1,833)	**28%** (= $513 / $1,833)
Taxes and insurance (assumed)	$125	$125	$125
Principal and interest (7.5%, 30 yrs)	$488	$672	$388
Amount of 1st mortgage (7.5%, 30 yrs)	**$69,793**	**$96,108**	**$55,490**
HAP remaining for 2nd mortgage	$0	$0	$284
Principal and interest (7.0%, 15 yrs)	N/A	N/A	$284
Amount of 2nd mortgage (7.0%, 15 yrs)	N/A	N/A	$31,597
Total loan(s) / Borrowing Power	$69,793	$96,108	$87,087

[a] Deductions in income are determined by the PHA under voucher program rules.

[b] The monthly PITI on the first mortgage is based on the lender's qualifying ratio of 28 percent of *gross* monthly income. As a voucher program requirement, families must pay at least 30 percent of *adjusted* monthly income toward total estimated monthly homeownership expenses, regardless of the financing model used. In this example, all families will pay at least $516 toward monthly homeownership expenses, even if the family portion of the PITI is less than $516.

The HAP as income model is the most conservative of the three financing models, resulting in the lowest monthly mortgage payment for the participant and thereby minimizing the participant's total monthly homeownership expenses. Under the HAP as income model, the total payment that the participant can make toward the mortgage PITI is capped at 28 to 30 percent (depending on the lender's qualifying ratio) of the sum of the participant's gross monthly income and the grossed up HAP.[4] The participant's contribution of his/her own income (not counting the voucher) toward the PITI payment will therefore be less than the 28 to 30 percent cap and represents a smaller proportion of his/her monthly income (18 percent of gross monthly income) than under the other models. Moreover, because the lender counts only 35 percent of the HAP toward the determination of the mortgage amount, the majority of the HAP is available to be used for other allowable homeownership expenses. This contrasts with the HAP as offset model (described below), in which the lender takes 100 percent of the HAP into account in determining the maximum mortgage amount.

Among the three financing models, lenders may be most comfortable with the HAP as income model because it is the most conservative of the three and the most similar to traditional underwriting. Lenders may view this approach as less risky than the other two models because there is less reliance on the HAP for paying the mortgage. In addition, lenders are used to working with various income sources, so it may be relatively easy for them to consider the grossed up HAP as another income source.

The major drawback to the HAP as income model is that it has the least buying power of the three models. As Exhibit 4-1 shows, the HAP as income model results in the lowest borrowing power, with a total loan of $69,793. Note that the PITI payment burden (defined as the participant's share of the PITI as a percentage of gross monthly income, assuming that the entire voucher subsidy is used for PITI) is the same for both the HAP as offset and the two-mortgage models and is equal to the underwriting ratio used (28 percent). The HAP as income model results initially in a lower PITI payment burden: only 18 percent of gross monthly income is spent on monthly PITI payments. As this example shows, the HAP as income model trades off lower costs for the borrower (and therefore lower risk of default) against less purchasing power.

The five sites that have used the HAP as income financing model have done so at the preference of the lenders in their communities. Some of the sites that have been most successful in gaining the support of a large number of lenders—such as Montgomery County, where seven different lenders have made loans to program participants thus far—have used the HAP as income model. In addition, most lenders using FHA loan products are now using the HAP as income model, following the mortgagee letter that FHA published in September 2001 stating that the HAP must be treated as income in determining the homebuyer's qualifying ratios for FHA-insured mortgages.[5]

Syracuse has taken a different approach to treating the HAP as income. In Syracuse, lenders qualify borrowers for a mortgage solely on the basis of their own income and disregard the HAP. This approach is not considered a financing model because the HAP is not used to enable participants to qualify for a mortgage. However, the subsidy is still needed for participants to meet their total

[4] It is a lender requirement that a borrower typically pay *no more than* 28 to 30 percent of *gross monthly income* toward the PITI. The voucher homeownership program requires that the participant pay *at least* 30 percent of *adjusted monthly income* toward total monthly homeownership expenses.

[5] FHA Mortgagee Letter 2001-20, September 7, 2001.

monthly homeownership expenses, including, but not limited to, the monthly mortgage payment. In Syracuse, the HAP is paid directly to the participant for the duration of the period of voucher assistance to offset the monthly mortgage payment and the homeownership expenses that are taken into account when determining the amount of the voucher subsidy.

In Syracuse, the decision not to treat the HAP as either an income source or a source of mortgage payment when determining participants' qualifying ratios was driven partly by lenders, who did not view the HAP as a guaranteed source of income and were reluctant to develop new loan products (that they might not be able to resell on the secondary market) to serve program participants. In addition, staff at the PHA and partner organization did not want to encourage dependency on the HAP by making it part of the monthly mortgage payment. As a result, lenders in Syracuse do not take the HAP into consideration when determining the amount of the mortgage for which voucher homeownership participants qualify.

Exhibit 4-2 compares the purchasing power of the Syracuse approach to the other three models, using the same methodology and assumptions about income and HAP as in Exhibit 4-1. Under the Syracuse approach, participants qualify for a mortgage based on 28 to 30 percent of their own income, not including the HAP. Each of the other models treats the HAP in some way as a source of mortgage payments in determining the maximum amount of the mortgage. The Syracuse approach does not count the HAP, and therefore results in the lowest loan amount and borrower power. However, because the full amount of the HAP (in this case $284) is given to the participant for the mortgage PITI and other allowable homeownership expenses, Syracuse participants face a lower PITI payment burden than participants under the other three models.

One of the reasons that Syracuse participants are able to qualify for mortgages without the assistance of the HAP is that the cost of owned housing in the Syracuse area is low, and there is ample stock available in the $40,000 to $60,000 price range. Moreover, the voucher program participants targeted for Syracuse's program are typically receiving only limited assistance from the voucher program by the time they purchase.[6]

An argument could be made that if purchasers in Syracuse can buy homes without the voucher assistance, they should not be eligible to receive the assistance. However, the voucher assistance is important for making homeownership affordable to participants in Syracuse when all of the homeownership expenses (not just the PITI) are taken into account. In addition, program staff strongly believe in using homeownership vouchers to promote self-sufficiency, "rewarding" participants who have been able to achieve the income stability and good credit needed to qualify for a mortgage on their own.

[6] The average monthly HAP among Syracuse purchasers is $204, compared with an average monthly HAP of $341 across all of the purchasers in the sample.

Exhibit 4-2

Syracuse Model as Compared to HAP as Income, HAP as Offset, and Two-Mortgage Models

	HAP as Income	HAP as Offset	Two-Mortgage	Syracuse
Assumptions				
Voucher payment standard	$800	$800	$800	$800
Gross annual income	$22,000	$22,000	$22,000	$22,000
Gross monthly income	$1,833	$1,833	$1,833	$1,833
Annual deductions from income	$1,360	$1,360	$1,360	$1,360
Monthly deductions from income	$113	$113	$113	$113
Monthly adjusted income	$1,720	$1,720	$1,720	$1,720
Total tenant payment (TTP = 0.3 x $1,720)	$516	$516	$516	$516
Maximum HAP ($800-$516)	$284	$284	$284	$284
Lender Calculations				
HAP with 25 percent gross-up	$355	N/A	N/A	N/A
Gross monthly income (non-HAP)	$1,833	$1,833	$1,833	$1,833
Total gross monthly income	$2,188	$1,833	$1,833	$1,833
Assumed qualifying ratio	28%	28%	28%	28%
Monthly PITI based on qualifying ratio	$613	$513	$513	$513
PITI offset	N/A	$284	N/A	N/A
Total Resources for 1st Mortgage PITI	**$613**	**$797**	**$513**	**$513**
Family share of 1st mortgage PITI (assuming HAP is paid directly to lender)	$329 (= $613 - $284)	$513 (= $797 - $284)	$513	$229 (= $513 - $284)
TTP remaining to apply to other expenses	$197	$3	$3	$287
PITI Payment Burden (family share of 1st mortgage PITI as a percentage of gross monthly income)	**18%** (= $329 / $1,833)	**28%** (= $513 / $1,833)	**28%** (= $513 / $1,833)	**12%** (= $229 / $1,833)
Taxes and insurance (assumed)	$125	$125	$125	$125
Principal and interest (7.5%, 30 yrs)	$488	$672	$388	$388
Amount of 1st mortgage (7.5%, 30 yrs)	$69,793	$96,108	$55,490	$55,490
HAP remaining for 2nd mortgage	$0	$0	$284	N/A
Principal and interest (7.0%, 15 yrs)	N/A	N/A	$284	N/A
Amount of 2nd mortgage (7.0%, 15 yrs)	N/A	N/A	$31,597	N/A
Total loan(s) / Borrowing Power	$69,793	$96,108	$87,087	$55,490

HAP as Offset Model

In the HAP as offset model, underwriters use the full HAP to offset PITI payments. In this model, underwriters first qualify borrowers for a monthly PITI payment using qualifying ratios, usually in the range of 28 to 30 percent of gross monthly income, to determine the borrower's portion of monthly payments. Then underwriters add the full amount of the monthly HAP to the borrower's monthly cash portion to get the total monthly resources available to pay the PITI. This total is then used to determine the loan amount, given the interest rate and other terms of the lending products being used.

The main benefit of the HAP as offset model is that it maximizes buying power. As shown in Exhibit 4-1 above, the HAP as offset model results in the largest loan of the three models. The increase in buying power that the HAP as offset model offers over the HAP as income model is that 100 percent of the HAP is used to offset the monthly mortgage payments. The HAP as offset model yields more buying power than the two-mortgage model because the term of the mortgage in the HAP as offset model is typically 30 years, compared to 10 or 15 years in the two-mortgage model (see discussion below).

The relative advantage of the HAP as offset model in terms of buying power is greatest for purchasers at the lowest income levels, where the ratio of the HAP to the purchaser's monthly income is the highest. Purchasers at higher income levels (and with lower corresponding HAPs) derive the least benefit from the HAP as offset model relative to the other models, although the HAP as offset model always yields the greatest borrowing power of the three models.[7]

The main drawback of the HAP as offset model is that the PITI payment burden is higher than in the HAP as income model. Compared to the HAP as income model, participants purchasing using the HAP as offset model have fewer resources after paying the monthly PITI to devote to other homeownership expenses. In addition, because so much of the mortgage is underwritten on the basis of the HAP, participants potentially face a much higher PITI payment burden at the end of the term of assistance (at the end of Year 15 for non-elderly, non-disabled participants) than under the HAP as income model or the two-mortgage model. (The relative PITI payment burdens at the end of Year 15 are discussed below under *Payment Burdens over Time*.) A related drawback of the HAP as offset model is that lenders may be less willing to use the model, either because they are less familiar with financing mortgages in this fashion or because they consider the model to be too aggressive.

Six of the 12 study sites have had participants purchase houses using the HAP as offset model. In all cases, the use of this model was driven by the preference of local lending institutions. In three sites—Bernalillo County, Milwaukee, and Danville—some lenders are using the HAP as income model and others are using the HAP as offset model. In at least two sites, however, the choice of model was driven explicitly by housing market conditions. In Colorado and Missoula, the cost of owned housing—relative to the voucher payment standard and to the incomes of voucher program participants—is such that many participants would not have been able to purchase without using the

[7] For example, a participant with a gross annual income of $28,000 and annual deductions of $1,680 would qualify for a monthly HAP of $142. Under the HAP as income model, using the same assumptions as in Exhibit 4-1, this participant would qualify for a mortgage of $100,500. Under the HAP as offset model, the participant would qualify for a mortgage of $114,000. The difference in borrowing power between the two models for this participant is $13,500, while the difference in borrowing power between the two models for a participant earning $22,000 per year (as in Exhibit 4-1) is $26,315.

full HAP as a direct offset to the monthly mortgage payment. As a result, program staff in Colorado and Missoula reported that FHA's policy on treating the HAP as income for FHA-insured mortgages presented an obstacle to the growth of their programs.

Two-Mortgage Model

The two-mortgage model is a variant of the HAP as offset model in that the two-mortgage model also applies 100 percent of the HAP towards paying down the mortgage. However, in the two-mortgage model, the entire HAP is typically devoted to paying a second mortgage while the borrower's income is devoted to paying the first mortgage.[8] In programs using the two-mortgage model, underwriters first qualify the borrower for a first mortgage based on the borrower's income alone, using typical qualifying ratios, usually in the range of 28 to 30 percent of gross monthly income. The lender then underwrites the second mortgage by treating the HAP as the sole source of monthly PITI payments.

In the two-mortgage model, the term of the second mortgage is no longer than the term of the HAP.[9] Because the HAP is being used to pay off a loan amortized over a shorter time period than the 30-year terms of typical first mortgages, the two-mortgage model has somewhat less buying power than the HAP as offset model (see Exhibit 4-1 above).[10]

In the two-mortgage model, if the HAP decreases over the term of assistance, the participant must pay the portion of the second mortgage payment that is not covered by the HAP, in addition to making the full payment on the first mortgage. If the HAP increases over the term of assistance and exceeds the monthly mortgage payment on the second mortgage, the PHA must send the portion of the HAP that is left over after making the payment on the second mortgage to the participant to help offset the PITI payment on the first mortgage and other homeownership expenses.

The main benefit of the two-mortgage model is that it lowers the risk associated with the possibility that the HAP may expire before the participant's income has increased enough to eliminate the need for the HAP. Because the term of the second mortgage is never longer than the term of the HAP, when the HAP is terminated after 15 years, the second mortgage has already been paid off. It also reduces the risk for the first mortgage lender, who is making a loan based solely on the participant's own income, and thus should encourage private market lenders to participate in the program. Finally, if the second mortgage is serviced by one of the organizations partnering with the PHA to provide homeownership counseling—as is the case with the study sites using this model—holding the second

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8 Some lenders may choose to qualify borrowers for a second mortgage based on a portion of the HAP rather than the entire HAP. This results in a monthly PITI on the second mortgage that is less than the full amount of the HAP, and the PHA provides the remaining HAP to the participant to offset the first mortgage PITI and other homeownership expenses.

9 For program participants who finance their purchase with a mortgage with a 20-year term or longer, the maximum term of homeownership assistance is 15 years. For participants with shorter mortgage terms, the maximum term of homeownership assistance is 10 years. The provision of term limits is waived for households headed by an elderly person or a person with a disability.

10 In addition, as noted above, the second mortgage lender may qualify the borrower for a second mortgage based on a portion of the HAP rather than the entire HAP. In such a case, the two-mortgage model would create less borrowing power than is shown in Exhibit 4-1, which assumes that the second mortgage is based on 100 percent of the HAP.

mortgage loan can give program staff a way to stay involved with purchasers over the long-term and offer additional services as necessary.

The main drawback of the two-mortgage model is that it may be difficult to find a lender willing to make a second mortgage loan based entirely on the HAP. The sites in our study using the two-mortgage model—Nashville, San Bernardino, and Toledo—are all participating in NR's voucher homeownership demonstration, in which the PHA offers the program in partnership with a local NeighborWorks organization.[11] The NeighborWorks organizations have received funding from NR for second mortgage loans and have the possibility of reselling the loans to their parent organization, Neighborhood Housing Services of America (NHSA).[12] PHAs not partnering with NeighborWorks organizations have not found lenders willing to make second mortgage loans based on the HAP.

Another drawback of the two-mortgage model is that, by limiting the application of the HAP payment to a mortgage with a 10- or 15-year term, it does not maximize the amount of financing that the borrower can obtain. However, the two-mortgage model does support a higher total mortgage amount than the HAP as income model.

4.2 Payment Burdens over Time

Some program staff and partners have expressed concern about what will happen to participants' payment burdens when the HAP is terminated after 15 years for non-elderly, non-disabled program participants. This is a particular concern for the HAP as offset model, because borrowers using this model face the highest monthly mortgage payments at the end of the term of assistance. Exhibit 4-3 presents the PITI burden (monthly PITI payment as a percentage of gross monthly income) that participants will face at the end of Year 15, the end of the term of voucher assistance, under the three financing models and under different assumptions about participant income growth.

As shown, under the baseline assumption of zero percent average annual income growth (in nominal terms), the two-mortgage model has the lowest PITI burden at the end of Year 15 (28 percent). Under the two-mortgage model, the participant's PITI burden does not change between Year 1 and Year 15 (assuming no income growth). This is because the HAP is not used to determine the amount of the first mortgage, and the second mortgage (based on the HAP) is paid off by the end of Year 15.[13]

The assumption of zero income growth in nominal terms is very conservative, because it means that income is actually declining in real terms (when adjusted for inflation) over the 15-year term of assistance. The voucher homeownership program does not include a mandatory self-sufficiency component focusing on helping participants maintain or increase their income over the term of

[11] The other two sites in the study participating in the NR demonstration—Vermont and Syracuse—opted not to use the two-mortgage model. In addition, program staff in Nashville and San Bernardino plan to work with private market lenders to offer one of the other two financing models to their participants as well as the two-mortgage model.

[12] At the time of the site visits, none of the study sites using the two-mortgage model had sold second mortgage loans to NHSA.

[13] The Syracuse approach yields the same PITI burden at the end of Year 15 as the two-mortgage model, because in Syracuse the first mortgage is based only on the participant's income and does count the HAP.

assistance. However, given the program's eligibility requirement of one year of full-time employment, one would expect that most participants have achieved a degree of employment stability by the time they purchase and will experience some growth in income in nominal terms over the term of assistance.

Exhibit 4-3

Estimated PITI Burden at the End of Year 15 if Participant Does Not Refinance, Under Alternative Assumptions About Income Growth

HAP as Income Model	**Year 1**	***At end of Year 15, with average annual income growth of:***				
		-2%	***-1%***	***0%***	***1%***	***2%***
Gross Monthly Income	$1,833	$1,354	$1,577	$1,833	$2,128	$2,467
PITI (from Ex. 4-1)	$613	$613	$613	$613	$613	$613
HAP to Family (from Ex. 4-1)	$284	$0	$0	$0	$0	$0
Family Share of PITI	$329	$613	$613	$613	$613	$613
PITI Payment Burden	18%	45%	39%	33%	29%	25%

HAP as Offset Model	**Year 1**	***At end of Year 15, with average annual income growth of:***				
		-2%	***-1%***	***0%***	***1%***	***2%***
Gross Monthly Income	$1,833	$1,354	$1,577	$1,833	$2,128	$2,467
PITI (from Ex. 4-1)	$797	$797	$797	$797	$797	$797
HAP to Family (from Ex. 4-1)	$284	$0	$0	$0	$0	$0
Family Share of PITI	$513	$797	$797	$797	$797	$797
PITI Payment Burden	28%	59%	51%	43%	37%	32%

Two-Mortgage Model	**Year 1**	***At end of Year 15, with average annual income growth of:***				
		-2%	***-1%***	***0%***	***1%***	***2%***
Gross Monthly Income	$1,833	$1,354	$1,577	$1,833	$2,128	$2,467
PITI (from Ex. 4-1)	$513	$513	$513	$513	$513	$513
HAP to Family (from Ex. 4-1)	$0	$0	$0	$0	$0	$0
Family Share of PITI	$513	$513	$513	$513	$513	$513
PITI Payment Burden	28%	38%	33%	28%	24%	21%

Note: Assumes, as in Exhibit 4-1, that the participant's initial gross monthly income is $1,833 and the first mortgage is a 30-year fixed rate mortgage at 7.5 percent interest. As in Exhibit 4-1, the HAP as income first mortgage amount is $69,793, the HAP as offset first mortgage amount is $96,108, and the two-mortgage model first mortgage amount is $55,490.

With zero percent nominal income growth, the HAP as offset model has the highest PITI burden at the end of Year 15 (43 percent of gross monthly income). This is because the full amount of the HAP is considered in determining the amount of the first mortgage, creating a higher PITI payment ($797) for which the participant is wholly responsible at the end of the term of assistance. Under this same model, however, if the participant's income grows by just two percent in nominal terms over the term of assistance (less than the typical rate of inflation), the PITI burden at the end of Year 15 drops to 32 percent of gross monthly income.

Under the HAP as income model, the PITI burden at the end of Year 15 is higher than for the two-mortgage model but lower than for the HAP as offset model. Under the HAP as income model, participants face a PITI burden at the end of Year 15 of 33 percent of gross monthly income, if the participant's income does not change over the term of assistance, compared to a PITI burden of 43 percent under the HAP as offset model and 28 percent under the two-mortgage model.

Despite the potentially high PITI burdens that program participants face at the end of Year 15 under the HAP as offset model, the lenders using this financing model did not express concern about payment shock at the end of the term of assistance. One reason that lenders may not fear payment shock is that, after 15 years of mortgage payments, the unpaid balance on the mortgage will have been reduced to the point where the participant could refinance to a new 30-year mortgage and reduce the monthly payments to an affordable level—assuming interest rates have not risen a great deal above current rates.

Exhibit 4-4 shows the remaining principal on the mortgage and the loan-to-value ratio (LTV) after 15 years under different assumptions about appreciation rates in housing prices. The LTV is the sum of all forgivable, deferred, and amortized loans divided by the value of the property. The higher the LTV, the less equity the buyer has in the property. The exhibit assumes that the initial loan is a 30-year fixed rate mortgage at 7.5 percent interest for $96,108. As shown earlier in Exhibit 4-1, $96,108 is the mortgage amount that a program participant earning $22,000 would qualify for under the HAP as offset model. Exhibit 4-4 also assumes that the participant has a 100 percent LTV at the time of purchase, so that the value of the property at purchase is equal to the amount of the mortgage. As the exhibit shows, even if housing prices do not change at all, the LTV at the end of Year 15 will be approximately 76 percent because of principal payments over the first 15 years. With modest price appreciation, the LTV would be lower. So even if there is a payment shock, borrowers should have sufficient equity to refinance for another 30-year mortgage or to sell the house and avoid foreclosure.

Exhibit 4-4

Projected LTV at the End of Year 15 Under Alternative Assumptions About Annual Property Appreciation Rates

Average Annual Property Appreciation	Property Value at End of Year 15	Remaining Principal at End of Year 15	Projected LTV at End of Year 15
0%	$96,108	$72,491	76%
1%	$111,578	$72,491	65%
2%	$129,349	$72,491	56%
3%	$149,733	$72,491	49%

Note: Assumes the starting property value is $96,108 and the mortgage is a 30-year, level payment, fixed-rate mortgage at 7.5 percent interest for $96,108.

Exhibit 4-5 presents the PITI burden that the same participant would face at the end of Year 15 if he/she were to refinance the remaining principal on the mortgage ($72,491) into a new 30-year fixed-rate mortgage at prevailing interest rates. The PITI burden (monthly PITI payment as a percentage of gross monthly income) is shown in the shaded area under different assumptions about the participant's average annual income growth since the time of purchase and about the prevailing mortgage interest rate at the end of Year 15. Because the exhibit shows payment burden *after refinancing to a new mortgage* and without the assistance of the HAP, the financing model used for the initial mortgage is not relevant.

Under the conservative assumption of zero percent nominal growth in income, there is only a modest payment shock at the end of the term of assistance if the participant is able to refinance the mortgage at interest rates that are no more than two percentage points above the interest rate on the first mortgage (7.5 percent). If there is even a modest nominal growth in income (two percent per year, less than the typical inflation rate), there is little chance of a payment shock—even if interest rates are substantially above current rates.

Exhibit 4-5

Estimated PITI Burden at the End of Year 15 if the Participant Refinances, Under Alternative Assumptions about Income Growth and Prevailing Mortgage Rates

Average Annual Income Growth	Gross Monthly Income	Remaining Mortgage Principal	Prevailing Mortgage Interest Rate in Year 15:				
			7.5%	8.5%	9.5%	10.5%	11.5%
0%	$1,833	$72,491	28%	30%	33%	36%	39%
1%	$2,128	$72,491	24%	26%	29%	31%	34%
2%	$2,467	$72,491	21%	23%	25%	27%	29%

Note: Assumes the initial gross monthly income is $1,833 and the initial mortgage is a 30-year fixed-rate mortgage for $96,108 at 7.5% interest.

This scenario only works if the participant is willing and able to refinance to a 30-year mortgage at the end of the term of voucher assistance. Refinancing to a 15-year mortgage may be more desirable from the participant's point of view, but would result in higher PITI payment burdens—for example, a PITI payment burden of 37 percent assuming zero percent income growth and a 7.5 percent interest rate. PHAs may want to place restrictions on refinancing that takes equity out of the property during the term of assistance so that participants have sufficient equity to be able to refinance at the end of the term of assistance. Not refinancing at the end of the term of assistance would result in the payment burdens presented earlier in Exhibit 4-3.

4.3 Loan Servicing

Servicing challenges arise with each of the three financing models. In both the HAP as income and HAP as offset models, funds from both borrower income and the HAP need to be applied to pay down the mortgage(s). All the study PHAs using the HAP as offset model have decided, at the lenders' preference, to send the HAP directly to the servicer of the first mortgage. In this situation, the participant also has to send a check to the servicer(s) to cover the remainder of the monthly payment(s). The benefit of this arrangement is that the servicers generally prefer the "guaranteed" arrival of the HAP check from the PHA. Lenders reported that it does not make sense to divert the HAP to the borrower with this model, because all of the HAP is intended to be used to pay down the mortgage. Some PHAs using the HAP as income model have also decided to have the HAP sent directly from the PHA to the first mortgage servicer, generally for the same reasons of providing the lender a guaranteed portion of the payment each month.

Although sending the HAP directly to the loan servicer avoids the risk that program participant will spend the HAP on other things, it creates a "two check" problem. That is, the servicer needs to deal with the receipt of two checks and needs to track them both, match them, and make sure they are applied to the same account each month. Across the study sites, lenders have found different ways to handle the two-check problem. In one HUD pilot site, the HAP check is made out to both the participant and the bank and is first sent to the participant. The participant then endorses the HAP check and sends it to the bank for endorsement and deposit, including in the same envelope a personal check for the participant's monthly payment portion. However, this practice is only permitted because the site is a pilot site operating under the proposed rule. Two-party checks to the family and lender are not authorized under the final rule.

At another site, the PHA sends the HAP to the bank and the participant sends a check to the bank. Both of these checks are deposited into a single account, from which the bank cuts a single check each month that is then sent to the mortgage servicing division. Other banks have created limited access accounts to which the PHA and participants can make deposits either by check or by direct deposit—the bank then withdraws the mortgage payment electronically from this account each month. Each of these methods is labor-intensive and may require adjustment as the number of purchases through the program increases.

Another way around the two-check problem is to avoid it altogether by sending the HAP directly to the program participant. Some sites using the HAP as income model are using this servicing strategy. Each month the PHA sends HAP checks to participants, and the participants send mortgage payments to their servicers. Thus far, sites using this strategy have reported no problems with participants keeping the HAP and not paying the mortgage. However, participants at one site reported that the timing of their receipt of the HAP check by forced them to mail their mortgage payment closer to the due date than they would have liked, leading to some anxiety about whether the payment would get to the servicer on time.

The two-mortgage model works slightly differently. Initially, making payments on and servicing the first mortgage is just like any other simple servicing situation. The program participant, who never sees the HAP, makes monthly payments to the servicer. The PHA sends the monthly HAP checks directly to the second mortgage servicer. This arrangement becomes more complicated when the participant's income increases or decreases. If the participant's income increases, the HAP decreases, and the participant is responsible for covering the portion of the second mortgage payment not covered by the HAP. This means that the second mortgage servicer now has to deal with two checks coming in each month, one from the PHA and one from the participant. If the participant's income decreases, the HAP increases. The participant, who was qualified based on income alone for monthly PITI payments on the first mortgage, will need the assistance of part of the HAP to help cover these payments and other homeownership expenses. In any case where the HAP exceeds the monthly mortgage payment, the program regulations require the PHA to send the remaining HAP to the participant. It is not clear if the sites using the two-mortgage model are prepared to deal with such situations. In any case, it would require changes to the current processes in place for issuing the HAPs only to the second mortgage servicers.

4.4 Ensuring the Affordability of Financing

All of the study PHAs have established policies designed to prevent program participants from obtaining financing that will not be affordable for them over the long-term. For example, all of the sites prohibit balloon mortgages, and some also disallow seller financing or adjustable rate mortgages. In addition, some sites have set ceilings on the share of monthly income that participants can pay for the monthly PITI or for monthly homeownership expenses. For example, the Montgomery County Housing Authority does not allow the total monthly homeownership expenses minus the HAP to exceed 50 percent of the participant's monthly-adjusted income. Finally, several PHAs in the study (in conjunction with their lender partners) have established minimum down payment and homeowner equity requirements.

Program staff at all of the study sites reported that they carefully review the financing terms of each purchase transaction prior to approving the sale. In some cases, program staff do their own calculations to ensure that the lender's terms are affordable. In other cases, staff rely more heavily on the lender (and the type of loan product) to determine whether the loan will be affordable. In some sites, program participants work with one of a small number of lenders with whom program staff have developed a close relationship and who have been educated about the voucher homeownership program. In these cases, program staff may place less emphasis on the financing review because they trust the lending partners and the loan products available to program participants. In sites where the program works with multiple lenders or where more risky loan products (such as adjustable rate mortgages) are allowed, PHA staff may devote more resources toward reviewing the terms of each purchase transaction. In some cases, program staff may assist participants in negotiating with lenders to obtain better loan terms.

The different approaches that the study sites have taken to ensuring the affordability of financing for program participants are discussed in the case studies in Volume 2 of this report. In addition, Chapter 5 includes an analysis of purchase transaction data submitted by the 12 study sites that includes several measures of affordability.

4.5 Additional Sources of Purchase Financing

In addition to the HAP, each of the study sites has identified additional resources to help make the purchases more affordable to program participants. These additional resources are generally available to other low-income first-time homebuyers, not just voucher homeownership participants. They include loan products with below-market interest rates, deferred loans that are repaid only on the resale or refinancing of the property, forgivable loans (which do not have to be repaid but often include recapture provisions requiring some degree of repayment if the property is sold within a given period of time), and grants.

Exhibit 4-6 shows which of these financing options are available in each of the study sites. A variety of Federal, state, and local government programs provide subsidized loan products or grants to low-income first-time homebuyers, in addition to private, nonprofit organizations. For example, loan products financed through Federal agencies or through state housing financing agencies are often available at below-market interest rates. The study sites have tapped into many programs offering deferred or forgivable loans to low-income first-time homebuyers, including programs of the Federal Home Loan Bank, and loan products developed by city or state agencies and funded through HUD's

HOME and CDBG programs. In San Bernardino, the PHA received a Federal Home Loan Bank grant through a program called Individual Development Empowerment Accounts (IDEA). This program provides matching funds for FSS escrow account balances that program participants may use for down payments or closing costs. Other grants used by program participants include funds from private organizations such as Catholic Charities, advocacy groups serving persons with disabilities (some provide funds for rehabilitation needed to make properties accessible), and nonprofit housing development organizations. Local property tax rebate programs for low-income families are another source of closing cost or down payment grants. The extent to which these additional resources are being used varies from site to site, as does the level of subsidy. In some sites, up to $20,000 may be available for down payment or closing cost assistance, typically in the form of deferred or forgivable loans.

Exhibit 4-6

Additional Sources of Purchase Financing by Site

	Below-market Interest Rate Loans	Deferred Loans	Forgivable Loans	Closing Cost or Down Payment Grants
Bernalillo Co.		•		•
Colorado	•	•	•	•
Danville	•		•	
Green Bay	•	•	•	
Milwaukee				•
Missoula				•
Montgomery Co.				•
Nashville		•	•	•
San Bernardino				•
Syracuse		•	•	
Toledo				•
Vermont	•	•		•

Sources: Interviews with program staff conducted March to May 2002.

Some loan products with below-market interest rates limit equity accumulation. For example, the loans offered by the U.S. Department of Agriculture's Rural Housing Service's Section 502 Direct Loan Program, commonly known as Section 502 loans, have recapture provisions payable when the property is sold. Section 502 loans are 33-year mortgages with a subsidized interest rate based on the borrower's income. The lower the borrower's income, the greater the subsidy and the lower the interest rate. The subsidized interest rates range from one percent to 6.25 percent (as of April 2002), depending on the borrower's income. The loan recapture provisions are based on the amount of interest subsidy received over the lifetime of the loan. At one site where Section 502 loans are common, program staff explained that they believe the advantages outweigh the disadvantages, because as income increases over time, the level of subsidy will decrease, improving equity accumulation. They also contend that the stability gained from homeownership is a tradeoff for the limitations on equity accumulation. In all cases, however, it is important that the participant understand the impact of the loan provisions on their potential equity.

Across the 12 study sites, based on a sample of up to 10 purchase transactions at each site (fewer if the site had fewer than 10 closings at the time of the site visit), the average additional resources that participants received *at the time of purchase* (in the form of grants, forgivable loans, and seller assistance, but not including below market interest rate loans) was $4,784 (see Exhibit 4-7).[14] In Syracuse, Toledo, and Milwaukee, the average subsidy at closing received by program participants was more than $10,000 (keeping in mind that the "average" is based on one purchase transaction in Milwaukee and two purchase transactions in Toledo). In 7 of the 12 sites, the average subsidy at purchase was less than $5,000.

Exhibit 4-7

Average Subsidy at Purchase by Site (Based on a Sample of 84 Purchase Transactions)

	N	Grants	Forgivable Loans	Total
Bernalillo Co.	10	$234[a]	$0	$234
Colorado	10	$0	$2,450	$2,450
Danville	10	$129	$7,842	$7,972
Green Bay	4	$0	$2,250	$2,250
Milwaukee	1	$10,000	$0	$10,000
Missoula	5	$1,498	$0	$1,498
Montgomery Co.	10	$3,728[b]	$0	$3,728
Nashville	10	$969	$1,770	$2,739
San Bernardino	3	$9,490	$0	$9,490
Syracuse	9	$0	$11,563	$11,563
Toledo	2	$13,500	$0	$13,500
Vermont	10	$4,458	$0	$4,458
Total /Weighted Average[c]	**84**	**$2,002**	**$2,782**	**$4,784**

[a] This average is based on one participant receiving a grant of $2,340 and the other nine participants sampled at the site receiving no grants.

[b] At this site, eight of the 10 purchasers sampled received some amount of assistance at closing from the seller, which is included in the grant figure shown here. The amount of the seller assistance ranged from $500 to $5,000, with an average of $2,943 across the eight purchasers that received seller assistance.

[c] A weighted average is an average that takes into account the proportional relevance of each component, rather than treating each component equally. In this table, the data on grants and forgivable loans for each site are weighted by the share of the total purchase transactions represented by that site.

It is difficult to estimate the average ongoing monthly subsidy (the HAP plus the monthly interest subsidy on below-market loans) across the 12 study sites. The sample purchase transactions took place at different times between 1999 and 2002 (thus at different prevailing market interest rates), making quantifying the value of the interest subsidy problematic. Fifty-five of the 84 purchasers in our sample (65 percent) obtained first or second mortgage loans with interest rates below 7 percent. Many of these loans came from state Housing Finance Agencies (HFAs), Rural Housing Service (RHS), or NR, but some came from private market lenders.

Exhibit 4-8 uses four sample purchase transactions to illustrate how below-market interest rate loans and subsidies at purchase can work together to enable voucher program participants to purchase homes. The exhibit shows the monthly subsidy—the HAP plus the monthly interest subsidy as

[14] Forgivable loans are typically not forgiven until the participant has owned the home for some period of time, usually five years. For the purposes of this analysis, however, we have considered the forgivable loans as an up-front subsidy received at purchase (i.e., assuming that participants will remain in their houses for the term required by the forgivable loan).

applicable, assuming, for simplicity, a 7 percent market interest rate—and the total amount of this subsidy over the 15-year term of voucher assistance (assuming that the HAP remains constant over this period).

The exhibit also presents the present value of the monthly subsidy over 15 years based on a market interest rate of 7 percent. The present value calculation estimates the value of the monthly subsidy from the lender's perspective. For the lender, the opportunity cost of the subsidy is 7 percent, assuming that the lender could have used the same funds to make a market-rate loan at 7 percent interest rather than a below-market loan at a lesser interest rate. The present value takes into account the fact that funds received in the future are less valuable to investors than funds received today. For this reason, the present value of the monthly subsidy is a more appropriate measure than the simple sum of the monthly payments when evaluating the total value of the monthly subsidy over 15 years.[15]

The four sample transactions presented in Exhibit 4-8 are not meant to be representative of the sample of purchase transactions as a whole. Rather, they provide examples of different combinations of subsidy at purchase and monthly subsidy. The Colorado transaction is an example of a relatively high subsidy at purchase with a relatively high monthly subsidy; Vermont is an example of no subsidy at purchase with a relatively high monthly subsidy; San Bernardino is an example of a relatively high subsidy at purchase with a relatively low monthly subsidy; and Montgomery County is an example of no subsidy at purchase with a relatively low monthly subsidy.

The exhibit provides some sense of the variation in the level of subsidy used to enable program participants of different income levels to purchase homes under different financing models and in different housing markets. Further, the exhibit suggests that the value of the subsidy at purchase is generally small compared to the value of the ongoing monthly subsidy. Finally, the majority of the value of the monthly subsidy comes from the HAP, which can vary significantly based on the income of the purchaser, the purchaser's household size, and total housing costs. The monthly voucher assistance among the purchasers sampled from the study sites ranged from $87 to $762, with an average of $341.

[15] Mortgage payments provide a good example of the difference between the sum of monthly payments over time and the present value of the payments. A 30-year mortgage for $100,000 at a 7 percent interest rate would have a monthly payment of $665.30. The sum of the monthly payments over the 30-year life of the mortgage would total $239,508—an amount much larger than the original mortgage amount. However, the *present value* of the monthly payments over 30 years, assuming a 7 percent interest rate, is $100,000, the original mortgage amount.

Exhibit 4-8

Subsidy at Purchase and Monthly Subsidy for Sample Purchase Transactions

	Colorado	**Vermont**	**San Bernardino**	**Montgomery County**
Purchase Price	$94,900	$61,750	$101,000	$78,500
Subsidy at Purchase	**$3,500**	**$0**	**$15,470**	**$0**
Monthly (Ongoing) Subsidy				
Subsidized Loans				
Amortizing Loans	$75,920 (3% 30-yr, HFA)	$63,300 (1% 33-yr., RHS)	$40,666 (3.25% 10-yr, NR)	$0
Deferred Loans[a]	$16,000 (1.5%, HFA)	$0	$0	$0
Monthly Interest Subsidy on Subsidized Loans	$278	$250	$75	$0
Monthly HAP Subsidy	$372	$257	$286	$372
Total Monthly Subsidy (= Monthly Interest Subsidy on Subsidized Loans + Monthly HAP Subsidy)	**$650**	**$507**	**$361**	**$372**
HAP Share of Monthly Subsidy (= HAP Subsidy/Total Monthly Subsidy)	57%	51%	79%	100%
Total Monthly Subsidy over 15 Years	$117,063	$91,284	$64,941	$66,960
Present Value of Total Monthly Subsidy over 15 Years[b]	**$72,355**	**$56,422**	**$40,139**	**$41,387**

[a] Loan is deferred for 30 years and does not accrue interest over this period.

[b] The monthly interest subsidy is calculated assuming a market interest rate of 7 percent. The present value of the monthly subsidy assumes a 15-year term of assistance and a market interest rate of 7 percent. The present value calculation estimates the value of the subsidy from the lender's perspective. For the lender, the opportunity cost of the subsidy is 7 percent, assuming that the lender could have used the same funds to make a market-rate loan at 7 percent interest rather than a below-market loan at a lesser interest rate.

Chapter 5
Program Outcomes

In previous chapters, we described the characteristics of the study sites and the details of the homeownership program designs. This chapter turns to an analysis of the early outcomes of the program, based on information gathered during site visits and supplemented by MTCS and Census data. Given that the voucher homeownership program is still at an early stage of implementation, a comprehensive evaluation of program outcomes would be premature. Instead, the data presented in this chapter provide a preliminary picture of the characteristics of program participants, the units they have purchased, and how the purchases have been financed.

The chapter begins with a description of the characteristics of program participants, comparing the characteristics of program purchasers both to “in-process” households and to households in the rental voucher programs at the study PHAs. Next, we assess the characteristics of properties that have been purchased and the neighborhoods in which they are located. This is followed by analysis of the financial burden and risk associated with the purchases completed to date. The chapter concludes with a discussion of the views of program participants.

5.1 Characteristics of Program Participants

Exhibit 5-1 presents the characteristics of the households that have purchased homes through the voucher homeownership program (*purchasers*), as compared both to program participants who have not yet purchased (*in-process households*) and to participants in the rental voucher program (*rental voucher households*) at the 12 study sites. The characteristics presented here offer a picture of voucher homeownership program participants at a point in time, early in the implementation of the program.[1] Continued monitoring of participant characteristics as the number of purchasers increases will be important to develop a full understanding of who is served through the program.

The exhibit presents data on the demographic and income characteristics of the three groups of households. For the first two groups, *purchasers* and *in-process* households, the data were collected from PHA administrative records. For the *purchasers*, we collected demographic and income data on up to 10 voucher homeownership purchasers from each site, or all purchasers if the site had 10 or fewer purchasers at the time of the site visit. We obtained complete data on 84 program purchasers. This is not a representative sample of program purchasers across the country, nor does it represent the full set of purchasers at the 12 study sites. The *in-process* households are voucher homeownership candidates who are in the process of completing homeownership counseling or have completed counseling but have not yet purchased a home. Many of these households will likely end up purchasing, but others may complete the program and not purchase, either because they decide not to or because they are unable to qualify for a mortgage. We collected demographic and income data on a sample of up to 20 in-process households at each site, or all in-process households if the site had 20 or fewer households pursuing homeownership at the time of the site visit.

[1] This information is based on a sample of up to 10 purchasers at each site, a total of 84 purchasers. This *is not* a representative sample of program purchasers across the country, nor does it represent the full set of purchasers at the 12 study sites.

Exhibit 5-1 also presents the characteristics of *rental voucher households* at the 12 study sites, based on data reported by the study PHAs in May 2001 to HUD's Multifamily Tenant Characteristic System (MTCS). The characteristics of rental voucher households at each site have been weighted by the share of purchasers represented by that site in order to provide a more meaningful comparison of the similarities and differences between the characteristics of purchasers and rental voucher households. If we had not weighted the data in this way, differences between purchasers and rental voucher households could be driven by the size of the rental voucher programs at each site (i.e., the characteristics of the largest rental voucher programs would dominate the group), rather than by differences in the characteristics of purchasers and renter households.

Several key findings emerge from the comparison of household characteristics in these three groups. First, program purchasers are mostly female heads of household with children. Overall, 78 percent of purchasing households and 79 percent of in-process households are headed by females, compared to 75 percent of the comparison group of all voucher participant households. In addition, 72 percent of purchaser households have children, compared with 67 percent of in-process households and 55 percent of all voucher participant households. An exception to the pattern is Colorado, where only 50 percent of purchaser households are headed by females and only 10 percent of the households have children.

In addition, the homeownership program is serving the same share of persons with disabilities (35 percent of all purchasers) as the rental program. These results are influenced by Green Bay (where 75 percent of the purchasers are persons with disabilities) and Bernalillo County (where 75 percent of the purchasers are persons with disabilities). In both of these sites, the PHA has partnered with nonprofit organizations exclusively serving persons with disabilities. In Colorado, all of the purchasers are persons with disabilities (as the homeownership program is restricted to persons with disabilities), but persons with disabilities also make up the majority (88 percent) of the PHA's overall voucher program.

Many program directors think that the voucher homeownership program is well suited to persons with disabilities because they are entitled to receive the voucher assistance for the full term of the mortgage and because there are a number of below-market loan products and sources of down payment assistance targeted to help persons with disabilities purchase homes. These sources of funding—and the number of local organizations dedicated to helping persons with disabilities to pursue homeownership—can be expected to grow as communities allocate increasing resources toward helping persons with disabilities live in permanent housing.

The median household size is larger among purchasers and in-process households than among rental voucher households, reflecting the higher proportion of households with children in the homeownership program. As for the racial characteristics of household heads, homeownership purchasers are more likely to be non-minority than either in-process households or rental voucher households overall. There is a slightly higher percentage of white household heads (52 percent) among purchasers than among either in-process households (42 percent) or rental voucher households (46 percent). On the other hand, the percentage of in-process households headed by African Americans (44 percent) is higher than for rental voucher households (38 percent). In addition, the proportion of Hispanic in-process households is similar to the proportion of Hispanic rental voucher households. This may indicate that over time, as in-process households purchase homes, the percentage of purchasers headed by minorities will become similar to the percentages of rental voucher households headed by minorities.

Exhibit 5-1

Characteristics of Purchasers, In-Process Households, and Rental Voucher Households

	Purchasers[a]	In-Process Households[b]	Rental Voucher Households[c]
Number of Households	84	200	32,958
Household Characteristics:			
Percent Female-Headed	78%	79%	75%
Median Household Size	3.0	3.0	2.41
Percent of Households with Children	72%	67%	55%
Percent of Households with an Elderly Head	1%	3%	20%
Percent of Households with Disabilities	35%	37%	35%
Race/Ethnicity of Household Head:			
Percent White, non Hispanic	52%	42%	46%
Percent Black, non Hispanic	34%	44%	38%
Percent Hispanic	6%	12%	13%
Percent Asian, Non Hispanic	7%	2%	1%
Percent Native American, Non Hispanic	1%	0%	2%
Total	100%	100%	100%
Percent of Households Currently Enrolled in FSS	25%	17%	5%
Gross Household Income:			
Under $10,000	19%	21%	61%
$10,000 to $14,999	19%	22%	21%
$15,000 to $19,999	22%	28%	12%
$20,000 to $24,999	22%	21%	5%
$25,000 and over	18%	8%	2%
Total	100%	100%	100%
Median Household Income	$17,377	$15,934	$8,410
Percent of Households with Wages as Primary Source of Income	65%	64%	33%

[a] This information is based on a sample of up to 10 purchasers at each site. For sites with more than 10 purchasers, the sample was drawn randomly. For sites with fewer than 10 purchasers, we collected data on all of the purchasers. We obtained complete data on 84 purchasers across the 12 sites. This *is not* a representative sample of program purchasers across the country, nor does it represent the full set of purchasers at the 12 study sites.

[b] The individuals in this group either have completed homeownership counseling through the voucher homeownership program or are in the process of completing counseling but have not yet purchased. We collected data on a random sample of up to 20 "in-process" households at each site. However, some of the smaller programs did not have 20 households fitting these criteria and other sites did not provide complete data. We obtained complete data on 200 in-process households across the 12 sites.

[c] We collected data on rental voucher program participants at each site from a May 2001 extract from HUD's MTCS. We obtained complete data on 32,958 voucher program participants across the 12 sites. The data presented in the exhibit are all voucher program participants at each site, weighted by the share of purchasers represented by that site.

Sources: MTCS data and information collected during site visits

As discussed in Chapter 3, only two sites require FSS participation as a condition for program eligibility. Several other sites that originally planned to focus recruitment on FSS participants have subsequently dropped the FSS requirement. Nevertheless, a substantially higher proportion of purchasers are in the FSS program (25 percent) compared to in-process households (17 percent) and rental voucher households (5 percent).

As would be expected, voucher homeownership purchasers are generally in the higher income ranges of the voucher program. As the exhibit shows, the median income of purchasers ($17,377) is more than twice that of rental voucher households ($8,410), and is also higher than the median income of in-process households ($15,934). Moreover, the median income of purchasers is well above the $10,300 minimum income requirement in the final rule. It appears that the program has been successful in serving higher income participants who are more likely to be able to afford homeownership. Eighteen percent of purchasers have annual incomes of $25,000 or more, compared with only two percent of rental voucher households.

5.2 Property and Neighborhood Characteristics

As part of this study, we collected three types of information on the characteristics of the properties that voucher homeownership participants have purchased and of the neighborhoods in which they have purchased. First, for our sample of 84 purchasers (up to 10 purchasers from each site), we collected basic information on the characteristics of the properties purchased—type of unit, number of bedrooms, and age of unit. We also collected information on the type of seller, whether the unit had been rehabilitated prior to purchase, and whether the unit passed HUD’s HQS on the first inspection. These results are presented in the first part of this section.

We also used available data from the 1990 and 2000 Census to analyze quantitatively the characteristics of the neighborhoods where program participants have purchased and compare them to the neighborhoods where they had been previously renting. Like the analysis of property characteristics, we based this analysis of neighborhood characteristics on our sample of 84 purchasers.

Finally, during the site visits we conducted a windshield assessment of a sample of properties purchased and their immediate neighborhoods. The windshield assessment does not constitute a rigorous evaluation of neighborhood quality at the study sites but conveys the site visitor’s qualitative perceptions.

The discussion of neighborhood characteristics must be considered preliminary, given the small sample size, the fact that it is a purposive sample and not one that is representative of the program as a whole, and the absence of 2000 Census data on social and economic characteristics at the neighborhood level. However, as the voucher homeownership program grows in size, understanding the types of neighborhoods in which participants are purchasing and how they compare to the neighborhoods inhabited by rental voucher participants will be critical to understanding the program’s success in helping participants to gain self-sufficiency and build assets through the program.

Types of Units Purchased

Exhibit 5-2 provides an overview of the types of properties that voucher homeownership program participants have purchased, based on the sample of purchasers across the 12 sites. We obtained fairly complete data on 81 of the 84 purchasers, with some missing data for the age of the unit and whether the unit passed HQS on the first inspection.

As shown in the exhibit, the majority of voucher homeownership program participants purchased single-family, detached houses. More than 80 percent of the units purchased are either two- or three-bedrooms units, which is typical of the owned housing market. In Colorado, four of the 10 purchasers sampled bought condominiums. These participants purchased in Denver, where single-family homes are generally unaffordable to program participants. In addition to Colorado, participants bought condominiums in Bernalillo County, Montgomery County, and Vermont, which all have relatively tight housing markets.

Within the category of single-family, detached houses, five program participants bought manufactured houses. Although concerns are sometimes raised about the quality of manufactured houses and the possibility that they may not appreciate in value at the same rate as non-manufactured houses,[2] these concerns were not shared by the program staff or lenders interviewed at these sites. However, one program participant who had bought a manufactured home expressed dissatisfaction with its quality and reported that she regretted purchasing that particular unit.

Slightly more than half of the properties purchased (52 percent) are less than 23 years old, with a surprisingly large share of units (22 percent) built since 2000. Some of these newly built units were purchased from nonprofit housing developers with up-front subsidies reducing the purchase price, but others were purchased from for-profit builders (in the case of some of the manufactured houses), the PHA (in one case), and individual sellers. Participants purchased newly built homes in 5 of the 12 study sites—Danville, Bernalillo County, Colorado, Nashville, and Toledo. In Colorado, program staff suggested that the ability to purchase newly built homes was particularly important for persons with physical disabilities, because the cost of making existing units accessible to persons with disabilities can be prohibitive. In addition to the newly built units, approximately 14 percent of the units sampled (9 of 63) had been rehabilitated prior to purchase, usually within one or two years of the purchase.

More than half of the properties sampled failed HQS on the first inspection. This is not surprising given that more than one third of the properties are more than 40 years old. For the most part, however, the repairs required were relatively minor and were readily made by the seller prior to closing. Common actions required to meet HQS include: adding smoke detectors and fire extinguishers, converting outlets to ground fault circuit interrupters (GFCIs), inspecting or cleaning the furnace, and repairing railings. None of the program staff interviewed could recall an instance in which a purchase transaction fell through because the unit failed HQS and the seller refused to make the repairs in time. However, there were several cases in which the participant opted not to pursue the sale following the HQS inspection. In addition, some participants cancelled their purchase agreements as a result of problems found in the independent inspection. One Montgomery County

[2] Kevin Jewell, "Appreciation in Manufactured Housing: A Fresh Look at the Debate and the Data," paper delivered at the American Real Estate and Urban Economics Association Annual Mid-Year Meeting, May 28-29, 2002.

purchaser, for example, had independent inspections done on three different units before she purchased her house. In the first case, the unit had recently been rehabilitated but had structural flaws that were not part of the HQS inspection. In the second case, a termite inspection revealed prior termite damage. This purchaser noted with some relief that she was glad the independent inspection had been required. If the inspection had not been mandatory, she said she might not have chosen to incur the cost and would have missed the opportunity to learn about the problems before buying the house.

Exhibit 5-2

Characteristics of Units Purchased

Type of Unit	
Single-family detached	86%
Single-family attached (two units)	4%
Townhouse	1%
Condominium	9%
Total (n=81)	100%
Size of Unit	
One bedroom	1%
Two bedrooms	26%
Three bedrooms	58%
Four bedrooms	10%
Five bedrooms	5%
Total (n=81)	100%
Year Built	
2000 to 2002	22%
1990 to 1999	13%
1980 to 1989	17%
1960 to 1979	10%
1940 to 1959	16%
Pre-1940	22%
Total (n=63)	100%
Type of Seller	
Individual	64%
Nonprofit organization	14%
Realtor	8%
Builder	6%
PHA	6%
HUD foreclosure	1%
Management company	1%
Total (n=80)	100%
Percent of Units that Failed 1st HQS Inspection	56%
Total (n=71)	

Source: Information collected during the site visits on the sample of up to 10 purchased units per site.

Pre- and Post-Purchase Neighborhood Characteristics

An important aspect of the decision to buy a house is the neighborhood in which the house is located. The quality of the neighborhood influences the economic opportunities and quality of life of residents that live there. The purchase of a home is also a financial investment, and neighborhood characteristics (as well as larger economic trends) affect whether the investment appreciates, remains stable, or even depreciates.

In this section, we examine basic characteristics of the neighborhoods where voucher homeownership program participants have purchased. We compare the current neighborhood to the pre-purchase neighborhood to explore whether the homeownership program is enabling participants to purchase a house in similar, worse, or better neighborhoods than the pre-purchase neighborhood where they rented a unit with voucher assistance. We begin by looking at how far participants moved when they purchased, and then describe the characteristics of the neighborhood housing and the socioeconomic characteristics of the neighborhood.

This analysis is based on the most recent Census data available *at the neighborhood level* at the time of the writing of this report (July 2002). In all cases, we used census tract as a proxy for neighborhood. As of July 2002, only certain data were available from the 2000 Census at the census tract level. These include: homeownership rate, race/ethnicity, and household type. Key data *not* available at the census tract level include: poverty rate, type of housing, and year housing built.[3] For these data, we had to use data available at the census tract level from the 1990 Census, recognizing that some of the neighborhoods under study may have undergone significant demographic and/or socioeconomic change between 1990 and 2000.

How far did home purchasers move?

The majority of participants purchased a housing unit in a different neighborhood than where they were renting. As can be seen in Exhibit 5-3, 61 percent of participants moved to a home that was at least one mile away, including 21 percent who moved to a home more than five miles away. The further a participant moved, the more likely the characteristics of their neighborhood changed when they purchased a home. Fifteen percent of participants did not change location at all: they bought the unit they had been renting.[4]

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[3] The U.S. Census Bureau is scheduled to make these data available on a state-by-state basis by September 2002.

[4] None of the participants who purchased in place (and none of the purchasers in our sample overall) purchased through lease-purchase arrangements.

Exhibit 5-3

Distance Between Pre-Purchase and Homeownership Unit[a]

Distance Moved	Percent of Home Purchasers
0 miles (purchased in place)	15%
0.5 miles or less	11%
0.5 to 1 mile	14%
1 to 5 miles	40%
More than 5 miles	21%
Average distance moved	4.7 miles
Average distance moved, excluding purchasers who purchased in place	5.5 miles

[a] Sample size: 81 (missing pre-purchase address for three households).

Source: Address data provided by participating agencies on the sample of up to 10 purchases per site.

What is the housing market like in the neighborhood?

The housing markets in the pre-purchase and post-purchase neighborhoods appear to be quite similar. Participants tended to move to neighborhoods with slightly higher homeownership rates and slightly more single-family detached housing than existed in the pre-purchase neighborhoods (see Exhibit 5-4).

The homeownership rate in a neighborhood is an indicator of the stability of the neighborhood population (as homeowners move less than renters). A high homeownership rate also indicates that more of the residents are financially vested in the neighborhood. Overall, the program participants in our sample were living in neighborhoods with an average homeownership rate in 2000 of 57.4 percent before they purchased. When they purchased through the program, they moved to neighborhoods with an average homeownership rate in 2000 of 59.8 percent, slightly higher than the pre-purchase neighborhoods.[5]

Program participants typically purchased in neighborhoods where the homeownership rate is lower than the national average of 67.8 percent.[6] Many program participants also purchased in neighborhoods where the homeownership rate is low relative to the PHA's jurisdiction as a whole.[7]

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5 Overall, 35 percent of program participants purchased a home in neighborhoods with a substantially higher homeownership rate (more than five percentage points higher) than their pre-purchase neighborhood. Forty percent of program participants purchased homes in neighborhoods with the same or similar homeownership rate as their pre-purchase neighborhood. Finally, 25 percent of program participants purchased homes with a substantially lower homeownership rate (more than five percentage points lower) than their pre-purchase neighborhood. In both the pre- and post-purchase neighborhoods, the proportion of the homeowners who were minorities was about the same. In the pre-purchase neighborhoods, 24 percent of the homeowners were non-white, compared to 25 percent in the post-purchase neighborhoods.

6 The national homeownership rate is according to an April 25, 2002 Census press release.

7 The PHA's jurisdiction as a whole refers to the city, county, or state in which the voucher homeownership is being offered. The jurisdictions of each of the study PHAs are presented in Exhibit 2-2 in Chapter 2.

Half of the program participants in our sample (50 percent) purchased in neighborhoods where the homeownership rate was more than five percentage points lower than the homeownership rate in the broader jurisdiction. About one fifth of participants (18 percent) purchased in neighborhoods where the homeownership rate was about the same as in the PHA's jurisdiction as a whole. Finally, about one third of program participants (32 percent) purchased in neighborhoods where the homeownership rate was more than five percentage points higher than in the PHA's jurisdiction as a whole.

The type of housing stock is similar, on average, in the pre- and post-purchase neighborhoods, although the post-purchase neighborhoods have a slightly higher share of detached single-family homes (54 versus 51 percent, based on 1990 data). The age of the housing stock is also similar across the pre- and post-purchase neighborhoods.

Exhibit 5-4

Characteristics of Neighborhood Housing in Pre- and Post-Purchase Neighborhoods[a]

	Pre-Purchase Neighborhood	Post-Purchase Neighborhood
Housing Vacancy Rate (2000)	7.9%	8.0%
Homeownership Rate (2000)	57.4%	59.8%
Homeownership Rate in Neighborhood Compared to PHA's Entire Jurisdiction (2000)		
Neighb. homeownership rate five or more points higher	22%	32%
Neighb. homeownership rate about the same	20%	18%
Neighb. homeownership rate five or more points lower	57%	50%
Type of Housing in Neighborhood (1990)		
Single-family, detached	51%	54%
Single-family, detached	8%	8%
Multi-family	34%	32%
Trailer, mobile home, or other housing[b]	8%	6%
Year Housing Built (1990)		
1939 or earlier	25%	27%
1940 to 1959	25%	23%
1960 to 1979	34%	32%
1980 to 1990	15%	18%

[a] Sample size is 84 for post-purchase neighborhood, 81 for pre-purchase neighborhood. Neighborhood is defined as the census tract where property is located.

[b] Other housing includes any living quarters that do not fit the previous categories (e.g., houseboats, railcars, campers, vans).

Source: 1990 and 2000 Census data (as marked).

What are the socioeconomic and racial characteristics of the neighborhood residents?

Concentrated poverty in a neighborhood is associated with a host of social problems, including criminal activity, poor educational institutions, and a lack of political and economic capital to draw needed resources to the neighborhood. As shown in Exhibit 5-5, the average poverty rate in the post-purchase neighborhoods is slightly lower than the pre-purchase neighborhoods (16 versus 18 percent). (All data on poverty rates are from the 1990 Census.) The share of participants living in *high poverty neighborhoods* (i.e., poverty rate above 30 percent) remained at 16 percent in both the pre-and post-purchase neighborhoods. However, the share of participants living in *low poverty neighborhoods* (i.e., poverty rate less than 20 percent) increased as a result of purchasing. Before purchasing, approximately 64 percent of the participants in our sample lived in low poverty neighborhoods. After purchasing, the share of participants living in low poverty neighborhoods increased to 70 percent.

Overall, about one third of the program participants in our sample bought houses in substantially lower poverty neighborhoods (i.e., neighborhoods where the poverty rate was at least five percentage points lower) than the neighborhoods where they had been renting. About one fifth of program participants (19 percent) bought homes in substantially higher poverty neighborhoods (i.e., neighborhoods where the poverty rate was at least five percentage points higher) than the neighborhoods where they had been renting.

As renters, program participants were evenly distributed between low, high, and average poverty neighborhoods as compared to the PHA's jurisdiction as a whole. After purchasing, participants were most likely (41 percent) to live in neighborhoods with a substantially lower poverty rate (i.e., at least five percentage points lower) than the average for the PHA's jurisdiction as a whole.

Participants lived in neighborhoods with a higher share of non-whites compared to the PHA's entire jurisdiction both before and after they purchased a home. However, slightly fewer of the post-purchase neighborhoods than pre-purchase neighborhoods have a majority of non-white residents (based on 2000 data). The average share of non-whites in the neighborhood decreased from 40 to 36 percent from the pre- to post-purchase neighborhood.

Exhibit 5-5

Socioeconomic Characteristics of Neighborhood Residents in Pre- and Post-Purchase Neighborhoods[a]

	Pre-Purchase Neighborhood	Post-Purchase Neighborhood
Poverty Rate (1990)		
Low poverty (less than 20 percent)	64%	70%
Moderate poverty (20 to 30 percent)	20%	14%
High poverty (more than 30 percent)	16%	16%
Average Poverty Rate (1990)	18%	16%
Poverty Rate in Neighborhood Compared to PHA's Entire Jurisdiction (1990)		
Neighb. poverty rate five or more points higher	32%	27%
Neighb. poverty rate about the same	36%	32%
Neighb. poverty rate five or more points lower	32%	41%
Single-Female Headed Household with Child(ren) (2000)	11%	10%
Share of Whites/Non-Whites in Neighborhood (2000)		
Predominately white (>80 percent)	38%	39%
Majority white (50 to 80 percent)	21%	26%
Predominately non-white (> 80 percent)	15%	11%
Majority non-white (50 to 80 percent)	26%	24%
Average Percent Non-White (2000)	40%	36%
Percent of Non-Whites in Neighborhood Compared to PHA's Entire Jurisdiction (2000)		
Neighb. non-white share five or more points higher	49%	44%
Neighb. non-white share about the same	31%	32%
Neighb. non-white share five or more points lower	20%	24%

[a] Sample size is 84 for post-purchase neighborhood, 81 for pre-purchase neighborhood. Neighborhood is defined as the census tract where property is located.

Source: 1990 and 2000 Census data (as marked).

Results of the Windshield Assessment of Properties and Neighborhoods

At each study site we conducted a windshield assessment of a sample of properties purchased and their immediate neighborhoods.[8] We conducted assessments for up to three properties purchased through the program, or fewer properties if the site had had fewer than three closings. In total, we assessed 32 properties and neighborhoods across the 12 study sites. The site visitors conducted the assessments using a standardized data collection tool designed to help the visitors make consistent judgments across the sites.

Exhibit 5-6 summarizes the results of the windshield assessments, presenting the assessments of the individual properties purchased alongside the assessments of the immediate neighborhoods in which these properties are located. The table masks some differences among the sites of the types of units purchased and the types of neighborhoods in which they are located. However, a basic finding across all of the sites is that the properties purchased are typically in better physical condition and show better housekeeping than those in the surrounding neighborhood. All of the properties assessed were determined to be in sound condition (based on a visual assessment of the exterior of the unit), while the surrounding neighborhoods had some properties with minor deterioration and evidence of fair to poor owner housekeeping. In addition, trash and graffiti were more likely to be a problem—albeit mostly minor—in the surrounding neighborhood than on the property purchased.

These findings are consistent with the comments of some site visitors that the units purchased were "the best on the block." This comment was most common for units that had been rehabilitated or newly built houses by the City or a local nonprofit as part of a neighborhood revitalization plan. Such properties were found in Danville, Toledo, Nashville, and Milwaukee.

As part of the assessment of property and neighborhood conditions, the site visitors also noted the presence of particularly positive or negative features in the neighborhoods. Positive features could include things like well-kept green spaces, stores and restaurants in the general vicinity, and good access to the central business district. Negative features could include things like major industrial activity in the neighborhood, a waste disposal facility nearby, or proximity to a more distressed neighborhood. Among the 32 properties assessed:

- 12 properties were located in neighborhoods where the site visitors noted *positive features only*;
- 4 properties were located in neighborhoods where the site visitors noted *negative features only*;
- 10 properties were located in neighborhoods where the site visitors noted *both positive and negative features*; and
- 6 properties were located in neighborhoods where the site visitors noted *neither positive nor negative features*.

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8 We defined the "immediate neighborhood" as roughly a two-block area around the property purchased. The neighborhood assessment was more difficult to conduct in the rural sites, such as Vermont and Missoula, because there was not always a neighborhood as found in urban and suburban areas. Also, for the two statewide programs—Vermont and Colorado—we had to limit our assessment to properties purchased within easy driving distance of the PHA's central office.

Exhibit 5-6

Results of Property and Neighborhood Assessment by Site Visitors, Based on 32 Units and Neighborhoods Surveyed

Characteristic	Homeownership Unit	Immediate Neighborhood
Exterior Condition of Unit(s)		
Sound	100%	83%
Minor deterioration	0%	5%
Major deterioration	0%	1%
Owner Housekeeping		
Excellent	69%	56%
Good	31%	34%
Fair	0%	6%
Poor	0%	3%
Presence of Litter, Refuse		
Major problem	0%	3%
Minor problem	6%	22%
Not a problem	94%	75%
Presence of Graffiti		
Major problem	0%	3%
Minor problem	0%	19%
Not a problem	100%	78%
Presence of Positive Neighborhood Features		
Some positive features		69%
No positive features		31%
Presence of Negative Neighborhood Features		
Some negative features		44%
No negative features		56%
Overall Assessment of Neighborhood Quality		
Excellent		38%
Good		47%
Fair		16%
Poor		0%

Note: The neighborhood is defined as a two-block area around the unit.

Source: Windshield assessments conducted by site visitors on up to three properties purchased per site.

The kinds of positive features that the site visitors identified include: proximity to schools and shops; natural beauty (mountains, green spaces); and location in a neighborhood "in pristine condition." The two main negative features reported by the site visitors were proximity to a high-crime or dilapidated area and isolation from grocery stores and other amenities. Some properties reported to be in neighborhoods with both positive and negative features were located in the more rural sites (Danville, Missoula, Vermont, and Bernalillo County). A small number of urban neighborhoods also received mixed reviews because they appeared to be experiencing revitalization but still had features of high poverty neighborhoods. For example, one of the site visitors described a neighborhood where:

> *The property is located near the site of a HOPE VI revitalization and in a part of town that has been designated by the PHA and the City as a revitalization area. According to program staff, the area was in dire straights a few years ago, with crime and deteriorated housing. However, the house purchased is on a street that has several new homes and is somewhat removed from the rest of the neighborhood. Potential negative features include the HOPE VI demolition site and a former garbage dump, both located about two blocks away. But the HOPE VI redevelopment is expected to be an asset to the neighborhood when complete.*

In addition to noting positive and negative features, the site visitors gave each neighborhood an overall assessment of quality. Twenty-seven of the 32 neighborhoods (84 percent) were rated either "excellent" or "good," while five neighborhoods received a rating of "fair" and none received a rating of "poor." In "good" neighborhoods, a small share of the housing showed signs of deterioration, and owner housekeeping might be a minor problem for one or two units. For example, one site visitor described one of the "good" neighborhoods as follows: "Post World War II neighborhood with cape cods and small ranch houses. A couple of places had some junk in the yard, minor maintenance problems, but overall a tidy neighborhood." Neighborhoods rated "fair" tended to exhibit more serious problems with dilapidated housing or have potentially negative features.

Most of the participants interviewed for the study reported that they had chosen their houses and neighborhoods deliberately, although few received any kind of search assistance. Most often, once participants had identified the neighborhoods that were affordable, the final choice of neighborhood and unit was driven by family priorities, such as proximity to schools and relatives.

Three participants interviewed had purchased homes in neighborhoods that the site visitors characterized as "fair." In all three cases, the participants had grown up in the area and wanted to stay close to existing friends and family. In one case, the participant had previously lived in public housing in another part of the city and emphasized that the area where she purchased is "*much* better," even though she conceded that other people consider it a high crime area.

Several purchasers commented that it had been difficult for them to find "the right house" within their price range. These participants were located in San Bernardino, Colorado, Bernalillo County, and Vermont, all areas with relatively tight housing markets. The participants reported that they spent many months looking for a unit before they settled on one that met their needs. The main challenge was finding a property in their price range that was also in reasonable condition and in a good neighborhood. One San Bernardino purchaser described how she drove around for four months on her own looking for a house that met her needs. Following a tip from a co-worker, she finally found a house in good condition in the neighborhood where she wanted to live. She could not have bought the house if one of the lenders had not agreed to reduce the interest rate on the second mortgage from five percent to three percent.

Twelve purchasers in our sample purchased the units that they had been renting through the voucher program. The "in-place" purchasers that we interviewed during the site visit reported that their decision to stay in the same unit in part reflected the difficulty finding affordable units in the local housing market. In addition, two purchasers mentioned that their former landlords had been willing to offer them some flexibility during the purchase process and to make needed repairs because the landlords were supportive of their move to homeownership. Although several of these participants mentioned that they bought these units after deciding that they were "the best they were going to get," none was disappointed with the purchase.

5.3 Analysis of Purchase Transactions

In this section, we examine the voucher homeownership purchases using measures typical in home purchase analyses. The analysis is based on financial information collected on the sample of 84 purchase transactions across the 12 study sites. For each purchase transaction, we collected information on:

- **Purchase costs:** purchase price, rehabilitation costs, and closing costs;
- **Purchase resources:** participant savings, grants, forgivable loans, deferred loans, and amortizing loans; and
- **Housing costs:** PITI payment(s), utilities, replacement and maintenance allowances, the principal and interest on debt for repairs or accessibility modifications, and other allowable housing costs as applicable.

In the first part of this section, we provide *aggregate* information about the sample of purchase transactions used in the analysis. The second part of this section focuses on measures of risk and affordability calculated *at the household level*.

Overview of Sample of Purchase Transactions

Exhibit 5-7 summarizes, by site, the information collected on the 84 purchase transactions in the analysis sample. For each site, the exhibit shows the financing model(s) being used as well as the ranges and averages of participant income, purchase price, and closing costs.

Among the 84 purchasers, the average income at the time of purchase was $17,926, but incomes varied substantially across and within sites. The average purchaser income by site ranged from a low of $8,310 in Colorado to a high of $26,004 in Montgomery County.[9] The three sites with the highest average incomes after Montgomery County are the sites that target higher-income households for the program: Nashville ($23,180), San Bernardino ($22,278), and Syracuse ($21,932).

[9] Sites with purchaser incomes below $10,300 at the time of purchase are or were HUD pilot programs authorized to operate under the proposed rule. The proposed rule gave PHAs discretion to admit households to the program with incomes below the $10,300 minimum established by the final rule.

Exhibit 5-7
Purchase Transaction Summary: Participant Income, Purchase Price, Closing Costs

Site Name	Financing Model(s)	N	Participant Income		Purchase Price		Closing Costs	
			Range	Average	Range	Average	Range	Average
Bernalillo Co.	Income & Offset	10	$13,338 - $25,092	$15,662	$56,000 - $167,300	$98,022	$1,323 - $6,836	$3,857
Colorado	Offset	10	$5,796 - $14,280	$8,310	$65,000 - $127,000	$90,680	$773 - $4,858	$2,713
Danville	Income & Offset	10	$7,371 - $17,923	$11,209	$32,500 - $62,000	$50,206	$1,691 - $2,843	$2,054
Green Bay	Offset	4	$10,377 - $24,283	$19,818	$42,000 - $105,000	$84,000	$500 - $1,800	$1,098
Milwaukee	Income & Offset	1	$13,773	$13,773	$42,000	$42,000	$6,713	$6,713
Missoula	Offset	5	$10,744 - $24,160	$18,087	$94,000 - $128,000	$105,780	$1,803 - $4,066	$2,599
Montgomery Co.	Income	10	$15,480 - $33,208	$26,004	$65,000 - $130,000	$89,990	$3,322 - $6,300	$4,912
Nashville	Two-Mortgage	10	$15,392 - $33,803	$23,180	$54,000 - $111,000	$84,590	$3,609 - $6,680	$4,482
San Bernardino	Two-Mortgage	3	$20,800 - $24,777	$22,278	$101,000 - $114,000	$108,333	$3,246 - $4,748	$3,997
Syracuse	Income	9	$15,017 - $32,984	$21,932	$33,000 - $71,979	$54,870	$701 - $5,500	$3,537
Toledo	Two-Mortgage	2	$11,300 - $13,065	$12,183	$43,000 - $70,000	$56,500	$2,300 - $3,700	$3,000
Vermont	Income	10	$12,098 - $35,148	$19,004	$60,500 - $128,000	$89,555	$1,951 - $3,979	$2,887
Total / Weighted Average		**84**		**$17,926**		**$81,338**		**$3,369**

The average purchase price among the 84 observations was $81,338. Not surprisingly, purchase prices varied considerably across and within sites. Milwaukee and Danville had the lowest average purchase prices at $42,000 and $50,206 respectively. Syracuse and Toledo both had average purchase prices close to $55,000. Five sites had an average purchase price between $84,000 and $91,000. Bernalillo County, which had an especially wide range of purchase prices, averaged $98,022. The highest average purchase prices were in Missoula and San Bernardino, with both sites averaging over $100,000.

Across all observations, closing costs averaged $3,369, or four percent of the purchase price. Closing costs include fees that vary with the purchase price (origination fees, recording costs, title insurance) and fees that do not vary with the purchase price but may nevertheless vary across individuals and sites (fees for application processing, appraisal, credit report, document preparation, and attorneys). Closing costs vary fairly widely across sites, even when variations in purchase price are taken into account. Closing costs were relatively low in Green Bay ($1,098) and Danville ($2,054). These figures represent 1.5 percent of the average purchase price in Green Bay and 4.1 percent in Danville. Other areas where closing costs were low include Missoula ($2,599) and Colorado ($2,713). In these areas, closing costs were 2.5 and 3.1 percent of the average purchase prices, respectively. Closing costs were highest in Montgomery County ($4,912) and Nashville ($4,482). In both areas, closing costs were about 5.5 percent of the average purchase price.

Measures of Risk and Affordability

The risk that lenders incur in making mortgage loans is that the purchaser will default on his/her loan payments, triggering a foreclosure. One method lenders use to monitor this risk is to calculate the loan-to-value ratio (LTV) and the amount of cash that the purchaser has invested in the purchase. Generally, the lower the LTV and the higher the cash investment, the more equity the purchaser has in the home and the less likely he/she is to default on the mortgage payment. At the same time, voucher homeownership purchasers generally have very low incomes and not much savings available for a down payment. Although some purchasers may be able to make down payments with the assistance of Family Self-Sufficiency (FSS) program escrows, matched savings programs, or grant programs, other purchasers may not have significant assistance available. As a result, many low-income purchasers cannot invest much cash in the property and will by necessity have high LTVs.

The measures related to the LTV used in this analysis are:

- **Purchase LTV**: This figure is the LTV at the time of purchase. The numerator equals the sum of all forgivable, deferred, and amortized loans. The denominator equals the purchase price as a proxy of the value of the property.[10]

- **Potential LTV**: This figure is used to illustrate the added benefit of loans that are forgivable, assuming that the property is not resold within a specified period of time, usually five years.[11] The numerator equals the sum of only deferred and amortized loans. The denominator equals the purchase price as a proxy of the value of the property.

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[10] Of the 84 purchase transactions sampled, five purchase transactions included rehabilitation costs ranging in value from $300 to $1,500. In these five cases, we added the rehabilitation costs to the purchase price when estimating the value of the property.

[11] Forgivable loans with terms of more than five years were not included in the Potential LTV measure.

- **Purchaser Cash Investment**: This figure equals the total cash invested in the transaction by the purchaser for down payment and closing costs out of his/her own savings. This figure does not include grants that the purchaser may have received for down payment or closing costs, but may include gifts from family members.[12]

In addition to the risk associated with high LTVs, it is advantageous to both lenders and borrowers to ensure that the financing deals are reasonably affordable. It is assumed that affordable monthly payments reduce the likelihood of borrower default and foreclosure. We examine affordability in the voucher homeownership program by calculating participants' monthly housing costs as a proportion of gross monthly income. These measures of burden look both at the burden of principal, interest, taxes, and insurance (PITI) alone and at the burden of total housing costs, which include utilities, repair and replacement costs, and other relevant costs.

The measures of affordability used in this analysis are:

- **PITI Burden:** This figure represents the PITI payment burden as percentage of gross monthly household income. The numerator equals the household cash outlay for monthly PITI payments, and the denominator equals gross monthly income.[13]

- **Total Housing Cost Burden:** This figure represents the burden of all housing costs as a percentage of gross monthly household income. The numerator equals the sum of all housing costs: the household cash outlay for PITI payments, the utility, replacement, and maintenance allowances, the principal and interest on debt for repairs or accessibility modifications (as applicable), and other allowed homeownership expenses.[14] The denominator equals gross monthly income.

Both measures of affordability focus on the burden of the actual cash outlay made by the program participant as a proportion of the participant's gross monthly household income.

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[12] The amount of down payment and closing cost assistance varies by site and by purchaser. Sources of down payment and closing cost assistance at each site are discussed in the case studies.

[13] For sites using the HAP as income and HAP as offset models, the PITI burden is the difference between the PITI and the HAP, divided by gross monthly income. The Total Housing Cost Burden is the difference between total housing costs and the HAP, divided by gross monthly income. For sites using the two-mortgage model, the PITI Burden is the first mortgage PITI divided by gross monthly income. The Total Housing Cost Burden is the participant's total housing costs divided by gross monthly income.

[14] The study sites submitted incomplete data for utility, replacement, and maintenance allowances. For each purchase transaction missing a utility allowance, we assigned an allowance based on the average allowance among other program participants purchasing units of the same bedroom size at that site. We also assigned an average replacement and maintenance allowance of $75 per month *to all purchase transactions at all sites*. This was the median maintenance and replacement allowance amount among the sites that supplied us with complete information on allowances.

LTV and Purchaser Cash Investment

Exhibit 5-8 summarizes measures related to LTV across the 12 sites and 84 program purchasers. Lower LTV loans are generally considered less risky because the greater borrower equity provides a financial cushion against financial shocks. With a low LTV, in the event that a borrower is forced to sell the home, he/she should be able to pay off the mortgage—even if house prices have declined. In addition, borrowers with more equity have more to lose if they default on their mortgage, and so they are considered more likely to meet their mortgage obligations.

The average *Purchase LTV* was 98.8 percent across all transactions. This figure varied somewhat by site. Four sites—Colorado, Danville, Nashville and Syracuse—had average Purchase LTVs of more than 100 percent. (Because the deferred loans can include funds for closing costs, the total loan amount can be higher than the value of the house.) Five other sites had average Purchase LTVs of more than 95 percent. Of the sites with more than three observations, Vermont had the lowest Purchase LTV at 94.1 percent.[15] In general, LTVs across the study sites are high. Although it is now not uncommon for low-income purchasers to obtain loans for up to 97 percent of the house's value, the average across the 84 purchase transactions is higher than this level. Only a few of the 84 purchasers included in this analysis were able to make significant down payments with the assistance of personal savings, matched savings from individual development accounts (IDAs), grants, and gifts from family members. Of the 84 purchasers, more than half (49) had LTVs of 100 percent or higher, meaning they had no equity at the time of purchase.

In spite of these high LTVs, there is a strong perception among program participants that they are building assets for the future that they will be able to pass on to their children. (Participants' views of the program are discussed in more detail at the end of this chapter.) Program participants with a LTV of 100 percent at the time of purchase will have built some equity by the end of the term of the voucher assistance, especially with a low-interest mortgage and if the property appreciates in value. However, the modest pace of equity accumulation—assuming that participants do not pay the mortgage ahead of schedule—may not be in line with participants' expectations.

The *Potential LTV* figure is used to indicate the extent to which purchasers benefit from forgivable loans. The word "potential" is used to note that this benefit would only be realized if purchasers do not leave their property within a certain period of time, usually five years. Potential LTV averaged 95.6 percent across all transactions, compared to 98.8 percent for Purchase LTV. However, seven sites do not have forgivable loans available to purchasers, so Purchase and Potential LTV are equal in these cases. In four of the five sites with forgivable loans, the average forgivable loan amount is about two to three percent of the purchase price. In fact, even with forgivable loans included, Nashville and Syracuse have Potential LTVs averaging greater than 100 percent. However, in Danville purchasers have the potential to benefit greatly from forgivable loans. In this site, forgivable loans average 18 percent of the purchase price, potentially lowering the average LTV from 101.3 percent to 83.3 percent.

A third measure of risk is *Purchaser Cash Investment*, the amount of participants' own savings used to purchase the house, including personal funds used for down payment and closing costs. One reason to examine Purchaser Cash Investment is that purchasers may be more motivated to make their

[15] San Bernardino and Toledo had Purchase LTVs of 91 percent and 84 percent, respectively, but these sites had three or fewer observations.

mortgage payments and protect their investment in the home if they have put a substantial amount of their own earned savings into the purchase. Purchaser cash investment also provides an indication of the amount of savings needed to purchase through the voucher homeownership program. Across our sample of 84 purchase transactions, the average amount of their own cash that purchasers contributed to the purchase is $2,775. Not surprisingly, this figure varies significantly both between and within sites. Bernalillo County and Vermont have high purchaser cash investment averages of $5,545 and $4,927, but these figures are somewhat skewed by a few very high values.[16] Montgomery County has the next highest average purchaser cash investment ($4,157). Three sites have averages between $2,000 and $3,000 and four sites have averages between $1,000 and $2,000. Milwaukee and Danville have average purchaser cash investments of less than $1,000, although the "average" in Milwaukee is based on only one purchase transaction. In sites where there is relatively little down payment and closing cost assistance available, generating enough personal savings to meet the lender's down payment requirement can be a significant hurdle for program participants.

[16] One Bernalillo County purchaser was able to contribute $20,914 towards the purchase with the assistance of gifts from family members. In Vermont, one purchaser was able to contribute $21,374 towards the purchase with the assistance of an IDA matched savings program.

Exhibit 5-8
Measures of LTV and Purchaser Cash Investment

Site Name	N	Purchase LTV		Potential LTV[a]		Purchaser Cash Investment	
		Range	Average	Range	Average	Range	Average
Bernalillo Co.	10	88.0 - 103.7%	97.1%	88.0 - 103.7%	97.1%	$0 - $20,914	$5,545
Colorado	10	95.8 - 104.3%	101.2%	91.7 - 104.3%	98.6%	$509 - $2,178	$1,156
Danville	10	98.6 - 103.9%	101.3%	36.6 - 101.5%	83.3%	$500 - $555	$506
Green Bay	4	94.6 - 104.7%	99.9%	93.9 - 100.4%	96.3%	$500 - $6,700	$2,186
Milwaukee	1	99.7%	99.7%	99.7%	99.7%	$0	$0
Missoula	5	97.4 - 100.8%	99.0%	97.4 - 100.8%	99.0%	$1,000 - $3,207	$1,759
Montgomery Co.	10	93.5 - 100.0%	97.3%	93.5 - 100.0%	97.3%	$1,300 - $11,000	$4,157
Nashville	10	91.9 - 106.5%	102.1%	84.7 - 106.1%	100.0%	$275 - $8,333	$1,798
San Bernardino	3	86.8 - 100.0%	91.4%	86.8 - 100.0%	91.4%	$1,139 - $3,334	$2,501
Syracuse	9	99.3 - 107.8%	100.5%	89.1 - 107.8%	100.8%	$182 - $8,139	$2,639
Toledo	2	66.9 - 100.7%	83.8%	66.9 - 100.7%	83.8%	$1,437 - $2,010	$1,724
Vermont	10	77.4 - 102.5%	94.1%	77.4 - 102.5%	94.1%	$0 - $21,374	$4,927
Total / Weighted Average	**84**		**98.8%**		**95.6%**		**$2,775**

[a] In the Potential LTV calculation, the numerator equals the sum of deferred loans, amortized loans, and forgivable loans with a forgiveness term of more than five years, and the denominator equals the purchase price as a proxy of the value of the property.

PITI Burden and Total Housing Cost Burden

Another element of risk in these purchase transactions is associated with purchasers' ability to make their monthly mortgage payments, as well as to pay for utilities, routine maintenance, and replacements, thereby maintaining livability and protecting the value of the property. The greater the share of income required for housing costs, the more vulnerable borrowers are to being unable to make their payments should their incomes decline or their other financial burdens increase. We now examine the financial burdens of mortgage payments and other housing costs. Exhibit 5-9 summarizes PITI Burden and Total Housing Cost Burden by site. The exhibit also provides purchaser income and purchase price information for reference.

The *PITI Burden*—defined as the ratio of the purchaser's share of the monthly PITI payment (not including the HAP) to the purchaser's gross monthly income—averaged 17.5 percent across all transactions.[17] This average is lower than one might have expected given that limits on PITI burdens are generally in the range of 28 to 33 percent for conventional and FHA loans. However, several of the study sites are using the HAP as income model and, as discussed in Chapter 4, the HAP as income model typically results in lower PITI burdens. In addition, PHAs factor in other housing costs (utilities and maintenance and replacement reserves) in addition to the PITI when calculating the amount of the HAP and evaluating the maximum loan the purchaser can afford.

Although the average PITI burden is low, it varies considerably both across sites and within sites. At one end of the spectrum, three purchasers in our sample have negative PITI burdens. A negative PITI burden means that the HAP is greater than the monthly PITI payment. With a negative PITI burden, the entire PITI is covered by the HAP and there is HAP left over for the participant to use for other homeownership expenses. This situation can arise if the PITI is a relatively small share of the total monthly homeownership expenses and the HAP is relatively high, usually because the purchaser's adjusted income is low or the purchaser has a large family. On the other end of the spectrum, two purchasers have PITI burdens above 40 percent of gross monthly income. Overall, 74 of the 84 borrowers in our sample have PITI burdens at or below 30 percent of gross monthly income.

Looking at average PITI burdens by site, three sites had averages at or below 11.1 percent: Colorado at 5.6 percent, Missoula at 8.8 percent, and Milwaukee at 11.1 percent. Both Missoula and Colorado have deferred loans and grants available, and Colorado has forgivable loans available, all of which reduce the amount to be borrowed and paid off as part of PITI. Recall that Colorado and Missoula have some of the highest average purchase prices at $90,680 and $105,780. This means that Colorado and Missoula program purchasers have been able to buy relatively expensive houses with low average PITI Burdens.

Three sites had average PITI burdens between 14.0 and 15.4 percent. Another four sites had averages ranging from 19.0 to 25.0 percent. Nashville and Toledo had the highest average PITI Burdens at 28.5 and 30.1 percent respectively, with San Bernardino not far behind at 25.0 percent. These burdens result from the methods used to underwrite the first mortgages in these sites, which maximize

[17] For mortgages that required private mortgage insurance (PMI), the PMI payment is included in the PITI payment.

the amount of the first mortgage based on gross monthly income (within set constraints).[18] These average PITI burdens are not correlated directly with either average income or purchase price.

In order to get a more inclusive picture of the financial burden of homeownership for program purchasers, we add other monthly homeownership costs to the PITI payment and look at total housing costs as a proportion of gross monthly income. Adding estimated utility costs, replacement and maintenance allowances, and other allowable housing costs (such as debt incurred to make the unit accessible for a person with disabilities) to the monthly PITI payment yields the most complete measure of total housing costs available. Because we were only able to collect partial information from the study sites on replacement and maintenance allowances, we chose to assign an average combined replacement and maintenance allowance of $75 for all sites and for all purchase transactions.

The *Total Housing Cost Burden*—defined as the ratio of the purchaser's monthly contribution to total housing costs to the purchaser's gross monthly income—averaged 37.4 percent across all transactions. Of the 84 homebuyers examined, 20 have total housing cost burdens below 30 percent of their gross monthly income. By contrast, 11 of the 84 purchasers have total housing cost burdens at or above 50 percent of their gross monthly income. Purchasers with high housing cost burdens may find it difficult to pay for maintenance and replacement needs as they arise. The majority of purchasers sampled (53 out of 84) have total housing cost burdens between 30 and 49 percent of gross monthly income.

In terms of variation in average housing cost burdens across sites, Milwaukee and Missoula had average housing cost burdens below 30 percent of gross monthly income. Six sites had average housing cost burdens between 30 and 40 percent of gross monthly income. Three sites (Nashville, Colorado, and Bernalillo County) had average burdens between 40 and 45 percent of gross monthly income. Toledo had the highest average housing cost burden at 53.9 percent of gross monthly income, based on two purchase transactions.

The analysis on total housing cost burden suggests that although PITI burden is the more typical measure of risk in the mortgage industry, other housing costs—such as utilities and maintenance and replacement costs—can add up to a significant share of the gross monthly income of voucher homeownership program participants. Consistent with the program regulations, most of the study sites appear to have structured their financing models with this total housing cost in mind. For some purchasers, however, the total housing cost burden may nevertheless be unaffordable, particularly if the actual amount that the homeowner has to spend on utilities, maintenance, and repairs exceeds the PHA's estimated allowance amounts.

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[18] Nashville, Toledo, and San Bernardino are using the two-mortgage model in which the first mortgage is based on income and the second mortgage is paid off primarily by the HAP.

Exhibit 5-9
Measures of PITI Burden and Total Housing Cost Burden

Site Name	Financing Model(s)	N	Income		Purchase Price		PITI Burden		Total Housing Cost Burden	
			Range	Average	Range	Average	Range	Average	Range	Average
Bernalillo Co.	Income & Offset	10	$13,338 - $25,092	$15,662	$56,000 - $167,300	$98,022	2.4 - 43.1%	23.7%	31.9 - 63.8%	45.5%
Colorado	Offset	10	$5,796 - $14,280	$8,310	$65,000 - $127,000	$90,680	-5.9 - 21.1%	5.6%	23.9 - 66.1%	42.7%
Danville	Income & Offset	10	$7,371 - $17,923	$11,209	$21,500 - $62,000	$46,532	2.6 - 26.4%	15.4%	22.8 - 53.5%	39.0%
Green Bay	Offset	4	$10,377 - $24,283	$19,818	$42,000 - $105,000	$84,000	17.2 - 24.9%	20.5%	31.0 - 37.2%	35.6%
Milwaukee	Income & Offset	1	$13,773	$13,773	$42,000	$42,000	11.1%	11.1%	25.5% only	25.5%
Missoula	Offset	5	$10,744 - $24,160	$18,087	$94,000 - $128,000	$105,780	-3.5 - 17.4%	8.8%	18.9 - 34.4%	27.4%
Montgomery Co.	Income	10	$15,480 - $33,208	$26,004	$65,000 - $130,000	$89,990	4.1 - 25.6%	15.3%	21.2 - 38.4%	31.5%
Nashville	Two Mortgage	10	$15,392 - $33,803	$23,180	$54,000 - $111,000	$84,590	22.6 - 36.2%	28.5%	35.7 - 52.3%	41.9%
San Bernardino	Two Mortgage	3	$20,800 - $24,777	$22,278	$101,000 - $114,000	$108,333	22.6 - 26.9%	25.0%	31.8 - 36.3%	34.6%
Syracuse	Income	9	$15,017 - $32,984	$21,932	$33,000 - $71,979	$54,870	4.8 - 45.6%	19.0%	20.1 - 61.1%	32.4%
Toledo	Two Mortgage	2	$11,300 - $13,065	$12,183	$43,000 - $70,000	$56,500	29.0 - 31.2%	30.1%	49.7 - 58.1%	53.9%
Vermont	Income	10	$12,098 - $35,148	$19,004	$60,500 - $128,000	$89,555	-8.8 - 31.7%	14.0%	21.7 - 49.8%	32.7%
Total / Weighted Average		**84**		**$17,926**		**$81,338**		**17.5%**		**37.4%**

5.4 Participant Views

During the course of the site visits, we interviewed one to two program participants at each of the study sites. Across the 12 sites, we interviewed a total of 23 individuals who had purchased through the program. The interviews were conducted as discussions rather than structured interviews and covered the following broad topics:

- Why the participant chose to enroll in the program;
- What the participant thought of the pre-purchase homeownership counseling;
- How the participant found the house that he/she purchased;
- Why the participant selected that house and neighborhood;
- How satisfied the participant was with the purchase process;
- How satisfied the participant was with the financing terms and monthly mortgage payment amount; and
- Whether the participant has had any problems or concerns related to the house since purchasing.

Across all of the sites, the participants interviewed were generally satisfied with their houses and neighborhoods, comfortable with their financing terms, and reported that they thought that program staff, counselors, and lenders had their best interests in mind during the purchase process. One participant reported that she was disappointed with the quality of the manufactured home that she had purchased,[19] and other participants, as described below, had concerns about certain parts of the purchase process. However, none of the participants interviewed was dissatisfied with the program overall. Most participants were overjoyed that they had been able to purchase at all and several conveyed a sense of disbelief that they were homeowners, using phrases such as "I *feel like* the place is mine and I can fix it up how I want it." None of the participants interviewed had been in their houses for more than a year. Against this backdrop of general enthusiasm, several common themes emerged from the 23 interviews.

Many participants chose to enroll in the voucher homeownership program because they believed that homeownership offered them greater housing stability and an opportunity to build assets for the future. Several of the participants interviewed had wanted to own their own homes for some time and had periodically attempted to save money toward a down payment. These participants spoke of family stability and asset building in the same breath, suggesting that homeownership was an opportunity for them to improve their immediate family circumstances at the same time as building an asset to leave to their children. Many described the voucher homeownership program as a chance to do better for themselves and their children. As one Bernalillo County purchaser put it,

> *I always wanted my own home but did not think it would ever be possible. This program changed that, and now I live in an area I always wanted to live in. I never thought I would have something to pass on to my daughter. This is one of the biggest benefits of the program for me.*

[19] Program staff at this site now ensure that participants receive counseling about issues of housing quality when considering what to purchase.

For persons with disabilities, the stability aspect of homeownership was particularly important. The participants with disabilities interviewed in Colorado and Bernalillo County described the anxiety that they had felt as renters—never knowing when the landlord may choose not to renew the lease and whether they would be able to find housing that met their needs. This sense of anxiety was particularly acute among purchasers in Denver, where the rental market is very tight. One Colorado participant, who had been in the voucher program for 11 years and had rented multiple apartments in Denver, described her situation as follows:

> *When you are renting, you worry about how long it will last. In my last building, the landlord threw everybody out because he did not want to rent it anymore. I kept getting the feeling that I would have to move every four years. I wanted to get out of the stress of renting and having to search, especially when so many people do not want Section 8. Without this program, if I was still renting, there would be no way I could keep up with the rising rents and I would eventually have to move out of Denver.*

Some participants interviewed were close to being able to purchase prior to enrolling in the voucher homeownership program. Several participants reported that they had been saving for some time either on their own or through an IDA program and were already thinking about trying to purchase when they learned of the voucher homeownership program. Participants in this position sometimes said that they did not think that people should be purchasing without a good income and some savings. The participants interviewed in Syracuse, for example, expressed support for that program's requirement (which is allowed because Syracuse is a pilot site and is still operating under the proposed rule) that voucher homeownership participants have an annual income of at least $15,000.

Other participants interviewed stated categorically that they never would have been able to purchase without the voucher assistance. This was particularly true of persons with disabilities, who (in our sample) tended to have lower incomes and less income from wages. One purchaser described how he had never been able to afford to purchase a house because his disabilities made it difficult for him to work full-time. He said that he would never have tried to purchase without the voucher subsidy.

Participants generally thought the homeownership counseling they had received was helpful, although in some cases overwhelming. All of the participants interviewed reported that they had found the pre-purchase counseling to be very useful, and several prefaced their comments by saying that they began the counseling knowing "nothing" about homeownership. None of the participants made any direct criticisms of the counseling, but many commented that it was a huge amount of information to absorb. As one Milwaukee purchaser put it, "I learned a lot from those classes. Some things I forgot, but one thing stuck: *pay the mortgage on time*." A participant with cognitive disabilities commented that a lot of the material covered in homebuyer education "went over my head." His mother had accompanied him to the counseling, however, and was able to assist him throughout the home purchase process.

When asked if they felt ready to purchase when they completed the counseling, several participants laughed and commented that they *never* felt ready to purchase. However, the interviews suggested that having been through counseling and the purchase process, participants were quite knowledgeable about homeownership. In one counseling session observed during the site visit to Montgomery County, a person who had purchased through the program shared her experience with the group and answered questions about the purchase process. She displayed considerable knowledge about working with a realtor, the inspection process, and issues related to home purchase financing. She said that she had not known any of this before enrolling in the program. Some of the participants interviewed were the first in their programs to purchase and as a result worked closely with lenders and the PHA while the details of the program were still being worked out. Overall, it appears that "learning by doing" is an important component of purchasers' homebuyer education.

The participants interviewed generally said that they were comfortable with their monthly mortgage payments, which in most cases were about the same or slightly more than what they had been paying in rent. All of the participants appeared to understand that their primary obligation was to pay the mortgage, even if it required taking a second job when their income fell short. As one Toledo purchaser put it:

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

Some participants also made the point that the first few years would be the hardest for them, but that eventually the "burden" of the mortgage would diminish as their incomes increased relative to the fixed mortgage payment. One Montgomery County purchaser described her situation as follows:

> *Since buying the house, I have kind of been living paycheck to paycheck. I have a lot less cash for now, and I haven't been able to put aside anything. But it's worth it every day when I come home. And every time I get a raise it will be better.*

When asked if it was harder to be a homeowner than a renter, this participant responded:

> *More expensive, maybe. Harder, no. It just pushes me more to do well in life.*

Most participants reported that they had tried hard to find units in good condition so that they would have minimal repair costs in the foreseeable future. But most participants who bought existing, as opposed to newly built, houses had had something go wrong since they moved in. A number of the interviewees had home warranties that they had used for things such as replacing a screen door or repairing a faulty furnace and reported that they were grateful to have had somewhere to turn when these things went wrong.[20] Participants who bought new or rehabilitated houses from local nonprofits or community development corporations commented that one of the benefits of buying these houses was that many things were under warranty.

Several participants noted that they would like to take care of basic repairs and maintenance themselves but did not feel that they had the skills or knowledge to do so. Although repairs and maintenance are generally covered in the pre-purchase counseling, at most sites these topics are not covered in depth. In addition, these things are much more difficult to teach in a traditional classroom format than other topics such as budgeting and how to select a realtor. Some sites plan to hold post-purchase counseling focused on maintenance, but none of the participants interviewed had yet received any such counseling. One Green Bay purchaser, a Hmong speaker, suggested that she had

[20] In most cases, the seller, either an individual or a nonprofit organization, offered these warranties. In Colorado, the Colorado Housing and Finance Authority (CHFA) paid for home warranties for the first few purchasers through the program.

been hoping that someone would teach her how to make repairs herself because she did not think she could afford to pay someone else to do so. Language barriers presented an additional challenge for this purchaser, who said that she would not know whom to call if there was a problem with the house.

For the most part, program participants were complimentary about the program staff and lenders they worked with, although opinions of realtors were more mixed. Several respondents were surprised at the level of attention that they were given by program staff and lenders and reported that they were confident that these staff and lenders had the participants' best interests in mind. Some participants also said that they had a good experience with their realtor, although others described changing realtors once or twice before finding one whom they trusted and who would show them appropriate houses.

The extent to which participants had a positive experience with either lenders or realtors depended in large part on the agents' familiarity with the voucher program or willingness to learn about it. In one case, for example, the participant thought that the realtor was put off by the requirement to have two inspections (as well as the FHA appraisal) and as a result did not advocate on her behalf with the seller. In another case, the participant was very upset by a lender who had not returned his calls for several weeks, apparently insensitive to the difficulty of finding an affordable house in his market and the need to act quickly when one is found.

Interestingly, in the cases where participants reported having a bad experience with a lender, they had usually found an advocate in a realtor, or vice versa. Few respondents mentioned the counseling agencies as providing much support during the search and purchase process, although in some cases the respondents were unable to distinguish between PHA staff and counseling agency staff. The extent to which participants relied on program staff also varied, although all noted that the staff had been supportive and helpful. In some cases, participants appeared to have developed close relationships with program staff, but most had had little contact with these staff since purchasing. In general, it appears that program participants find an advocate in the home search and purchasing phase and that this person may be the one they feel most comfortable turning to if they have concerns post-purchase.

Some participants reported that being a homeowner had changed several aspects of their lives, including making them feel more involved in their community. In particular, participants who had purchased in areas with homeowners associations had started to attend meetings so that they could have a say in how their dues are being spent. One Colorado purchaser that she was annoyed at the "legalese" that she had to wade through in the covenants of her homeowners association, but reported that she was pleased that she had taken the time to do so because, after a recent increase in the dues, she is now eager to get involved.

Finally, several participants commented on the benefits of homeownership to their family's well being. For one Vermont purchaser, who struggled with drug addiction and mental illness for much of her life but is now in recovery and has guardianship of her granddaughter, being able to buy a house in a quiet, drug-free neighborhood near her granddaughter's school has given her great peace of mind. Another purchaser, in Nashville, reported that her new house is now the place "where the whole family comes together" for holidays and celebrations.

Chapter 6
Lessons Learned

This chapter summarizes the key findings from this study of the early implementation of the voucher homeownership program. The chapter builds both on the lessons that staff at the study sites believe they have learned—presented in the case studies—and on the analysis of cross-site findings presented in Chapters 2 through 5. The main study findings can be grouped under three broad headings: program outcomes; implementation challenges; and program outlook.

6.1 Program Outcomes

In most sites, the voucher homeownership program has been successful in helping voucher-eligible households obtain affordable financing and purchase homes in reasonably good condition and in neighborhoods that are similar or slightly better than those in which they were renting.

In the nearly two years since HUD's publication of the final rule on the voucher homeownership program, PHAs and their partners have implemented the program across the country, in a range of housing markets and serving voucher program participants of different income levels. Through the reconnaissance effort for this study, we learned of 47 PHAs that had implemented voucher homeownership programs as of November 2001, resulting in approximately 135 voucher program participants becoming homeowners. As of September 2002, HUD estimates that approximately 100 PHAs have active voucher homeownership programs and that approximately 500 individuals and families have purchased homes through the program.

Through May 2002, the 12 PHAs participating in this study assisted approximately 140 individuals and families to purchase houses. The purchasers have been mostly female heads of household with children.[1] In addition, more than one third of the purchasers in our sample are persons with disabilities. The annual incomes of purchasers range from approximately $5,800 to $35,000, with the lowest incomes belonging to persons with disabilities.[2] The median income of voucher homeownership purchasers is more than twice that of rental voucher households across the 12 study sites. Approximately 48 percent of purchasers are minorities, and this share may be expected to grow as households currently in the home buying process reach closing.

With the assistance of the voucher subsidy, program participants have been able to purchase homes in a range of housing markets. In the most expensive markets—Colorado, Montgomery County, and Missoula—purchasers have needed higher than average incomes (as in Montgomery County) or the full amount of the HAP as a direct offset to the monthly mortgage (as in Colorado and Missoula). The experience of these sites suggests that the voucher homeownership program can work in

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[1] Purchaser characteristics are based on the sample of 84 purchasers described in Chapter 5.

[2] The study includes PHAs authorized to operate the program under the proposed rule as HUD pilot sites as well as PHAs operating the program under the final rule. The proposed rule did not establish a minimum income requirement for program participation. Under the final rule, which applies to all PHAs with the exception of the HUD pilot sites, households—including households headed by persons with disabilities—must have an annual income of at least $10,300 in order to participate in the program.

relatively expensive housing markets, assuming that purchasers are permitted to use the mortgage offset model.

Additional subsidies—such as below-market interest rates and down payment and closing cost assistance—are almost always necessary to assist households with incomes close to the program minimum to purchase. This is particularly true where there is a wide gap between purchaser incomes and house prices. The case studies detail the types and level of assistance available, which vary considerably by site depending on need, the particular population served (e.g., persons with disabilities), and the relationships that the sites have been able to develop with local lenders and other financing resources.

Participants typically rely on a variety of deferred and forgivable loans and grants to cover the down payment and closing costs and to reduce the amount of the first mortgage. In the 84 purchase transactions sampled for this study, participants on average received $4,784 in subsidy at purchase, including grants, forgivable loans, and seller assistance. In addition, more than half of the purchasers sampled obtained mortgages with low interest rates (below 7 percent), many of which were below-market loan products from state Housing Finance Agencies, Rural Housing Service, or NeighborWorks organizations.

Analysis of a sample of purchase transactions suggests that more than half of program purchasers have LTVs of 100 percent or higher, meaning that they have no equity in the property at the time of purchase. The average loan-to-value ratio (LTV) across all purchasers is 98.8 percent. If they do not take equity out of the property during the term of voucher assistance, most purchasers—even those with an LTV at purchase of 100 percent—should have enough equity at the end of 15 years to refinance. The modest pace of equity accumulation, however, may not meet program participants' expectations.

Homeownership expenses (which include the monthly mortgage payments plus utilities and allowances for maintenance and repairs) represent less than 30 percent of gross monthly household income for 24 percent of the purchasers sampled and between 30 and 49 percent of gross monthly income for 63 percent of the purchasers sampled. For 13 percent of the purchasers sampled, homeownership expenses represented 50 percent or more of gross monthly income. Given the low incomes and minimal savings of most program purchasers, families with relatively high housing cost burdens (i.e., those for whom homeownership expenses represent more than 30 percent of gross monthly income) may find it difficult to pay for maintenance and replacement needs as they arise. This is consistent with the findings from the interviews that few program purchasers have been able to set aside funds either for routine maintenance or for unanticipated expenses.

The purchase prices have averaged from 52 to 82 percent of the median house value (based on the 2000 Census) in their PHA's jurisdiction. Four sites had average purchase prices at or below 60 percent of the local median house value; six sites had average purchase prices between 60 and 80 percent of the local median; and in one site (Missoula), the average purchase price was more than 80 percent of the local median.

Although all of the units purchased were in the lower half of the market in terms of purchase price, most were in reasonably good condition at the time of inspection. More than half of the units purchased failed HQS on the first inspection, but the repairs needed were typically minor and were readily made by the seller prior to closing. No purchase transactions fell through because the unit failed HQS and the seller refused to make the repairs in time. However, several participants opted not to pursue the sale following the HQS inspection. In addition, some participants cancelled their purchase agreements as a result of problems found in the independent inspection.

Program participants tended to purchase in neighborhoods with slightly higher average incomes and greater residential stability than where they had rented through the rental voucher program, based on 1990 and 2000 Census data. Fifteen percent of purchasers bought the units they had been renting through the voucher program. Compared with the pre-purchase (rental) neighborhoods, the post-purchase neighborhoods (for those who moved) had slightly higher homeownership rates, more single-family detached housing (the type of housing purchased by most participants), and lower poverty rates. However, the homeownership rate in the post-purchase neighborhoods tended to be lower and the poverty rates higher than rates for the PHA's overall geographic jurisdiction.

Site visitors rated the two block area around most houses purchased as "good" or "excellent" (some areas were rated "fair") and concluded that the neighborhoods generally had more positive than negative features. Most of the neighborhood housing appeared to be in sound condition, with good or excellent owner upkeep. Graffiti and litter were identified as major problems in only a few neighborhoods. Several of the neighborhoods were identified as in the process of revitalizing, suggesting they may improve over time and have the potential for housing price appreciation. In many cases, the property purchased through the program was identified as one of the higher quality units on the block. All of the participants interviewed for the study expressed satisfaction with their units and neighborhoods, although none had owned them for more than one year.

6.2 Implementation Challenges

The main challenges that PHAs have faced in the early implementation of the program involve gaining the support of the local lending community and preparing program applicants for homeownership. Even with the help of outside partners, PHAs have found that assisting households to purchase through the voucher homeownership program requires a higher level of staff effort than the lease-up process in the rental program.

Partnerships with Local Lenders

The most common types of partnerships developed in the program have been partnerships with housing counseling agencies and lenders. In some cases, the same entity provides both counseling and financing assistance. (This is the case where the PHA has partnered with a NeighborWorks organization funded by the Neighborhood Reinvestment Corporation.) Some sites have also built partnerships with realtors, but these partnerships tend to be less developed because of the concern of steering clients to particular realtors. Most sites have found it relatively easy—at least initially—to develop partnerships for the counseling component of the program. However, creating effective partnerships with lenders has proven much more difficult.

All of the study sites emphasized the importance of creating lender partnerships as early in the program planning process as possible. The sites found that gaining the participation of local lenders was crucial to growing their voucher homeownership programs beyond one or two closings. Sites that struggled to get their programs off the ground (or are still doing so) struggled primarily with getting the financing component of the program in place.

Most of the study sites were surprised by the initial lack of lender support for the voucher homeownership program. Some sites began sending households to homeownership counseling thinking that they had lender partnerships in place, only to find that when the lenders learned the details of the program, they were unwilling to make loans to program participants. This was particularly true for sites that had preexisting relationships with lenders through the Section 5(h) program or other homeownership programs; these sites found that they needed to create new partnerships (even with the same entities) specific to homeownership vouchers.

Lender concerns about the program typically have to do with how the HAP is calculated, how it is applied to the mortgage, whether the HAP is a stable form of income, and what happens when the amount of the HAP changes as the result of changes in participant income. Related concerns include whether loans made to program participants can be sold on the secondary mortgage market and how the loans will be serviced. Finally, there is a perception among lenders—which is true according to most lenders interviewed for this study—that loans to voucher program participants are more time consuming than loans to other low-income first-time homebuyers because of the different underwriting procedures required and the relatively small size of the loans. At the same time, making these loans allows lenders to satisfy their Community Reinvestment Act requirements.

The sites that have been most successful in working through lender concerns are those that got lenders directly involved in the program planning process or otherwise solicited lender input when designing their programs. For the most part, sites using the two-mortgage model (where the first mortgage is based on the participant's income alone) and sites using the HAP as income model have found it easier to gain the participation of private market lenders. However, sites where the cost of housing necessitates the use of the HAP as offset model, such as Green Bay, have also been successful in gaining lender participation.

Several study sites have drawn upon outside partners to help secure the support of local lenders. For example, Colorado, Bernalillo County, Green Bay, and Milwaukee have all worked with the state Housing Finance Agency (HFA) to identify affordable loan products that are well suited for voucher program participants. Because the HFAs work though a network of local lenders for their regular loan programs, they are often able to encourage these lenders to make loans to program participants. Program staff in Colorado believe that the PHA's partnership with the HFA is essential to the success of the program. In addition to providing below-market loans products and down payment assistance for voucher program participants, Colorado HFA staff play a key role in ongoing program monitoring and problem solving.

In addition to state HFAs, some study sites have found working with local Fannie Mae representatives to be useful in developing lender relationships. Some PHAs participating in NR's voucher homeownership demonstration also have found that the NeighborWorks organizations already have established relationships and credibility among first-mortgage lenders. Finally, some sites have noted that gaining the support of city or county officials can open up sources of financing. For example, the Executive Director of the Danville PHA noted that dialogue with staff from the City of Danville's Housing and Development Division led his agency to contact the nonprofit lender that provided mortgage financing for the first few program purchases.

Several sites have succeeded in building relationships with a range of lenders by making the program as simple as possible and being flexible to lenders' needs. The Montgomery County Housing Authority (MCHA), for example, worked closely with a staff person from HUD's Homeownership

Center in Philadelphia to design a program that would satisfy the needs of private lenders. Knowing that lenders are very concerned with understanding the sources of borrower income and the risk of these sources disappearing before the loan is repaid, the MCHA developed a form that tells the lender approximately how much monthly subsidy the borrower can expect to receive from the MCHA, affirms that the subsidy is likely to continue for at least three years, and explains the MCHA's right to disapprove any financing terms that do not meet its affordability criteria. The MCHA also chose to send the HAP directly to the participant, unless the lender requested otherwise, so that the lender would not have to reconcile two checks (one from the MCHA and one from the participant) each month.

Gaining lender support is a crucial first step for any voucher homeownership program, but program staff also emphasized the need for effective ongoing communication between PHAs and lenders. For example, some lenders have been frustrated at getting referrals of voucher households who are not close to being able to purchase. San Bernardino encountered this problem and revised its program procedures so that the PHA now takes a more active role in screening program applicants for creditworthiness before referring them to homebuyer education or to the lender for pre-qualification.

Preparing Households for Homeownership

Preparing households for homeownership is one of the biggest challenges to program administration that the sites identified. Most sites have found it effective to provide the homeownership counseling through outside partners. However, the poor credit of many program applicants has strained staff capacity even at sites with effective partnerships in place. Staff at several sites noted that credit issues may slow program growth.

Most sites have found it relatively easy to develop partnerships with local nonprofit organizations that provide housing counseling services. Several PHAs in the study had existing relationships with counseling agencies from previous homeownership initiatives, such as the HOPE 3 program. Unlike lenders, for which PHAs found they could not rely on preexisting relationships, the counseling partners usually were able to transition easily from one program to the next.

One challenge that all PHAs face in partnering with counseling agencies is how to allocate program responsibilities and share "control" over the program. This is particularly difficult for PHAs that do not have preexisting relationships with counseling agencies and, therefore, are not familiar with the agency's staff or with the quality of their work. However, a number of PHAs in the study emphasized the benefits of relinquishing some responsibility to the partner agencies, so that each partner can take advantage of the other's area of expertise. As one PHA Executive Director put it, "A lot of housing authorities think they have to do all of the work in-house. I think you have to be willing to give up some control. Letting go and having partners play key roles in certain programmatic functions has been a good thing for us."

Getting potential partner agencies involved during the program planning phase helped some PHAs in the study build relationships prior to program implementation. For example, in Colorado, a coalition of counseling agencies, lenders, realtors, and housing providers serving persons with disabilities worked together to plan the voucher homeownership program. Several study sites emphasized the importance of cementing partnerships with counseling providers during the planning phase, so that the relationships are not overwhelmed by the wave of interest that typically follows the program's announcement. In Toledo, the relationship between the PHA and the NeighborWorks organization was strengthened by a trip that key staff from both organizations made to Nashville during the planning phase to learn about Nashville's program.

The two state agencies in the study faced the additional difficulty of providing counseling to a geographically dispersed pool of program participants. In Colorado, the PHA works through a network of 31 counseling providers to achieve statewide coverage. With this many partners, ensuring that all program participants receive the same quality of counseling is a challenge. PHA staff rely primarily on the state HFA's certification process (and periodic audits) for quality control. Another challenge is making sure that counselors have a basic idea of how the voucher program works and understand that homeownership voucher candidates may face different constraints than the other first-time homebuyers with whom the counselors work. The Vermont state agency noted that this can be especially difficult if there is a high level of staff turnover at the counseling agencies.

In addition to building partnerships that effectively distribute program responsibilities, PHAs face the challenge of funding the counseling services provided to voucher homeownership candidates. In most cases the PHA does not pay for these services. Instead, the costs of counseling are typically funded through NR funds, other grants to the counseling agencies, HFA funds, and fees paid by lenders at closing. (PHAs may not require program participants to pay for homeownership counseling.) Most counseling agencies, however, have only limited resources to devote to voucher homeownership participants. As a result, PHAs and their partners need to make a number of decisions related to program efficiency. In particular, the relationship between how many people begin counseling, how many complete the counseling requirements, and how many go on to purchase can be important for counseling agencies that receive lender fees. [3]

Among the study sites where the counseling capacity is limited, PHAs have taken several approaches to maximizing available resources. Several PHAs initially thought that targeting households participating in the FSS program would be most efficient, but they found that FSS participants were not necessarily any more prepared for homeownership than other households in the voucher program. Some PHAs have opted to refer to homeownership counseling only households that meet certain criteria, such as being pre-approved for a mortgage or having a sound credit history. The benefit of this approach is that it avoids overwhelming the counseling agencies with candidates who are not likely to be able to purchase. In addition, if the households who are not ready for counseling are referred to credit counseling first, they are more likely to receive homebuyer education at the point at which it is most relevant for them—when they are close to being ready to purchase.

This approach may work well if the counseling agency has the capacity to offer longer-term credit counseling or credit repair in-house—therefore making it less likely that households will give up on homeownership or attempt to get a loan from a predatory lender (before learning about the perils of predatory lending). Counseling agencies that offer different counseling "tracks," such as many of the NR-funded agencies, may be best suited for this approach.

At the same time, there are several drawbacks to restricting the number of households referred to homeownership counseling. First, households who may be able to purchase through the program

[3] Thus far, few PHAs have come up against serious resource constraints among the partner agencies. Many counseling agencies have been willing to offer counseling free of charge to PHAs during the early implementation of the program. However, several agencies noted that they may need to find alternative sources of funding (or begin charging the PHA) as the program grows.

within a year or so may get discouraged from pursuing homeownership or may attempt to do it without the voucher subsidy using unaffordable financing arrangements (for example, loans obtained through a predatory lender). Second, screening program applicants for their purchase-readiness requires staff resources—from the PHA, counseling agency, or a lender partner. PHAs that have opted to do this screening have found that there is a learning curve associated with interpreting credit reports and employment histories. Finally, some PHAs are reluctant to limit the number of households offered homeownership counseling because the counseling builds budgeting and credit management skills that benefit a broader population than those who will be able to purchase in the near term.

The need to think about issues of program efficiency—how to give the highest number of income-eligible households the opportunity to purchase houses with a limited set of staff resources—is likely to become more pressing as the number of closings grows and the pool of "purchase-ready" applicants diminishes. Already, several sites have noted that they are concerned about being able to serve households requiring more intensive and/or longer-term credit repair. As one PHA Executive Director put it, "We spend a lot of time counseling the participants, but perhaps we could do more. We would like additional resources to work intensively for a full year with people to move them into homeownership, but we don't have the resources to do that now." Another Executive Director anticipated that at some point his agency would "hit a plateau in the number of families who are able to purchase homes through the program. We won't be able to make the impact we'd like to without additional resources."

A recent analysis of the potential depth of the market for the voucher homeownership program conducted for the Neighborhood Reinvestment Corporation suggests that most PHAs have a significant number of households that meet the minimum income and employment requirements for the program and a large number of households at higher income levels as well.[4] However, the MTCS data on which the analysis is based do not allow for an assessment of the credit worthiness of this potential applicant pool. The experience of the sites in this study suggests that credit issues may slow the pace of closings for some local programs, particularly when the resources for offering additional counseling services (beyond the required homebuyer education) are limited.

Staff Resources Needed for Program Administration

Related to the challenges of gaining lender support for the program and preparing program applicants for homeownership is the broader issue of staff resources that PHAs have devoted to administering the voucher homeownership program. There is consensus across the study sites that the voucher homeownership program is labor intensive both in the planning stage and in ongoing operations through the home purchase. In particular, the amount of individual assistance required during the home purchase process has generally exceeded the PHAs' initial expectations. The sites with the most closings did not report that the level of staff effort per closing dropped significantly as the number of closings increased. Instead, as one staff person put it, "each transaction is a custom transaction." The study sites did report a significant decrease in the amount of high-level staff time required after the PHA has developed and implemented the program. Once the program is fully operational, PHAs note that line staff take over much of the day-to-day administration of the program. In other words,

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4 Meryl Finkel *et al.*, "Using HUD's MTCS Data to Assess the Depth of Market for the Section 8 Home Ownership Program," unpublished report produced for the Neighborhood Reinvestment Corporation, April 2002.

although the voucher homeownership program is more staff intensive than the rental program, the cost of the staff effort to the PHA is less once the program is fully operational than in its early stages of development. In addition, the likelihood that homeowners are much less likely to move over time, coupled with the fact that the PHAs do not evaluate and approve rent increases for voucher homeownership participants and are not required to conduct annual HQS inspections should, as the program matures, offset the "up-front" costs of getting households into homeownership.

Most PHAs have lessened the burden of administering the program by developing outside partnerships—primarily with counseling agencies and lenders. Nevertheless, even with partnerships in place, PHAs in the study generally commit one half to one full-time staff equivalent to the program—a higher staffing ratio than those in effect for the rental voucher program or the FSS program.

All of the PHA staff (and many of the program partners) interviewed for this study suggested that the staff resources needed to administer the program presented a potential limit on program growth. Program staff suggested that additional funding for staff positions—such as the FSS Coordinator funds that HUD has made available for homeownership efforts—would encourage more PHAs (particularly smaller PHAs with fewer resources) to offer the voucher homeownership option.

While acknowledging the level of effort required to implement and operate the program, several of the study sites noted that they received a great deal of satisfaction from assisting voucher households to purchase homes. The voucher homeownership program has given these PHAs the opportunity to expand and cement their role as a leader in affordable housing in their communities. In addition, some PHAs have found that the program has provided job satisfaction for staff. As one PHA Executive Director put it, "Some days can be really frustrating, so on the tough days I remember the people we have helped move into homes. Very often in public housing we don't get to see the improvements in people's lives. With this program, we get to see low-income people gain the benefits of homeownership."

6.3 Program Outlook

At this point in the implementation of the voucher homeownership program, less than two years since the publication of the final rule, most PHAs and their partners have focused on assisting qualified households to purchase houses in good condition and under financing terms that will be affordable over the long-term. The 12 programs that form the basis of this study have been effective in developing the partnerships, financing arrangements, and management strategies necessary to maximize the opportunities presented by their local markets and to minimize the constraints. Given the experiences of these sites, it is reasonable to expect that the program will ultimately be able to assist eligible households to purchase modest housing in a variety of housing markets, with the exception perhaps of the most expensive markets in the country.

The ultimate success of the program, however, will rest on the ability of participants to make their mortgage payments, preserve or enhance their investment, and—should they find homeownership too difficult—make a smooth transition back to renting. Certain key questions that could only be touched upon by this study of early program implementation—such as how the purchases are financed, where participants purchase, and what support participants receive after purchase—will undoubtedly warrant further attention as the program matures.

In particular, the findings of this study suggest that:

- ***Key measures of risk and burden—such as LTV, purchaser cash investment, PITI burden, and total housing cost burden—should be tracked across all purchases made through the program.*** Our analysis of a small sample of purchase transactions suggests that more than half of program participants have LTVs of 100 percent or higher, meaning that they have no equity in the property at the time of purchase. The average LTV across the sample of purchasers is 98.8 percent. In addition, although homeownership expenses represent less than 50 percent of gross monthly income for approximately 87 percent of program purchasers, the very low incomes and savings of most purchasers, together with the findings from the interviews that few buyers have been able to set aside funds either for routine maintenance or unexpected expenses, suggests that affordability may continue to be an issue.

- ***Given the tight budgets under which many purchasers are operating, PHAs, counseling agencies, and lenders should develop more proactive strategies to address potential post-purchase issues—such as loan delinquencies or unaffordable refinancing.*** To date, programs have devoted relatively few resources to post-purchase components of the program, such as post-purchase counseling and loan tracking. This is a complicated issue given that homeownership is seen as the final step toward self-sufficiency for most voucher program participants and that it may be more difficult, or not desirable, for PHAs to place additional demands on households after they purchase. Moreover, it is understandable that PHAs would expect lenders to take primary responsibility for anticipating and preventing loan default. However, it may not be advisable for PHAs or HUD to give full responsibility for this key program component to private lenders, who may not have experience working with this population. In order to make the program successful over the long-term, PHAs and lenders may need to work as closely on post-purchase strategies as they have done to assist participants to purchase.

- ***It would be worth investigating further the characteristics of the neighborhoods in which program participants are purchasing, compared to where they rented, to understand how the program fits in with the broader goal of mobility in tenant-based programs.*** The analysis of neighborhood characteristics presented in this study was limited by the small sample size, as well as the current unavailability of certain key Census data at the neighborhood level.[5] It may be useful to explore further whether program participants across the country are indeed purchasing in neighborhoods similar to those in which they are renting and what the potential is for houses in these neighborhoods to appreciate in value over time. It would also be interesting to know whether program participants who end up purchasing in high poverty neighborhoods deliberately choose to do so or believe that they have no other choice, given what they can afford. Finally, it may be valuable to compare the characteristics of neighborhoods where homeownership participants are purchasing to the characteristics of neighborhoods where participants in the rental voucher program are renting. This kind of analysis would shed light on whether participants in the rental and homeownership programs have access to the same kinds of neighborhoods (in terms of poverty rate, homeownership rate, urban/suburban location, and other key characteristics), or whether one program appears to offer a greater range of neighborhood options than the other.

[5] As explained in Chapter 5, as of July 2002, at the writing of this report, certain key socioeconomic and market data—including data on poverty rates, receipt of public assistance, and house values—were not available from the 2000 Census at the census tract (neighborhood) level.

Appendix A
Voucher Homeownership Programs as of November 2001 and September 2002

Exhibit A-1

PHAs with Closings or Anticipating Closings through the Voucher Homeownership Program *as of November 2001*, Ordered by Number of Closings

PHA Name	State	Closings	Closings Expected by February 2001
Metropolitan Development and Housing Agency	Tennessee	26	6
Burlington Housing Authority	Vermont	25	6
Colorado Department of Human Services	Colorado	14	3
Syracuse Housing Authority	New York	8	5
Vermont State Housing Authority[a]	Vermont	8	6
Danville Redevelopment and Housing Authority	Virginia	7	3
DHCR of New York State/CDC of Long Island	New York	6	8
Housing Authority of the City of Waco	Texas	6	5
Missoula Housing Authority	Montana	5	2
Montgomery County Housing Authority	Pennsylvania	5	3
Housing Authority of Jefferson County	Kentucky	5	2
Bernalillo County Housing Authority	New Mexico	4	8
Hickory Housing Authority	North Carolina	3	3
Housing Authority of the County of San Bernardino	California	3	2
Housing Authority of Somerset	Kentucky	2	2
Brown County Housing Authority	Wisconsin	2	2
Austin Housing and Redevelopment Authority	Minnesota	2	0
Rockford Housing Authority	Illinois	1	5
Housing Authority of the City of Milwaukee	Wisconsin	1	4
Lafayette Housing Authority	Louisiana	1	3
Mississippi Regional Housing Authority No. VI	Mississippi	1	3
Coventry Housing Authority	Rhode Island	1	2
Fort Wayne Housing Authority	Indiana	1	2
Galveston Housing Authority	Texas	1	2
Woburn Housing Authority	Massachusetts	1	1
Housing Authority of the County of Beaver	Pennsylvania	1	0
Perth Amboy Housing Authority	New Jersey	1	0
Wadena Housing and Redevelopment Authority	Minnesota	1	0
Housing Authority of the City of Vallejo	California	1	0
Housing Authority of New Orleans	Louisiana	0	12
New Hampshire Housing Finance Authority	New Hampshire	0	5
Pueblo Housing Authority	Colorado	0	5
Dubuque Housing Authority	Iowa	0	3
Hocking Metropolitan Housing Authority	Ohio	0	3
Orlando Housing Authority	Florida	0	3
Lehigh County Housing Authority	Pennsylvania	0	2
Sacramento Housing and Redevelopment Authority	California	0	2
Butler Metropolitan Housing Authority	Ohio	0	2
Rochester Housing Authority	New York	0	2

Exhibit A-1

PHAs with Closings or Anticipating Closings through the Voucher Homeownership Program *as of November 2001*, Ordered by Number of Closings

PHA Name	State	Closings	Closings Expected by February 2001
Ann Arbor Housing Commission	Michigan	0	1
Hugo Housing Authority	Oklahoma	0	1
Michigan City Housing Authority	Indiana	0	1
Minneapolis Public Housing Authority	Minnesota	0	1
Municipal Housing Authority of City of Yonkers	New York	0	1
Queen Anne's County Housing Authority	Maryland	0	1
Saint Mary's County Housing Authority	Maryland	0	1
South East MN Multicounty Housing and Redevelopment Authority	Minnesota	0	1

Source: Based on reconnaissance conducted by Abt Associates in October and November 2001.

Exhibit A-2

PHAs with Closings through the Voucher Homeownership Program *as of September 2002*, Ordered by Number of Closings

PHA Name	State	Closings
Metropolitan Development and Housing Agency	Tennessee	42
Burlington Housing Authority	Vermont	38
Bernalillo County Housing Authority	New Mexico	37
Lakewood RAP	New Jersey	32
Colorado Department of Human Services	Colorado	24
Vermont State Housing Authority	Vermont	20
Danville Redevelopment and Housing Authority	Virginia	19
Housing Authority of the City of Waco	Texas	17
DHCR of New York State/CDC of Long Island	New York	14
Brown County Housing Authority/Green Bay Housing Authority	Wisconsin	14
Milwaukee Housing Authority	Wisconsin	13
Montgomery County Housing Authority	Pennsylvania	12
Syracuse Housing Authority	New York	12
Orlando Housing Authority	Florida	11
Philadelphia Housing Authority	Pennsylvania	11
Housing Authority of the City of Shamokin	Pennsylvania	10
Tallahassee Housing Authority	Florida	9
Portage Metropolitan Housing Authority	Ohio	8
Housing Authority of Jefferson County	Kentucky	8
Lorain Metropolitan Housing Authority	Ohio	7
Housing Authority of New Orleans	Louisiana	7
Lafayette Housing Authority	Indiana	7
Hickory Housing Authority	North Carolina	6
Minneapolis Public Housing Authority	Minnesota	6
Wichita Housing Authority	Kansas	6
Missoula Housing Authority	Montana	5
Tennessee Housing Development Agency	Tennessee	5
DuPage County Housing Authority	Illinois	4
Fort Wayne Housing Authority	Indiana	4
Hocking Metropolitan Housing Authority	Ohio	3
Housing Authority of the County of San Bernardino	California	3
Lucas Metropolitan Housing Authority	Ohio	3
Housing Authority of the City of Pueblo	Colorado	3
Rochester Housing Authority	New York	3
Lincoln County Housing Authority	Missouri	3
Austin Housing and Redevelopment Authority	Minnesota	3
Island County Housing Authority	Washington	3
Mississippi Regional Housing Authority No. VI	Mississippi	3
Amherst Town Housing Authority	New York	2
Dayton Metropolitan Housing Authority	Ohio	2
Housing Authority of the City of Austin	Texas	2
Wadena Housing and Redevelopment Authority	Minnesota	2
Housing Authority of Somerset	Kentucky	2
Albany Housing Authority	New York	2
Woburn Housing Authority	Massachusetts	2
South East MN Multicounty Housing and Redevelopment Authority	Minnesota	2
Plymouth Housing Authority	Massachusetts	2
Schenectady Housing Authority	New York	2

Exhibit A-2

PHAs with Closings through the Voucher Homeownership Program *as of September 2002*, Ordered by Number of Closings

PHA Name	State	Closings
City of Dubuque Housing Services Department	Iowa	2
Oak Ridge Housing Authority	Tennessee	2
Lehigh County Housing Authority	Pennsylvania	2
Lancaster County Housing Authority	Pennsylvania	1
Williamsport Housing Authority	Pennsylvania	1
Pierce County Housing Authority	Washington	1
Everett/Snohomish County Housing Authority	Washington	1
Birmingham Housing Authority	Alabama	1
Columbus Housing Authority	Ohio	1
Meigs Metropolitan Housing Authority	Ohio	1
City of Marietta Housing Agency	Ohio	1
Stark Metropolitan Housing Authority	Ohio	1
Lake Metropolitan Housing Authority	Ohio	1
Fulton County Housing Authority	Georgia	1
Michigan City Housing Authority	Indiana	1
Monmouth County Housing Authority	New Jersey	1
Housing Authority of the County of Clark	Nevada	1
Hugo Housing Authority	Oklahoma	1
Oklahoma Housing Finance Agency	Oklahoma	1
Housing Authority of Anthony	Texas	1
Galveston Housing Authority	Texas	1
Charlottesville Housing Redevelopment Authority	Virginia	1
Chippewa County Housing Authority	Wisconsin	1
East Greenwich Housing Authority	Rhode Island	1
Coventry Housing Authority	Rhode Island	1
Narragansett Housing Authority	Rhode Island	1
Housing Authority of the County of Beaver	Pennsylvania	1
Perth Amboy Housing Authority	New Jersey	1
Lafayette Housing Authority	Louisiana	1
Housing Authority of the City of Vallejo	California	1
Bowling Green Community Development Agency	Kentucky	1
City of Buffalo Housing Authority	New York	1
Town of Islip Housing Authority	New York	1
Ann Arbor Housing Commission	Michigan	1
Northeast Nebraska Joint Housing Authority	Nebraska	1
Bloomington Housing Authority	Indiana	1
Goshen Housing Authority	Indiana	1
Crossville Housing Authority	Tennessee	1
Chicago Housing Authority	Illinois	1
Rockford Housing Authority	Illinois	1
Lynn Housing Authority	Massachusetts	1

Source: Data provided by HUD's Office of Public and Indian Housing.

Appendix B
Comparison Between Rental Assistance and Homeownership Assistance under the Housing Choice Voucher Program

Exhibit B-1

Comparison Between Rental Assistance and Homeownership Assistance under the Housing Choice Voucher Program

	Rental Assistance	Homeownership Assistance
Optional for PHA with Tenant-Based Program	No	Yes
Program Funding	Funding provided to support a variety of tenant-based housing types	No special funding
Applicant Selection	Voucher waiting list, using PHA's selection criteria	Voucher waiting list, using PHA's selection criteria, or current rental assistance participants
Eligibility	Income, other PHA screening criteria	Income, other PHA screening criteria plus: • Mandatory HUD requirements • Optional PHA requirements
Housing Types	One-family rental units, co-op, and (leased) condo units, including leased or owned manufactured housing on landlord's property or leased pad	One-family sales, co-op, and condo units, including manufactured housing on owned property
Initial Payment Standard	90-110% of FMR, or higher with HUD approval	Same as rental payment standard
Subsidy Calculation	HAP = lower of (a) payment standard minus TTP or (b) gross rent minus TTP	HAP = lower of (a) payment standard minus TTP or (b) monthly homeownership expenses minus TTP
Participant Training	Applicant briefing	Housing counseling
Voucher Issuance	Yes	No
Housing Search	Family responsible for finding suitable unit	Family responsible for finding suitable unit and for securing financing
Portability	To any jurisdiction with tenant-based rental assistance program	To any jurisdiction with tenant-based homeownership program that is accepting new applicants
Time Limits on Housing Search	At least 60 days, or longer at PHA discretion	Time limits on finding and purchasing units set by PHA
Participant Notice to PHA	Request for Approval of Tenancy	Proposed Contract of Sale
Physical Inspection	HQS Inspection	HQS inspection plus professional independent housing inspection
PHA Review of Cost	Review of rent reasonableness required	Review of rate and terms of financing usually required
40% Affordability Cap	Applicable	Not applicable

Exhibit B-1

Comparison Between Rental Assistance and Homeownership Assistance under the Housing Choice Voucher Program

	Rental Assistance	Homeownership Assistance
Restrictions on Owners	Family may not lease from owners who are suspended, debarred, or LDP by HUD; PHA may have additional criteria for disapproval of owners	Family may not purchase from seller who is suspended, debarred, or LDP by HUD; no additional criteria
Failure to Find Housing – Current Participant	Rental assistance continues in current unit	Rental assistance continues in current unit
Failure to Find Housing – New Admission	Applicant re-applies when waiting list is open	Applicant re-applies when waiting list is open. PHA policy may also permit offer of rental voucher or return to top of waiting list
Up-front Costs	No program funds or provisions for security deposit	No program funds or provisions for down payment and closing costs
HAP Contract	Between owner and PHA	No HAP Contract – Family signs Statement of Family Obligations
Effective Date of Assistance	HAP begins on date unit is approved or date family occupies unit, whichever is later	HAP begins when family's first mortgage payment is due and family has taken possession of the unit
Monthly HAP Payments	To owner	To family or to lender
Annual Reexamination of Family Income	Yes	Yes
Reduction in Payment Standard	In the first 24 months of the HAP contract, use the higher of (a) the initial payment standard minus the difference between the initial rent to owner and the current rent to owner, or (b) the payment standard at the most recent reexamination. After the first 24 months of the HAP, use the payment standard at the most recent reexamination	Use higher of current payment standard or payment standard at commencement of homeownership assistance
Annual HQS Inspection	Required	Not required by HUD, but PHA may require
Time Limits on Assistance	None	10-15 years, depending on mortgage term – term limit does not apply to elderly or disabled families
Compliance with Family Obligations	Required as condition for continued assistance	Required as condition for continued assistance; PHA may establish additional post-purchase requirements for families

Source: *Adapted from table prepared by Abt Associates Inc. for HUD's forthcoming "Homeownership Vouchers: A How-to Guide for Program Start Up."*