Study of Homebuyer Activity through the HOME Investment Partnerships Program

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PREFACE

The Department of Housing and Urban Development is committed to making the dream of homeownership a reality for a growing number of hard-working, low- and-moderate income families. Homeownership enables families to put down roots, build wealth and have a stake in their communities.

One of the most flexible forms of federal funding for homeownership housing is the HOME Investment Partnerships program. HOME enables local governments to design homebuyer programs that best meet local needs and market conditions.

Since 1990, when the HOME program was enacted, HOME has helped over one-quarter million families buy a home of their own. HOME funds have been used for downpayment, closing cost, acquisition, development, rehabilitation, interest subsidy, loan guarantee and lease/purchase assistance. While HUD has been able to track the broad uses of HOME funds for homeownership, only limited information has been available about local homeownership strategies.

This study was designed to examine the choices local governments are making and how these choices are promoting long-term affordable homeownership. The final report is a comprehensive description of this research and its findings. The findings indicate that HOME is having a substantial and positive impact on homebuyer opportunities for low- and-moderate income households. HOME homebuyer activities benefit a higher percentage of minority families, than any other type of HOME activity (rental housing, homeowner rehabilitation and tenant-based rental assistance). New buyers tend to move into neighborhoods with higher home values, higher median incomes and higher homeownership rates than their previous neighborhoods. The majority of localities are also using their homebuyer programs to further their neighborhood revitalization goals.

HUD is pleased to make this report available. The findings offer valuable insights for all policy-makers and local jurisdictions that are working to help families achieve their dream.

Soon HUD will launch a new homeownership program – the American Dream Downpayment Initiative (ADDI) – to provide a dedicated stream of funding for homebuyer assistance. ADDI will work in tandem with HUD’s HOME program to provide even more low- and-moderate income families the dignity, stability and economic empowerment of homeownership.

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Executive Summary

Homeownership is in many respects the cornerstone of the American dream, providing families with greater security of tenure and control over the quality of their housing than is generally true of rental housing. Perhaps most importantly, homeownership provides individuals with significant financial advantages, including protection against inflation in housing costs, tax savings, and a source of long-term wealth accumulation. In addition, homeownership arguably provides important societal benefits, including greater incentives for maintaining and improving properties and for civic engagement.

The U.S. Department of Housing and Urban Development (HUD) has identified increasing homeownership opportunities, particularly among low income and minority households, as one of six strategic goals for fiscal year 2004 and as a long-term strategic goal. The Home Investment Partnerships Program (HOME) is one of the key funding sources supporting HUD's homeownership goals.

This report focuses on the use of the HOME program to support homeownership. The primary objective of the study was to gather detailed information about how HOME funds are being used to help low-income households become homeowners. The research was funded by HUD's Office of Policy Development and Research and was conducted over a two-year period starting in October 2001. This draft report presents the findings of the research.

HOME Program Background

Created under Title II of the National Affordable Housing Act of 1990, the HOME program is designed to provide affordable housing to low-income households, expand the capacity of nonprofit housing providers, and strengthen the ability of state and local governments to develop and implement affordable housing strategies tailored to local needs and priorities.

HOME funds are allocated by formula to participating jurisdictions (PJs): 40 percent to states and 60 percent distributed among cities, urban counties, and consortia. States are automatically eligible for HOME allocations, while city and county governments must meet a minimum threshold according to the formula in order to receive HOME funds directly. Local governments that do not meet the minimum threshold can receive HOME funds by forming consortia with other local governments to reach the threshold or can seek funds through their state's HOME program. Each PJ must reserve a minimum of 15 percent of its annual allocation for activities undertaken by qualified Community Housing Development Organizations (CHDOs), a type of nonprofit housing provider.

At their discretion, PJs may use HOME funds for four types of affordable housing activities. The focus of this study is on the use of HOME for the acquisition, renovation, or construction of ***for-sale housing to individual homebuyers***, referred to in this report as "homebuyer programs." HOME funds may also be used for the acquisition, construction, and rehabilitation of rental housing ("rental development"), for tenant-based rental assistance ("TBRA"), and for rehabilitation of owner-occupied properties ("owner-occupied rehab").

The HOME program gives PJs significant flexibility to design homebuyer programs to meet the needs of their communities. PJs may design homebuyer programs that are targeted to specific neighborhoods with the goal of stabilizing the community, or they may implement programs that are geared towards helping targeted buyers achieve homeownership regardless of neighborhood location. One of the main requirements of the HOME program is that assisted homebuyers have incomes *at or below 80 percent of the area median income (AMI)*. Beyond that, PJs are free to decide whether to open their program to all eligible households or to target specific areas, income groups, or first-time homebuyers. PJs also have discretion in choosing the type of housing that can be purchased and the form of ownership.

In addition to income eligibility requirements, three property requirements apply to homebuyer activities using HOME funding: *the price/value limit, the property standards requirement, and the lead-based paint requirement*. Under the price/value requirement, the price of a homebuyer unit (or appraised value after rehabilitation in the case of rehabilitation) is limited to the loan limits set under HUD's 203(b) program, or in some cases, the PJ's own estimate of 95 percent of the area median home price. The property standards requirement holds that each property developed or acquired with HOME assistance is subject to the HOME property standards as well as applicable state and local codes. The HOME lead-based paint requirement requires an assessment and, if necessary, treatment to remove defective paint.

Another key requirement for HOME homebuyer programs is that *assisted units remain affordable for a minimum of 5 to 15 years*, depending on the level of HOME subsidy provided. Units receiving less than $15,000 in subsidy have a five-year period of affordability, while those with $15,000 to $40,000 in subsidy must remain affordable for 10 years, and those with more than $40,000 must remain affordable for at least 15 years. To the extent that the original purchaser continues to occupy the property as a principal residence, the program's minimum affordability requirement is met. However, if the property is transferred during the affordability period, the property must be resold to another income-eligible household or the PJ must recapture some or all of the HOME subsidy.

PJs can use HOME to fund a wide range of homebuyer activities, including: acquisition, rehabilitation, or construction of housing for homeownership, funding for down payment or closing costs, counseling services for homebuyers who receive HOME assistance, contributions to individual development accounts, loan guarantees, and subsidized mortgage interest rates. The subsidy can be structured in a variety of ways, including low-interest, zero-interest, or deferred-payment loans, grants, equity investments, or mortgage buy-downs. The flexibility of the HOME program to tailor the form of subsidy to address the homeownership constraints of low-income families in the specific market circumstances of each PJ is one of the program's great strengths.

Study Objectives and Design

While HUD is able to track the broad uses of HOME funds by PJs, little information has thus far been available on how homebuyer programs are designed or why PJs choose to use their HOME funds for certain purposes. One of the main objectives of this research was to gather information from PJs on the structure of their homebuyer programs and reasons they have decided to use their HOME funds as they have.

An implication of the great variety of program structures that are possible under the HOME program is that the program may serve as a "natural experiment" that can help reveal the most cost-effective ways to promote homeownership in different market circumstances. Another important goal of the study, therefore, was to gather information on program outcomes and relate these outcomes to program designs to see if there are lessons for PJs about which methods of aiding homebuyers seem to be most effective.

The study objectives were as follows:

- Document changes in the use of HOME funds for eligible activities over time;
- Describe homebuyer activities funded by the program, including the financing, subsidy, pricing, counseling, and other strategies used by PJs to make homeownership possible;
- Describe the reasons PJs elect to support different eligible activities with HOME funds, to choose different strategies to support homeownership, and to change their use of HOME funds and homeownership strategies over time;
- Explore the relationship between homeownership subsidy type and amount and the type, location, cost, and affordability of housing purchased;
- Examine the extent to which specific types and amounts of subsidy are associated with being better able to keep the buyer out of default and in the home; and
- Examine the relationship between the presence and type of housing counseling and both housing outcomes and the incidence of buyer default/transfer.

This study draws on four main data sources. We began by collecting and analyzing administrative data from ***HUD's Integrated Disbursement and Information System (IDIS)*** on the uses of HOME funds for different eligible activities and how this has changed since program inception. In the fall of 2002, we then conducted a ***mail survey of all PJs*** to gather detailed information on the approaches used by PJs to promote homeownership through the HOME program and the structure of HOME-funded homeownership programs. The survey was designed to provide a comprehensive portrait of how the HOME program is being used for homebuyer activities throughout the country. Of 601 PJs contacted, 551 (92 percent) ultimately responded to the survey, with no bias evident in terms of the types of PJs that failed to respond. As a result, the mail survey data provide comprehensive information on the use of HOME for homebuyer activities as of 2002.

After completing the mail survey, we conducted ***semi-structured interviews with 60 PJs*** to explore their choices for what activities to fund with HOME dollars, how their homebuyer program has changed over time, and the reasons for these changes. The semi-structured interviews also identified whether any HOME rules or requirements have discouraged or limited PJs' choices in using HOME funds for homebuyer activities. Of the 60 interviews, 40 were conducted on-site to provide an opportunity to gather detailed buyer-level information for a sample of homebuyers, while 20 were conducted by telephone. The 20 telephone interviews included 10 with PJs that do not use HOME for homebuyer activities.

At the time of the semi-structured interviews conducted on site, we also obtained ***detailed information on a sample of homebuyers*** assisted through the HOME program. These buyer-level data were gathered to provide further information on the use of other funding sources with HOME, the affordability levels achieved through the program, and program outcomes—including the incidence of foreclosure and sale and the residential location choices of homebuyers. Data on a total of more than 1,200 buyers were successfully obtained from 37 of the 40 sites visited.

Together, these data supported detailed investigation of five key topics, which correspond to the main chapters of the report:

- Trends in the use of HOME funds across the four eligible activities;
- Use of HOME for homebuyer programs;
- Financial characteristics of homebuyer programs;
- Targeting, counseling, and program partnerships in homebuyer programs; and
- Geographic mobility and foreclosure experience of HOME-assisted homebuyers.

The remainder of this document summarizes the main findings on each of these topics and presents some overall conclusions to be drawn from the study.

Study Findings

Trends in the Use of HOME Funds across the Four Eligible Activities

We began the study by using HUD's IDIS data system to explore national trends in the funding of eligible HOME activities (homebuyer programs, rehabilitation of owner-occupied units, rental housing development, and tenant-based rental assistance) and the characteristics of HOME-assisted households. We also used the in-depth interviews to discuss the factors influencing the allocation of HOME funds over time and across activities. The main findings of these analyses are as follows:

- Since 1992, HOME has assisted more than a quarter of a million low-income households to purchase homes. A total of $3.1 billion in HOME funds have been committed for approximately 270,000 homebuyer units.

- Although rental development continues to claim the largest share of HOME commitments, the share of HOME funds committed to homebuyer programs has increased over time, from 7 percent in 1992 to 31 percent in 2002. The share of HOME-assisted units that are homebuyer units has also increased, from 3 percent in 1992 to 39 percent in 2002.

- There was a clear "ramp up" period for the HOME program between 1992 and 1994, in which PJs experimented with a range of activities and were more likely to fund owner-occupied rehab and TBRA. As of 2002, however, PJs were more likely to fund homebuyer programs than any other allowable activity, with fully 85 percent of PJs committing at least some of their HOME funds to homebuyer activities.

- The increase in funding for homebuyer programs primarily reflects an increase in the number of units assisted. The per-unit cost of homebuyer programs is lower than either owner-occupied rehab or rental development, although higher than TBRA.

- Homebuyer programs serve a larger share of households at the higher end of the eligible income range (households earning 60 to 80 percent of AMI) than the other activity types.

- Fifty-five percent of HOME-assisted homebuyers are minorities. Homebuyer programs serve the highest percentage of minority households of the four activity types.

- Underlying the steady growth in the share of HOME funds committed to homebuyer programs nationwide are much more erratic patterns at the PJ level. The key factors influencing PJs allocation of HOME funds to homebuyer programs include local housing needs, the availability of other funding for homebuyer activities, HOME program regulations, the influence of local elected officials, and the interests and capacity of CHDOs and other program partners.

Use of HOME for Homebuyer Programs

After investigating trends in the use of HOME funds across all four eligible activities, we focused on the use of HOME for homebuyer programs, the types of homebuyer programs funded through HOME and the reasons PJs fund particular program types. We found the following:

- PJs use HOME to fund a wide variety of homebuyer programs in response to local market conditions and needs. We grouped these programs into three main types:

  – ***Direct assistance programs*** provide financial assistance directly to the homebuyer in order to make the purchase affordable. Direct assistance can take the form of a loan or grant for down payment, closing costs, or both; contributions to an individual development account; or mortgage assistance, such as a subsidized first or second mortgage, interest subsidy, or loan guarantee. The same homebuyer may receive more than one of these forms of assistance. In pure direct assistance programs, the HOME subsidy is attached to the homebuyer, not the unit being purchased. However, some direct assistance programs tie the assistance to the purchase of a unit that has received development subsidies. These are the *joint direct and development assistance* programs described below.

  – ***Development assistance programs*** subsidize the costs of developing homebuyer units. Development may include site or unit acquisition, unit rehabilitation, or new construction. HOME funds are typically used to acquire homebuyer units for resale to low-income buyers, to acquire units and rehabilitate them prior to resale, or to build new homebuyer units. The "development subsidy" allows the PJ or developer partner to offer the unit at a lower purchase price, thus increasing its affordability for HOME-eligible buyers.

  – ***Joint direct and development assistance programs*** are a variant on development programs in that HOME funds are used to subsidize the development of a unit and provide direct assistance to the buyer *of that particular unit*. For example, HOME funds may be provided to the developer to finance a rehab or new construction project. At the completion of the project, all or part of the subsidy is transferred to the buyer to assist with the purchase of the home, usually in the form of a deferred or forgivable loan. In other cases, the direct and development assistance may be provided separately, but tied to a particular unit. For example, a PJ may use HOME to subsidize the acquisition and rehabilitation of a unit through a grant to the developer and may also provide direct assistance to the buyer at the time of purchase.

- PJs that use HOME funds for homebuyer programs typically fund more than one program. Many PJs offer multiple programs in order to support both direct and development assistance. Overall, 94 percent of PJs use HOME to provide some kind of direct assistance and 73 percent of PJs use HOME for homebuyer development. More than two-thirds of PJs either combine these funds through joint direct and development assistance programs or offer a combination of program types.

- The most common reason cited by the PJ staff interviewed for why they chose to use HOME for direct assistance was that direct assistance offered the most cost-effective way to assist low-income households in their jurisdiction to purchase. For PJs operating in higher cost markets, the ability to combine HOME funds with other sources of direct assistance was a key factor in the decision to offer this type of program. Other PJs had direct assistance programs that predated the HOME program and were a "natural fit" when HOME funding became available. Among the six PJs interviewed that did not use HOME for direct assistance, five funded direct assistance programs through other sources, including state HOME funds, CDBG, and state HFA funds.

- The most common reason cited for using HOME for homebuyer development is to advance neighborhood revitalization goals. In addition, the strength and interests of local development partners is a key factor in PJ decisions to fund development assistance for homebuyer units. Finally, in some markets, in which the local housing stock is of poor quality or prohibitively expensive, development is considered the most effective way to increase the homeownership opportunities of low-income households. Among those PJs that do not fund development assistance, the main reasons were the lack of strong developer partners and the perception that development programs are burdensome or risky for the PJ to implement on its own.

Financial Characteristics of Homebuyer Programs

The mail survey, in-depth interviews, and sample of buyer-level data provided information on the financial characteristics of homebuyer programs, including the type and amount of HOME assistance, the use of other financing sources, and the affordability of HOME-assisted loans. The main findings of this analysis are as follows:

- More than three-quarters of homebuyer programs provide direct assistance to help buyers purchase the property, either alone (44 percent) or in conjunction with development assistance (35 percent). The majority of these programs provide some form of gap financing for down payment or closing costs or to make up the difference between the amount the buyer can afford and purchase price. HOME is rarely used for other forms of direct assistance such as interest subsidies, first mortgages, loan guarantees, or IDA contributions. A key feature of direct assistance programs is that recipients often do not have to repay the assistance if they occupy the home for the entire affordability period.

- Just over half of homebuyer programs provide some form of development assistance, either alone (21 percent) or in conjunction with direct assistance to homebuyers (35 percent). Among programs that offer some type of development assistance, 58 percent provide development financing to subsidize the development process, 79 percent provide sales price subsidies to close the gap between the sales price and the cost of development, and 41 percent provide both. Development assistance most commonly supports new construction (78 percent), followed by acquisition and rehabilitation of existing housing (53 percent), and acquisition only (20 percent).[1]

- There is a clear tendency for direct assistance programs to offer smaller levels of assistance. The median amount of assistance among programs offering only direct assistance is $8,000, compared to $20,000 for programs offering both direct and development assistance and $25,000 for programs offering only development assistance. There is little difference in the amounts of assistance provided by PJ type.

- A majority of both direct assistance and development programs make use of other subsidies in addition to HOME funding. Key additional sources of subsidy include state funds, local funds, CDBG funds, and an "other" category that includes other federal sources as well as private funding from nonprofit organizations and lenders. Although a large share of homebuyer programs draw upon other sources of funding, the buyer-level data collected from 37 PJs suggest that these other subsidies tend to be used on an occasional basis rather than with every HOME-assisted purchase. For example, only 20 percent of the buyers in our sample benefited from other grants or deferred or forgivable loans. Nevertheless, when these other subsidies are used, they provide an average of 1.5 times the amount of funding provided by HOME alone.

- More than half of the programs surveyed did not set goals for the affordability of the home purchase, but rather deferred to the first mortgage lenders' underwriting guidelines for ratios of housing costs and total monthly debt to income. Based on our sample of buyer-level data, the average homebuyer has reasonable affordability levels, with an average housing cost to income ratio of 28 percent and an average total debt to income ratio of 37 percent.

- As with affordability goals, a large share of PJs (40 percent) did not set buyer investment requirements. Among those that did establish requirements, the most common levels were either 2 to 3 percent of the house value or a fixed dollar amount. The vast majority of the fixed dollar amounts reported in the survey were fairly modest, between $500 and $1,500. Among the buyers in our sample, the average loan to value ratio (LTV) is 100 percent, which is high by conventional lending standards. However, excluding forgivable loans and grants, the average LTV among HOME assisted buyers is 84 percent, suggesting that buyers that remain in their homes for the full forgiveness period (usually the same as the HOME affordability period) have a significant equity stake in their properties.

[1] Percentages sum to more than 100 percent since many programs support a variety of development types.

Targeting, Counseling, and Program Partnerships

We used the mail survey and in-depth interviews to describe the approaches that homebuyer programs take to income and neighborhood targeting, counseling, and partnerships. The main findings are as follows:

- The majority of homebuyer programs do not include additional income targeting beyond the HOME program requirement that assisted households must have incomes at or below 80 percent of AMI. Overall, less than 10 percent of programs limit assistance to buyers with incomes at or below 60 percent of AMI. Among the three program types, development programs are most likely to target lower income households.

- In addition to screening applicants for income eligibility, most PJs also screen potential program participants for creditworthiness and available cash reserves. Overall, 75 percent of homebuyer programs conduct credit reviews to screen program applicants, and 57 percent of programs screen for the availability of buyer cash. In addition, a small number of programs surveyed reported using other kinds of screening, including pre-qualification by lenders, interviews, home visits, and letters of recommendation.

- The overwhelming majority of programs are either restricted (50 percent) or targeted (39 percent) to first-time homebuyers.

- Overall, 54 percent of the homebuyer programs surveyed target or are restricted to certain parts of the PJ's jurisdiction. Development programs and joint direct assistance and development programs were the most likely to have geographic targeting or restrictions. Among the PJ staff interviewed in-depth, several reported restricting their homebuyer programs to areas not encompassed by other HOME PJs (for example, a city PJ is also in a state PJ's jurisdiction). Others restricted their homebuyer programs to particular distressed neighborhoods or CDBG target areas.

- Seventy-seven percent of HOME-funded homebuyer programs require homeownership counseling. For the most part, the counseling is pre-purchase counseling, although 20 percent of homebuyer programs also provide post-purchase counseling. Fifty-five percent of programs provide six hours or more of counseling, and 25 percent provide more than eight hours.

- In 81 percent of homebuyer programs, the counseling is provided by a partner agency. Thirty-five percent of the programs surveyed use HOME to fund counseling.

- Overall, 74 percent of direct assistance programs and 83 percent of development programs use local partners for program administration, including nonprofit subrecipients, other nonprofit partners, PHAs, and lenders. Partner organizations have relatively little control over program requirements such as income and eligibility requirements, but are heavily involved in program administration or serve as partners for specific functions such as counseling.

- As would be expected, approximately 90 percent of homebuyer programs work with lenders in some capacity. Lenders provide a variety of services to homebuyer programs, including loan underwriting, servicing, pre-commitments, and special services such as reduced loan rates, reduced fees or points, and PMI waivers. Finally, in some programs lenders fill key programmatic functions such as participant screening, outreach and marketing, and counseling.

Geographic Mobility and Foreclosure Experience of HOME-Assisted Homebuyers

The final component of the study was an analysis of the characteristics of the neighborhoods chosen by the HOME-assisted homebuyers and the incidence of foreclosures based on a sample of buyer-level data collected from a sample of the PJs visited in this study.[2] The main findings of the analysis of neighborhoods and geographic mobility for HOME-assisted buyers were as follows:

- The buyers moved to neighborhoods with higher home values, higher median incomes, and somewhat higher homeownership rates than the areas where they had lived before.

- The buyers moved to neighborhoods where the median incomes of the other residents were substantially above their own incomes. These moves thus represented economic as well as geographic mobility.

- There were some variations in neighborhood characteristics related to the type of place chosen (city versus suburban or rural neighborhood), the type of participating jurisdiction, and the PJ's strategy (specifically, whether the PJ used neighborhood targeting in the program in which the buyer participated).

- In general, it appears that the HOME-assisted buyers selected healthy working-class to lower middle-class neighborhoods for their new homes.

We also examined the experiences of HOME-assisted homebuyers with foreclosure and sales based on a sample of buyer-level data collected from 30 PJs. Given the small size and non-random nature of the buyer-level data sample, the findings of this analysis should be interpreted with caution. The main findings are as follows:

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2 The analysis of geographic mobility was based on data from 33 sites for which data were available on residential locations both before and after home purchase. The analysis of foreclosures was based on data from 30 sites for which complete financial information on buyers was available.

- Modest rates of foreclosure (median of one percent) and home resales (median of two percent) since program inception reported in the national mail survey suggest that the HOME program has been successful in helping buyers to purchase and remain in their homes. The reported foreclosure rate is lower among FHA loans and the reported sales rate is lower than that for average homeowners. The stability of homeownership achieved will most likely make a positive contribution to the neighborhoods where HOME-assisted buyers are locating.

- Statistical analysis of the sample of buyers showed that the probability of foreclosure is lower in cases in which buyers have a lower ratio of repayable debt to sales price and in which the amount of HOME assistance as a percent of sales prices is higher. This suggests that higher levels of HOME assistance, particularly in the form of forgivable loans and grants, may help to lower the risk of foreclosure. However, the relationship between the share of income spent on housing and foreclosures was not found to be statistically significant after controlling for other risk measures.

- None of the measures of the incidence or type of counseling were found to have a statistically significant relationship with foreclosure. However, this lack of an association should not be taken to mean that counseling has no impact on foreclosures. Since relatively few buyers did *not* receive counseling and the incidence of foreclosure was fairly rare, absent a larger data set it would be difficult to find a statistically significant relationship even if one existed. In fact, there was a statistically significant correlation between receipt of classroom and individual counseling and a lower risk of foreclosure, but this relationship was not significant when other risk factors were included in the analysis.

- Finally, when we estimated statistical models to examine whether the cases of home sales in the sample represent instances where buyers experienced financial distress, we found that none of the variables included in these models were statistically significant, suggesting that instances of home sales by HOME-assisted buyers are not related to financial distress.

Conclusions

The goal of this study was to describe what motivates PJs to allocate HOME funds both to homebuyer programs and among the various types of homebuyer programs, how and why PJs structure their homebuyer programs as they do, and what the outcomes have been for buyers in terms of geographic mobility and success in sustaining homeownership. An implicit question motivating the study was: how effective is HOME as a vehicle for increasing homeownership opportunities for low-income households?

The findings of this report suggest that HOME plays a critical role in local efforts to promote affordable homeownership. A very large share of PJs commit some level of HOME funding to homebuyer programs. Moreover, the in-depth interviews with PJ staff and analysis of buyer-level data suggest that for many PJs, HOME is the primary—if not the only—source of homebuyer assistance. For PJs that have access to other funding sources, particularly state homeownership programs, HOME is a flexible tool for increasing the affordability of homeownership and leveraging these other resources. It is also a way to serve a lower income group than is typically served through state programs, which often serve households with incomes up to 120 percent of AMI.

The study findings suggest the following key conclusions of interest to policy makers thinking about how to make the most effective use of the HOME program to support homeownership:

- For a large majority of PJs, HOME program regulations are not a significant barrier to greater use of homebuyer programs;

- A more important constraint on greater use of HOME for homebuyer programs is PJs' need to balance efforts to increase homeownership against competing housing needs by lower-income households in their communities;

- The use of HOME for homebuyer programs also depends on the availability of other funding for homebuyer assistance and other housing programs. PJs may use other funding sources for their homebuyer programs and also look to use HOME funds to leverage other subsidy sources, such as the low-income housing tax credit;

- Development assistance is considered important by most PJs, but can be challenging given the risks involved and the need for capable partners;

- The amount of HOME subsidy provided to homebuyers reflects program type, local housing costs, and buyer incomes, with the level of assistance higher for development programs, in higher cost housing markets, and for buyers with lower incomes;

- Buyers assisted through the HOME program have fairly typical housing cost burdens, but often have a substantial equity stake in their homes due to the widespread use of grants and forgivable loans;

- Counseling is widely used, but there is little indication of what approaches are most effective. PJs that rely most heavily on counseling report that it may be most effective in screening applicants to identify the clients most motivated to achieve and maintain homeownership;

- HOME-assisted buyers generally choose healthy neighborhoods, so the HOME program is supporting both geographic and economic mobility by homebuyers; and

- Available information suggests HOME-assisted buyers are successful at maintaining homeownership, with reported foreclosure rates and sales rates below average for low-income homeowners.

Chapter 1: Introduction

1.1 Background

1.1.1. Overview of the Home Investment Partnerships (HOME) Program

Created under Title II of the National Affordable Housing Act of 1990, the Home Investment Partnerships (HOME) Program is designed to provide affordable housing to lower-income households, expand the capacity of nonprofit housing providers, and strengthen the ability of state and local governments to develop and implement affordable housing strategies tailored to local needs and priorities. Since 1994, between $1.2 and $1.7 billion in HOME funds have been allocated annually to state and local governments.

HOME funds are allocated by formula to participating jurisdictions (PJs): 40 percent to states and 60 percent distributed among cities, urban counties, and consortia.[3] States are automatically eligible for HOME allocations, while local governments and consortia must meet a minimum threshold for the amount determined by the formula in order to receive HOME funds directly. Local governments that do not meet the minimum threshold can receive HOME funds by forming consortia with other local governments to reach the threshold or can seek funds through their state's HOME program. States can administer their own HOME programs as well as committing HOME funds to local PJs that receive funds directly from HUD. Each PJ must reserve a minimum of 15 percent of its annual allocation for activities undertaken by qualified Community Housing Development Organizations (CHDOs), a type of nonprofit housing provider.

At their discretion, PJs may use HOME funds for four types of affordable housing activities:

- Acquisition, construction, and rehabilitation of rental housing;
- Tenant-based rental assistance (TBRA);
- Rehabilitation of owner-occupied properties; and
- Acquisition, renovation, or construction of for-sale housing to individual homebuyers.

1.1.2. Using the HOME Program to Promote Homeownership

The focus of this study is to examine the use of the HOME program to support homeownership. HUD has identified increases in homeownership, both overall and among lower-income households and minorities specifically, as part of the annual goals articulated

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3 The allocations to state and local governments occur after funding has been set aside for America's insular areas (American Samoa, Guam, Northern Mariana Islands, and U.S. Virgin Islands), for nationwide HUD technical assistance, and for other special purposes designated by Congress.

in its Annual Performance Plan required by the Government Performance and Results Act of 1993 (GPRA). The HOME program is one of the opportunities available to the Department to achieve its homeownership goals.

Homeownership is in many respects the cornerstone of the American dream, providing families with greater security of tenure and control over the quality of their housing than is generally true of rental housing. Homeownership provides individuals with significant financial advantages, including protection against inflation in housing costs, tax savings, and a source of long-term wealth accumulation. In addition, homeownership arguably provides important societal benefits, including greater incentives for maintaining and improving properties and for civic engagement.[4]

The HOME program provides PJs with a great deal of flexibility to design homebuyer programs to meet the needs of their communities. PJs may design homebuyer programs that are targeted to specific neighborhoods with the goal of stabilizing the community, or they may implement programs that are geared towards helping targeted buyers achieve homeownership regardless of neighborhood location. One of the main requirements of the HOME program is that assisted homebuyers have incomes *at or below 80 percent of the area median income* (adjusted for household size) and occupy the home as their principal residence during the affordability period.[5] Beyond that, PJs are free to decide whether to open their program to all eligible households or to target specific areas, income groups, or first-time homebuyers. PJs also have a great deal of discretion in choosing the type of housing that can be purchased (single-family housing, multifamily housing, or manufactured housing with or without land ownership). The HOME program allows a wide variety of ownership forms, including cooperatives, land trusts, and long-term leaseholds in addition to the traditional fee simple title.

PJs also have considerable freedom to determine how HOME funds can be used. The potential uses of HOME funds include acquisition, rehabilitation, or construction of housing for homeownership, funding for down payment or closing costs, counseling services for homebuyers who receive HOME assistance, contributions to individual development accounts (IDAs), loan guarantees, and subsidized mortgage interest rates. The form of the subsidy can also be structured in a variety of ways, including low-interest, zero-interest, or deferred-payment loans, grants, equity investments, or mortgage buy-downs. The flexibility

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[4] A detailed summary of the potential benefits of homeownership is provided in two recently published articles: *The Social Benefits and Costs of Homeownership* (William M. Rohe, Shannon Van Zandt, and George McCarthy; Working Paper 00-01, 2000, Washington, DC, Research Institute for Housing America) and *The Economic Benefits and Costs of Homeownership: A Critical Assessment of the Research* (George McCarthy, Shannon Van Zandt, and William M. Rohe; Working Paper 01-01, 2001, Washington, DC, Research Institute for Housing America).

[5] Other key program requirements are that the PJ verify by inspection that the housing meets given housing quality standards and that the PJ include recapture or resale provisions during the affordability period. These requirements are described in more detail below.

of the HOME program to tailor the form of subsidy to address the homeownership constraints of low-income families in the specific market circumstances of each PJ is one of the program's great strengths.[6]

In addition to income eligibility requirements, three property requirements apply to homebuyer activities using HOME funding: *the price/value limit, the property standards requirement, and the lead-based paint requirement*. Under the price/value requirement, the price of a homebuyer unit (or appraised value after rehabilitation in the case of rehabilitation) is limited to the loan limits set under HUD's 203(b) program, or in some cases, the PJ's own estimate of 95 percent of the area median home price. The property standards requirement holds that each property developed or acquired with HOME assistance is subject to the HOME property standards in 24 CFR 92.251 as well as applicable state and local codes. The HOME lead-based paint requirement, which applies to all activities, including acquisition not involving rehabilitation (e.g., down payment assistance programs), requires an assessment and, if necessary, treatment to remove defective paint.

Another significant requirement for HOME homebuyer programs is that *assisted units remain affordable for a minimum of 5 to 15 years,* depending on the level of HOME subsidy provided. Units receiving less than $15,000 in subsidy have a 5-year period of affordability, while those with $15,000 to $40,000 in subsidy must remain affordable for 10 years and those with more than $40,000 must remain affordable for at least 15 years. To the extent that the original purchaser continues to occupy the property as a principal residence, the program's minimum affordability requirement is met. However, if the property is transferred during the affordability period, the PJ must ensure that the property is either resold to another income-eligible household, or the PJ must recapture some or all of the HOME subsidy. The PJ must identify in its Consolidated Plan which option it will use and must execute a written agreement with the buyer to establish the resale or recapture provisions.

Once again, the HOME program provides the PJ with considerable flexibility in designing approaches to meet this program requirement. In formulating recapture provisions, PJs must choose whether to allow forgiveness of the subsidy over time, how to share net proceeds from the sale between the owner and the PJ in the event that the net proceeds are not sufficient to repay both the PJ and the owner for their investments in the property, and how to distribute any excess net proceeds from the sale. The PJ may define the recapture rules to ensure a high return of the PJ's funds (for example, by requiring a full return of the subsidy, requiring a proportional return of net proceeds up to the amount of the subsidy, or sharing in

[6] The flexibility in subsidy approach makes it possible to use the HOME program to address a variety of credit constraints. For an analysis of the potential for increasing homeownership through the elimination of credit barriers, see "Eliminating Credit Barriers to Increase Homeownership: How Far Can We Go?," Stuart S. Rosenthal, paper presented at the symposium *Low-Income Homeownership as an Asset-Building Strategy*, sponsored by the Joint Center for Housing Studies of Harvard University, Cambridge, MA, November 14-15, 2000. This paper finds that given the potential demand for homeownership among renters, the elimination of credit barriers could raise the homeownership rate by four percentage points. The flexibility of the HOME program makes it ideally suited to reach some of these potential owners.

excess net proceeds) or may favor returns to the owner (for example, by forgiving the subsidy over time, returning net proceeds to the owner to recoup their investment prior to paying back the HOME subsidy, or granting all excess net proceeds to the owner).[7]

In defining a resale option, the PJ must establish guidelines to ensure a fair return to the owner on the investment while maintaining affordability for the new owner (who must also meet the program income requirements). The challenge in structuring a resale provision is in balancing these competing goals. In defining what is affordable, the HOME program does not set any strict limits, but it is assumed that the PJ will establish a limit for the share of income that buyers must devote to housing that is in keeping with standard underwriting conventions.

1.2 Objectives of the Research

PJs have a great deal of latitude to design a HOME-funded homebuyer program that is best suited to the needs and market conditions of their communities. While HUD is able to track the broad uses of funds by PJs, little information has been available on the details of how programs are designed or why PJs choose to use their HOME funds for certain purposes. One of the central purposes of this research has been to gather information from PJs on the structure of their homeownership programs and why they have decided to use their HOME funds as they have.

An implication of the great variety of program structures that are possible under the HOME program is that the program may serve as a "natural experiment" that can help reveal the most cost-effective ways to promote homeownership in different market circumstances. Another goal of this study has been to gather information on program outcomes and relate these outcomes to program designs to see if there are lessons for PJs about which methods of aiding homebuyers seem to be most effective. The six main research objectives are as follows:

- Document changes in the use of HOME funds for eligible activities over time;
- Describe homebuyer activities funded by the program, including the financing, subsidy, pricing, counseling, and other strategies used by PJs to make homeownership possible;
- Describe the reasons PJs elect to support different eligible activities with HOME funds, to choose different strategies to support homeownership, and to change their use of HOME funds and homeownership strategies over time;

[7] For a detailed discussion of options in structuring recapture and resale provisions, see *Using HOME Funds for Homebuyer Programs: Structuring Recapture and Resale Provisions*, Washington, DC, U.S. Department of Housing and Urban Development, May 1997.

- Explore the relationship between homeownership subsidy type and amount and the type, location, cost, and affordability of housing purchased;
- Examine the extent to which specific types and amounts of subsidy are associated with being better able to keep the buyer out of default and in the home; and
- Examine the relationship between the presence and type of housing counseling and both housing outcomes and the incidence of buyer default.

1.3 Organization of the Report

The remainder of the report is organized around key themes regarding homeownership initiatives supported by the HOME program. Chapter 2 describes the sources of data and data collection strategies used in this study. Chapter 3 begins with an overview of the uses of HOME and the characteristics of HOME-assisted households, based on HUD's Integrated Disbursement and Information System (IDIS). We then draw on interviews conducted with 60 PJs to describe further PJ strategies for allocating HOME funds across the four eligible activities and key factors influencing the allocation of HOME funds. Chapters 4, 5, and 6 use information collected from a mail survey of all PJs, as well as the findings of the interviews, to examine in detail the characteristics of HOME-funded homebuyer programs. The chapters explore the financial characteristics of the homebuyer programs, what kind of households and neighborhoods are targeted, how homeownership counseling is provided, and how PJs partner with lenders and nonprofit organizations for program administration. Chapter 7 presents information on the financial and locational outcomes for HOME homebuyers, using buyer-level data on more than 1,000 homebuyers. The final chapter of the report summarizes the study findings and draws conclusions regarding the key questions that motivated the study and the policy implications of the findings.

The report contains four appendices. Appendices A and B provide tabular data from IDIS and the mail survey of PJs. Appendix C presents the data collection instruments. Appendix D presents the statistical models used in Chapter 7.

Chapter 2:
Data Collection Methodology

In this chapter, we describe the sources of data used to address the research objectives and the data collection strategies. To assess the use of the HOME program for homeownership, we conducted four main data collection efforts:

- The first phase entailed ***collection and analysis of production data from HUD's Integrated Disbursement and Information System (IDIS)*** on the use of HOME funds for different activities eligible under the program and how this has changed since program inception.

- The second phase entailed a ***mail survey of all PJs*** to gather detailed information on the approaches used by PJs to promote homeownership through the HOME program and the structure of HOME-funded homeownership programs. The survey was designed to provide a comprehensive portrait of how the HOME program is being used for homebuyer activities throughout the country.

- After completing the PJ survey, we conducted ***semi-structured interviews with 60 PJs*** to explore their choices for what activities to fund with HOME dollars, how their homebuyer programs have changed over time, and the reasons for these changes. The semi-structured interviews also identified whether any HOME rules or requirements discouraged or limited PJs' choices in using HOME funds for homebuyer activities. Forty of these interviews were conducted on-site to provide an opportunity to gather detailed buyer-level information for a sample of homebuyers, while an additional 20 were conducted by telephone. Of the 20 telephone interviews, 10 were conducted with PJs that do not use HOME for homebuyer activities.

- At the time of the semi-structured interviews conducted on site, we also obtained ***detailed information on a sample of homebuyers*** assisted through the HOME program. These buyer-level data were gathered to provide further information on the use of other funding sources with HOME, the affordability levels achieved through the program, and program outcomes—including the incidence of foreclosure and sale and the residential location choices of homebuyers. Data on a total of more than 1,200 buyers were successfully obtained from 37 of the 40 sites visited.

Exhibit 2-1 presents a summary of the research objectives and the sources of data used to address them. Details of our approach to each type of data collection are presented in the sections below.

Exhibit 2-1

Report Outline Showing Research Objectives and Data Sources

Chapter	Research Objective	Data Sources
1: Introduction	• Provide introduction to the HOME program and the study	
2: Data Collection Methodology	• Describe the data sources used for the study and the data collection strategies	
3: Trends in the Use of HOME Funds for Homebuyer and Other Activities	• Document changes in the use of HOME funds for eligible activities over time • Describe the characteristics of households assisted by HOME • Describe the reasons PJs elect to support different eligible activities with HOME funds	• IDIS • Semi-structured interviews
4: Overview of HOME Homebuyer Programs	• Describe homebuyer activities funded by HOME • Describe reasons PJs choose different strategies to support homeownership and change their use of HOME funds and homeownership strategies over time	• Semi-structured interviews • Mail survey of all PJs
5: Financial Characteristics of Homebuyer Programs	• Describe the financing, subsidy, and pricing of homebuyer activities funded by HOME • Explore the relationship between subsidy type and the amount of assistance, use of other subsidies, and affordability of housing purchased	• Mail survey of all PJs • Semi-structured interviews • Data on sample of homebuyers
6: Targeting, Counseling, and Program Partnerships	• Describe the targeting and counseling characteristics of homebuyer programs • Describe how PJs partner with nonprofit subrecipients and other organizations to administer homebuyer programs	• Mail survey of all PJs • Semi-structured interviews
7: Geographic Mobility and Foreclosure Experience of HOME-Assisted Homebuyers	• Examine the extent to which specific types of subsidy are associated with different types of geographic mobility • Examine the extent to which specific types and amounts of subsidy are associated with being better able to avoid foreclosure and with the buyer keeping the original loan • Examine the relationship between the presence of housing counseling and the incidence of buyer foreclosure	• Data on sample of homebuyers
8: Conclusion	• Summarize the study findings	

2.1 Primary Data Sources

2.1.1. IDIS Data on the Use of HOME Program Funds

As a first step toward understanding how HOME funds are allocated across the four eligible activities and how the use of HOME for homebuyer programs has changed over time, we collected and analyzed data from HUD's Integrated Disbursement and Information System (IDIS). We requested from HUD an extract from IDIS providing national data on the HOME program from its inception in 1992 through 2002. The IDIS data analyzed for this study include the amount of HOME funds committed by program activity type,[8] the number of housing units to which HOME funds have been committed by activity type, and the characteristics of HOME-assisted households and units.[9]

2.1.2. Mail Survey of All PJs

In the fall of 2002, we administered a mail survey to all HOME PJs.[10] We received data from 551 of the 601 PJs in the universe, or 92 percent. Of the 50 PJs that did not respond to the survey, four refused to participate and 46 did not explicitly refuse to participate but never completed the survey despite repeated follow up. Among the 551 PJs that completed the survey, 487 reported using HOME funds for homebuyer programs. The remaining 64 PJs did not have a HOME-funded homebuyer program at that time. These results are presented in Exhibit 2-2.

Exhibit 2-2

Overview of Responses to National Mail Survey

Number of PJs administering the HOME program as of May 2002:	601
Number of PJs that were mailed the survey:	601
Number of PJs that completed the survey:	551
Number of PJs that failed to complete the survey:	50
Number of PJs that reported using HOME for homebuyer programs:	487
Number of PJs that reported not having a HOME-funded homebuyer program:	64

8 Program activity type refers to the four eligible program activities described in Chapter 1: acquisition, construction, and rehabilitation of rental housing ("rental housing development"); tenant-based rental assistance ("TBRA"); rehabilitation of owner-occupied properties ("owner-occupied rehab"); and acquisition, renovation, and construction of for-sale housing to individual buyers ("homebuyer programs").

9 IDIS includes information on both funding commitments and actual expenditures. While expenditures may be a better indication of the PJs' successful implementation of their programs, funding commitments provide a more timely indication of the PJs' intentions for how to use their funds. In this analysis, we focus on commitments as a measure of HOME activity.

10 The mail survey instrument is provided in Appendix C.

The primary objective of this survey was to gather comprehensive information on the approaches used by PJs to promote homeownership through the HOME program. The survey collected information on the following topics for each type of homebuyer activity or "program"[11] offered by the PJ:

- ***Subsidy uses*** (construction or acquisition and rehabilitation support, down payment assistance, closing cost assistance, second mortgages, interest rate subsidies, IDA contributions, etc.)
- ***Forms of assistance*** (loans, grants, loan guarantees, etc.)
- ***Average and maximum amounts of HOME funding*** for type of subsidy
- ***Counseling requirements and/or availability***, including topics, form, and timing of counseling (how early in search process, post-purchase) and use of HOME funds for counseling costs
- ***Marketing and outreach*** (including use of counselors or lenders in outreach)
- ***Screening*** of program participants
- ***Affordability periods*** (whether the PJ requires longer periods than required by HOME regulations)
- ***Resale and recapture*** approaches (which provision is used and whether the PJ allows forgiveness of subsidy, uses proportional sharing of net proceeds, or allows owners to recoup investments first, etc.)
- ***Program targeting*** (to specific geographic areas, income groups, or first-time buyers)
- ***Forms of ownership*** allowed (fee simple, long-term lease, lease-purchase, condo/coop, land trust)
- ***Purchase price limits*** used (203(b) limits, PJ's own estimate of 95 percent of median, or more restrictive price limits than 203(b) or 95 percent of median)
- ***Housing affordability limits*** or targets (maximum share of income for housing costs that is allowed by lenders or by the PJ)

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[11] During the survey design phase, we discovered that there is a great deal of variation in how PJs define homebuyer "programs." In order to ensure that we captured all homebuyer activity, we instructed survey respondents to provide information on all homebuyer activities, even if they were not formally considered by the PJ to be homebuyer "programs." In addition, we instructed PJs that if they use HOME funds for a number of similar homebuyer projects with the same requirements, to consider these projects a single program.

- Minimum requirements for ***owner investment in the property***

- ***Program partners*** (counseling agencies, lenders, realtors, CHDOs, other developers) and their roles

- The extent to which ***loan servicing, inspection, and enforcement*** functions are delegated to program lenders

- The extent and type of ***program administrative functions*** that are passed down to recipients, nonprofit subrecipients or contractors (including financial institutions)

In addition to program characteristics, the survey also asked about the availability of buyer-level data both to provide greater detail on the use of HOME assistance and to examine program outcomes. Answers to these questions were used to select sites for the on-site data collection efforts.

2.1.3. Semi-Structured Interviews

Following the completion of the mail survey, we conducted semi-structured interviews with staff from a sample of 60 PJs across the country. We conducted in-person interviews at 40 PJs through site visits and interviewed 20 PJs over the telephone. Among the sample of PJs selected for telephone interviews, 10 were selected from among the PJs surveyed that reported that they do not currently use HOME funds for homebuyer programs. (Sampling for the in-person and telephone interviews is discussed in more detail in Section 2.2 below.)

The primary purpose of the semi-structured interviews was to explore the reasons for PJs' choices about what activities to fund through their HOME program, how their homebuyer program structure has changed over time, and the reason for these changes. In addition, these interviews were designed to clarify the responses to the mail survey regarding the characteristics of the homebuyer programs funded through HOME.

The interviews typically lasted two hours, with the telephone interviews taking slightly less time than those conducted during site visits. The interviews with the 10 PJs without homebuyer programs were typically shorter—about 20 minutes—because there were no program details to discuss. The interviews were conducted as open-ended discussions, with the interviewer using a discussion guide to ensure coverage of all of the research topics.[12] In all cases, the site visitors and telephone interviewers attempted to interview the most qualified PJ staff, that is, staff involved in decisions about the allocation of HOME funds as well as staff that understood the details of the HOME-funded homebuyer activities. This often meant interviewing two or more PJ staff—typically the PJ's HOME or community development supervisor and the staff person in charge of the homebuyer programs. At a

[12] The discussion guides for PJs with homebuyer programs and PJs without homebuyer programs are provided in Appendix C.

majority of sites, the staff interviewed were seasoned PJ employees who had been working with the HOME program for at least five years. However, at a few PJs, staff had only been in their jobs for a year or two. These staff were typically less familiar with why HOME funds had been used for particular activities in the past and how program design choices had been made. When possible, the site visitors followed up with more senior staff to obtain this information.

2.1.4. Buyer-Level Data from a Sample of PJs

To examine the outcomes of homeownership activities for program participants, we used the opportunity presented by the on-site interviews with 40 PJs to obtain data on a sample of homebuyers. Of these 40 PJs, buyer-level data was obtained from 37 PJs. In three cases, PJs agreed to cooperate with the study but were unable to produce data by the time the data collection period expired. As noted in Exhibit 2-1, several research objectives involved the analysis of homebuyer program characteristics and outcomes such as the type, cost, location and affordability of housing purchased and the incidence of default, foreclosure, or transfer of the property. We were also interested in the relationship between the use of homeownership counseling and these program outcomes. Some of the data needed to support this type of analysis were not available from either IDIS or the PJ mail survey and, therefore, had to be collected on-site by the research team.

During site visits, we attempted to collect the following buyer-level data for a sample of individual homebuyers:

- Type and amount of HOME subsidy;
- Sources, types, and amounts of other financing used;
- Current and prior residential location;
- Share of income for housing expenses;
- Total monthly debt;
- Default, transfer or foreclosure experience; and
- Characteristics of housing counseling received, if any.

Although we attempted to select sites for on-site data collection that indicated in the mail survey that they maintained detailed client records (other than the type and amount of HOME assistance), not all sites were able to provide all of the desired data items. In general, the availability of much of the information depended on the extent to which PJ staff were involved in reviewing the mortgage application and underwriting process. Information on prior residential address, the share of income for housing expenses, and total monthly debt was readily available if a complete copy of the standard mortgage application form was available or an equivalent form was used to underwrite the financing. Information on the sources, types, and amounts of assistance was readily available if a copy of the settlement statement for the purchase was available. In some cases, PJs maintained electronic databases on their clients, which facilitated the data collection process. But these electronic systems often did not contain all of the fields sought.

Information on foreclosures and property sales was also generally available in buyer files, as these actions terminated the agreements related to the HOME assistance. However, information on defaults was not consistently available, since HOME assistance was rarely provided in the form of amortizing loans and PJs generally did not have a formal relationship with the first mortgage lender. In addition to buyer-level information on foreclosures and sales, we obtained information on overall foreclosure volumes among HOME-assisted buyers when possible.

Information on whether counseling was received was not generally available in individual buyer files, but instead was inferred based on interviews with PJ staff regarding counseling requirements. Since in most cases counseling was not optional, it was fairly straightforward to identify whether counseling was provided. However, in cases where the use of counseling changed over time, it was not possible to determine whether buyers served in earlier periods had obtained counseling or not.

Exhibit 2-3 summarizes the approach used to gather each type of buyer-level information.

Exhibit 2-3

Summary of Client-Level Data Collection Methods

Information Gathered:	Method for Gathering:
Types and amounts of subsidies	Case by case review of files[a]
Prior residential location	Case by case review of files[a]
Share of income for housing expenses	Case by case review of files[a]
Default, foreclosure, or transfer	Either case by case review of files or from summary report of terminations for all homebuyers
Housing counseling services	Interviews describing general counseling approach and any changes over time

[a] Four of the PJs provided data in electronic form, so individual case files were not reviewed. In addition, in five cases the PJ chose to complete the data extraction form itself, so the PJ itself undertook the file review. Issues of potential bias resulting from this process are discussed in Section 2.2.2.

2.2 Sampling Approach for Semi-Structured Interviews and Buyer-Level Data Collection

2.2.1. Sampling Approach for Semi-Structured Interviews

We attempted to select a sample of PJs for interviews that would be broadly representative of all PJs receiving HOME funds to support homebuyers. However, there were two important constraints in our selection of the on-site sample. First, because these locations were intended to provide buyer-level data, we focused site selection on PJs that had reported in the mail survey that they maintained buyer files containing the types of information sought for this study. Second, in order to economize on travel costs, selected sites were clustered in 13 market areas. Given these constraints, it was not possible to select a statistically representative sample. Instead, we drew a purposive sample that included a balanced selection of PJs with available buyer-level data. The 40 PJs for in-person interviews were selected first, followed by the 20 PJs for telephone interviews, which were chosen to ensure that the overall interview sample included a range of PJ types and sizes and provided balanced coverage of all regions.

In sum, PJs were selected for ***on-site interviews and data collection*** using the following criteria: (1) availability of buyer-level data; (2) geographic clustering to make efficient use of resources for site visits; (3) balanced representation by PJ type; (4) balanced representation by region; and (5) diversity by homebuyer program type. Only PJs that have HOME homebuyer activities and that completed the survey were considered for site visits.

Selection of sites for ***telephone interviews*** was intended to balance the sites selected for on-site interviews in terms of the geographic location and size of the market area. Given the need to select areas for site visits with several PJs in close proximity, the site visit locations were more likely to be concentrated near large metropolitan areas. Telephone interviews were targeted at PJs in smaller markets and rural areas to balance the site visit selections. Since we did not attempt to collect buyer-level data from the telephone interview subjects, the availability of buyer-level data was not a criterion for selection of those PJs. Ten PJs with no HOME homebuyer programs were also included for telephone interviews, in order to learn more about why they chose not to use HOME for homebuyer programs.

While we were not able to generalize the findings to all PJs, this approach nonetheless can provide valuable insights into PJs' decisions about whether to undertake homebuyer activities and how to structure these activities. Exhibit 2-4 shows the PJs selected for on-site data collection. Exhibit 2-5 shows the PJs selected for telephone interviews.

Exhibit 2-4

PJs Selected for On-Site Data Collection

Region	Cluster	PJ Name	PJ Type
Northeast	Boston/ Providence	City of Cambridge, MA	City
		City of Newton, MA	Consortium
		State of Rhode Island	State
	New York	State of New Jersey	State
		City of Yonkers, NY	City
		County of Nassau, NY	Urban County
	Philadelphia	City of Chester, PA	City
		City of Wilmington, DE	City
		City of Vineland, NJ	Consortium
Midwest	Chicago	City of Evanston, IL	City
		County of DuPage, IL	Consortium
		County of Will, IL	Urban County
	Detroit/ Lansing	City of Lansing, MI	City
		City of Pontiac, MI	City
		County of Genesee, MI	Urban County
	Milwaukee/ Madison	City of Madison, WI	City
		City of Racine, WI	City
		County of Waukesha, WI	Consortium
South	Miami	City of Hollywood, FL	City
		City of Hialeah, FL	City
		County of Dade, FL	Urban County
	Raleigh	City of Raleigh, NC	City
		County of Orange, NC	Consortium
		State of North Carolina	State
	Houston	City of Beaumont, TX	City
		City of Port Arthur, TX	City
		City of Galveston, TX	City
	Washington, DC	City of Alexandria, VA	City
		County of Baltimore, MD	Urban County
		State of Maryland	State
West	Denver	City of Aurora, CO	City
		City of Fort Collins, CO	City
		County of Adams, CO	Urban County
	Seattle	City of Seattle, WA	City
		County of Kitsap, WA	Consortium
		County of Pierce, WA	Urban County
	Los Angeles	City of San Bernardino, CA	City
		City of Pasadena, CA	City
		City of Westminster, CA	City
		County of San Bernardino, CA	Consortium

Exhibit 2-5

PJs Selected for Telephone Interviews

	PJ Name	PJ Type
With HOME-funded Homebuyer Program	County of St. Louis, MN	Consortium
	County of Lyon Consortium, NV	Consortium
	City of New Britain, CT	City
	City of Davenport, IA	City
	City of Portland, ME	City
	City of Las Cruces, NM	City
	City of Ogden, UT	City
	Parish of Terrebonne, LA	Urban County
	County of Richland, SC	Urban County
	County of Shelby, TN	Urban County
Without HOME-funded Homebuyer Program	County of Johnson, KS	Consortium
	City of Corvallis, OR	Consortium
	City of Albany, GA	City
	City of Springfield, MO	City
	City of Canton, OH	City
	City of Cincinnati, OH	City
	State of Alabama	State
	State of Missouri	State
	State of New Hampshire	State
	State of Oregon	State

2.2.2. Sampling Approach for Buyer-Level Data

In order to provide a substantial number of cases for analysis, the goal was to obtain buyer-level data for 25 cases per site. In practice, some sites had information more readily available, either in well-organized files or in electronic form, which greatly facilitated the data collection process. In these places we gathered information on as many cases as possible in the time available on site. In other sites, files were either not readily available because of storage practices or required a more thorough review to identify the information sought. In these PJs, we were not able to obtain information on as many cases as targeted. Given variations in the availability and contents of buyer files, the number of cases obtained per site varied fairly widely, from a low of 4 to a high of 297. However, most sites provided close to the target number of cases, with three-fifths providing data on between 20 and 40 cases. Altogether, we collected buyer-level data from 37 PJs, covering a total of 1,270 home purchase transactions. Of these:

- 909 cases had complete information on the financial sources used to purchase the home to support analysis of the use of different sources of financing;

- 788 cases had information on both current and prior address to support analysis of changes in neighborhood characteristics associated with the move to homeownership; and

- 592 cases had information available on the current status of the buyer (i.e., still own, sold, or foreclosed), complete financial information, and information on the ratio of housing costs to income to support analysis of the factors associated with foreclosures and home sales.

The specific approach to sampling buyers for data collection varied depending on the PJ's ability to use IDIS data to identify buyers. If the PJ maintained its files in a way that precluded using IDIS to select files (for example, if files were stored by client name), the PJ selected a sample of files for review, with the understanding that we wished to obtain a sample representing a range of program types and outcomes. The PJ chose the sample in 19 of the 37 sites. We selected the sample in the remaining 18 sites, using data from IDIS to select a sample of buyers that represented the range of programs offered by the PJ as evidenced by the type of activity (new construction, rehabilitation, or acquisition), the type of structure, and the level of assistance. The selected samples also slightly over-represented buyers from earlier years of the HOME program in order to capture more buyers who may have experienced foreclosure. In five sites, the PJ was able to identify cases with known outcomes, so we were able to use this outcome information to select the sample.[13]

In 10 of the 37 PJs, files for specific programs (8 PJs) or years (2 PJs) were unavailable. Specific programs were likely to be unavailable if subrecipients managed the program and so maintained the buyer files. This situation more commonly arose with development programs, so the resulting sample under represents this type of program. In two cases older files had been sent to storage and could not be produced in time for review by site visitors.

Given the opportunistic nature of the buyer sample, these observations cannot be taken to be representative of the universe of HOME-assisted buyers. But the data nonetheless provide some insights into the details of affordability levels achieved, the use of other financing sources, the neighborhood choices of buyers, and the relationship between the characteristics of assistance and the incidence of foreclosure. The main known limitation of these data is that they provide too few observations on development-only programs to provide any insights into this type of assistance. One concern is whether cases where the PJ itself selected buyer files might introduce some bias (if, for example, PJs selected cases that put a more favorable light on their efforts in terms of assistance level or outcomes). However, there was no indication that the buyers from PJs that selected the sample were systematically

[13] The over sampling of buyers by outcome means that this sample does not provide an indication of the foreclosure or sales rate among HOME-assisted buyers. The over-sampling is done to try to ensure that there are enough cases of foreclosure and resale for statistical models to be able to identify whether there is a relationship between buyer characteristics and these outcomes. The over sampling would only be a problem for the statistical models if they were intended to predict an overall foreclosure or transfer rate, which they are not.

different than buyers from PJs where we selected the buyers. For example, instances of foreclosure were found in cases where PJs selected files; thus, we have no reason to believe that any bias was introduced in these cases.

2.3 Characteristics of PJs by Data Collection Activity

Exhibit 2-6 compares the number and characteristics of PJs represented in each of the three data collection efforts to all HOME PJs. The first column of Exhibit 2-6 displays the characteristics of all PJs based on IDIS data. The other columns show the characteristics of the PJs that responded to the mail survey, that were included in the in-depth interviews, and from which we collected buyer-level data.

Overall, as shown in the exhibit, the PJs that completed the mail survey are quite similar to other PJs. There is no indication of any selection bias in mail survey respondents based on key program characteristics. The 60 PJs in which in-depth interviews were conducted differ slightly from the overall group of PJs, primarily because the interview sites were selected to include a disproportionate share of PJs that do not currently use HOME funds to support homeownership activities. As a result, the interview sites have smaller proportions of HOME funds committed to homebuyer programs than do either the group of all PJs or the PJs that responded to the mail survey. While 12 percent of the mail survey respondents said they do not operate homebuyer programs through HOME, the same was true for 17 percent of the PJs with which in-depth interviews were conducted. But aside from this intentional difference in the interview sample, the characteristics of PJs interviewed is quite similar to the universe of PJs. The 37 PJs from which we collected buyer-level data by definition all operate homebuyer programs with HOME. As a result, this group differs from the sample of in-depth interview sites, and from the mail survey respondents, in terms of the presence of homebuyer activities. In addition, the data collection sites include a smaller proportion of state PJs (5 percent) than all PJs, mail survey respondents, or in-depth interview sites. This arose because two state PJs selected for buyer-level data collection did not provide data. Aside from the slight under representation of state PJs, the sample of PJs from which the buyer data were obtained is also fairly similar to the universe of PJs.

Exhibit 2-6

Characteristics of PJs, by Data Source

	All PJs	Mail Survey Respondents	In-Depth Interviews	Buyer-Level Data Collection
Number of PJs	**601**	**551**	**60**	**37**
PJ Type				
State	9%	10%	13%	5%
City	58	58	53	54
Consortium	19	19	17	19
Urban County	14	14	17	22
Percent of HOME Funds Committed to Eligible Activities in 2002				
Homebuyer Programs	31%	32%	20%	32%
Rental Development	52	51	64	47
Owner-Occupied Rehab	17	16	14	18
TBRA	1	1	2	3
Percent of HOME Funds Committed to Homebuyer Programs in 2002				
0 to 25 percent	41%	39%	47%	41%
26 to 50 percent	24	24	18	19
51 to 75 percent	15	15	15	19
76 to 100 percent	21	22	20	22
Homebuyer Programs				
Direct Assistance and Development[b]	N/a[a]	59%	50%	65%
Direct Assistance Only	N/a	24	23	30
Development Only	N/a	5	10	5
No Homebuyer Programs	N/a	12	17	0
2002 HOME Allocation				
Less than $500,000	9%	10%	7%	8%
$501,000 to $1 million	37	37	43	41
$1.1 to $2 million	27	27	25	30
$2.1 to $5 million	15	15	12	14
More than $5 million	11	11	13	8

[a] Homebuyer program types were defined using the mail survey and thus are not available from IDIS for all PJs.

[b] The "Direct Assistance and Development" category includes both PJs that offer programs with both a direct assistance and development component and PJs that offer both types of programs as separate programs.

Sources: IDIS, mail survey of HOME grantees, in-depth interviews, and Fiscal Year 2002 HOME allocations.

Chapter 3:
Trends in the Use of HOME Funds for Homebuyer and Other Activities

This chapter examines national trends in the use of the HOME program in order to provide context for the detailed investigation of the use of HOME for homebuyer programs. We begin by presenting data from HUD's Integrated Disbursement and Information System (IDIS) on the use of HOME funds for the four eligible activities—homebuyer programs, rehabilitation of owner-occupied housing ("owner-occupied rehab"), rental housing development, and tenant-based rental assistance (TBRA). We examine trends over time in the use of HOME funds across all PJs and provide an overview of the characteristics of HOME-assisted households. We then use the in-depth interviews with 60 PJs to investigate the factors that influence local decisions about the allocation of HOME funds to homebuyer programs and other activities and how these factors may change over time. Because the focus of the chapter is on the use of HOME funds *over time* and *across all four HOME-eligible activities*, we do not present data from the mail survey of PJs, which provides detailed information on homebuyer programs at one point in time. The findings of the mail survey are presented in Chapters 4 and 5.

3.1 Funding of HOME Activities Over Time

In the decade since the program's inception, HOME has assisted more than a quarter of a million low-income households to purchase homes. A total of $3.1 billion in HOME funds have been committed for approximately 270,000 homebuyer units.[14] Since 1992, PJs have committed an increasing share of their HOME allocations to homebuyer activities. Exhibit 3-1 presents the total annual HOME funding commitments since program inception, adjusted for inflation, for the four eligible HOME activities.[15] As shown, HOME commitments overall increased significantly between 1992 and 1994, as PJs developed and began implementing local plans for the use of HOME funds. In this early period, PJs were relatively more likely to commit funds to owner-occupied rehab and TBRA, although rental development has consistently received the largest amount of funding. Since 1995, the amount of HOME funds committed to rental development and homebuyer programs has increased, while commitments to owner-occupied rehab have remained relatively stable, and commitments to TBRA have decreased somewhat. In 2002, PJs committed a total of $844 million to rental housing development, $500 million to homebuyer programs, $275 million to owner-occupied rehab, and $16 million to TBRA.

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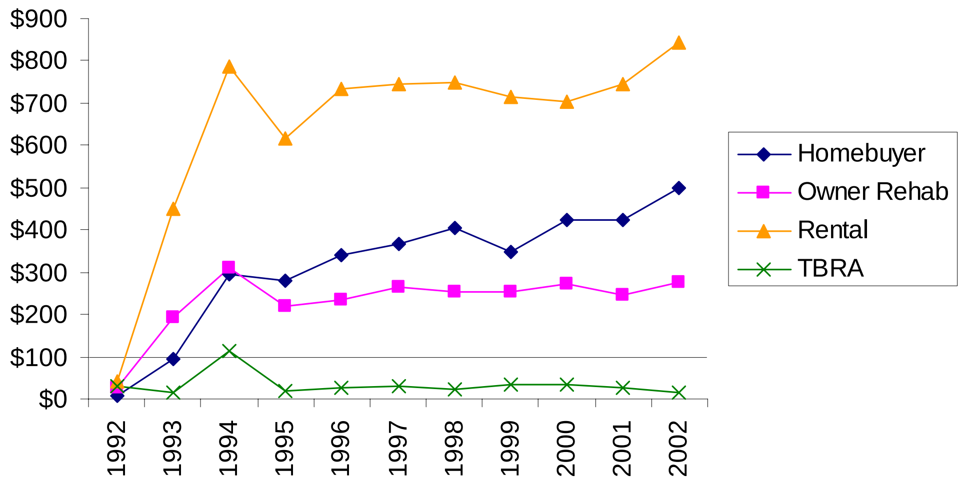
[14] The definition of commitment means that: (1) The PJ has executed a legally binding agreement with a State recipient, subrecipient, or contractor to use a specific amount of HOME funds; or (2) has executed a written agreement reserving a specific amount of funds for a CHDO; or (3) has met requirements to commit to a specific local project. All HOME funds must be committed within 24 months of allocation.

[15] Appendix A presents the IDIS data on which the exhibits in this chapter are based in tabular form.

Exhibit 3-1
Total HOME Funds Committed to Eligible Activities in 2002 Dollars, 1992-2002 (in millions)



Source: IDIS

In addition to the HOME funds committed to homebuyer programs, the number of homebuyer units produced has increased over time. Exhibit 3-2 shows the number of HOME units assisted through the four activity types over time. Since 1996, the program has funded similar numbers of homebuyer and rental units, and a smaller number of owner-occupied rehab and TBRA units. The number of homebuyer and rental units funded has fluctuated somewhat, while the number of owner-occupied rehab units has remained relatively stable. By contrast, the number of TBRA units has declined significantly in recent years, dropping from 8,905 units in 2000 to 2,383 in 2002.

Over time, PJs have produced almost as many homebuyers as rental development units with approximately half the commitment of HOME funds.[16] This is because homebuyer programs generally have a lower per unit cost than rental development programs. In 2002, rental development had the highest cost per unit ($21,351) of the four activity types, followed by owner-occupied rehab ($16,991), homebuyer programs ($13,602), and TBRA ($6,666).[17] As shown in Exhibit 3-3, the average per unit cost of rental development has fluctuated over time, while those of homebuyer programs, owner-occupied rehab, and TBRA have remained fairly stable.

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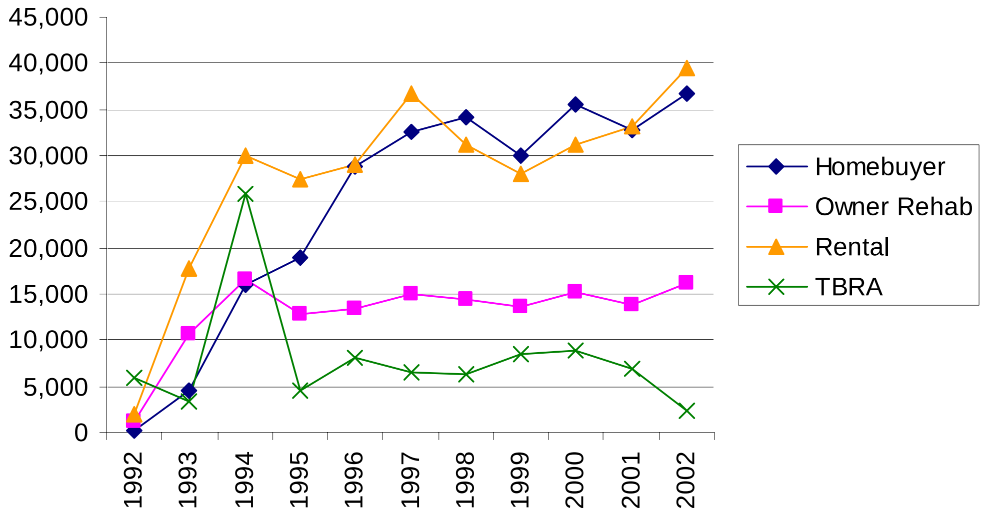
16 Since 1992, PJs have assisted approximately 270,000 homebuyer units with $3.1 billion in HOME funds, compared to 306,000 units with $6.5 billion in HOME funds. Both figures are based on funds committed.

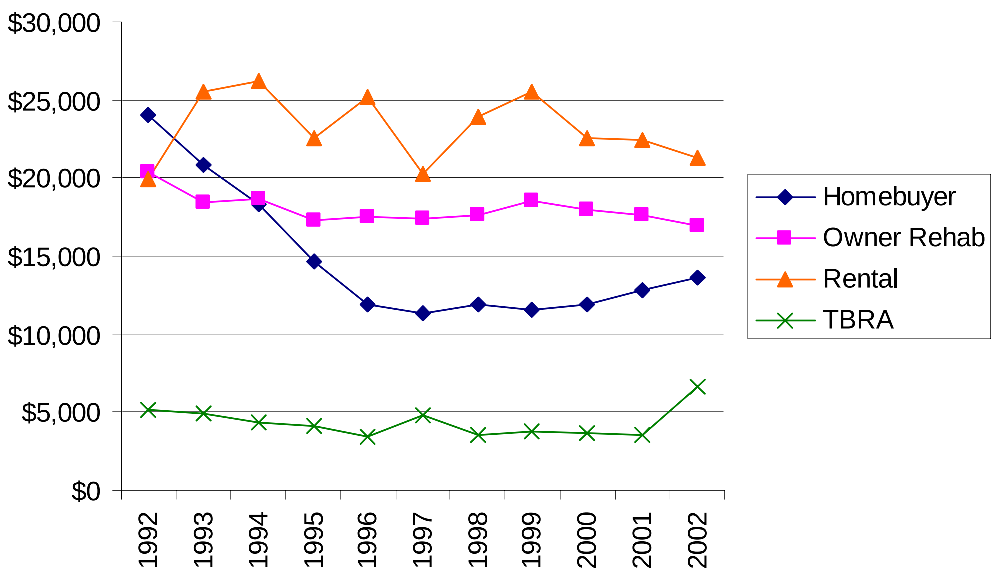
17 Because TRBA is provided for periods of up to 24 months while other types of assistance carry with them a required affordability period of five to 15 years, the per-unit costs of providing affordable housing with TBRA are actually higher than implied here after taking into account the years of affordability provided.

Exhibit 3-2
Total Units Assisted Through HOME-Funded Activities, 1992-2002



Source: IDIS

Exhibit 3-3
Per Unit Costs of HOME-Funded Activities, in 2002 Dollars, 1992-2002

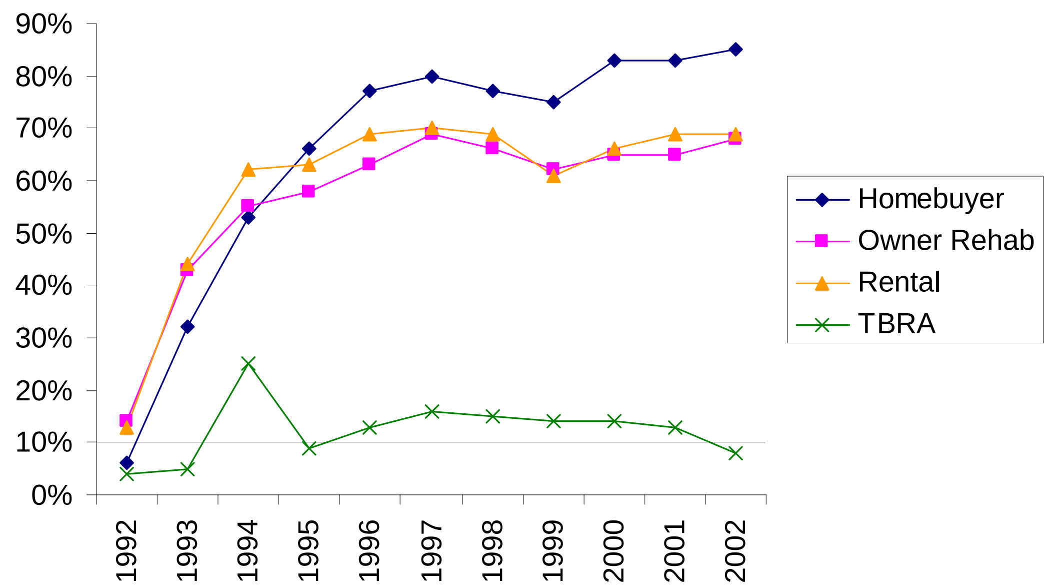


Source: IDIS

3.2 Share of HOME Funding Committed to Homebuyer Activities

It took PJs several years to implement the HOME program (see Exhibit 3-4). From 1992 to 1994 there was rapid growth in the share of PJs involved in all activities other than TBRA. After 1994, the share of PJs involved in these activities continued to grow, although more slowly. By 1997, 80 percent of PJs funded homebuyer efforts, with 69 percent funding owner-occupied rehab programs and 70 percent funding rental development. Relatively few PJs used HOME funds for TBRA, with only 16 percent choosing this option in 1997. There has been some fluctuation in the share of PJs undertaking these different activities since 1997. The most notable trend over this time has been that homebuyer activities have continued to gain support, while the share of PJs using HOME for TBRA has declined. In 2002, approximately 85 percent of PJs nationwide committed at least some HOME funds to homebuyer programs. Sixty-nine percent of PJs committed funds to rental development, 68 percent committed funds to owner-occupied rehab, and 8 percent committed HOME funds to TBRA.

Exhibit 3-4
Percentage of PJs Committing HOME Funds for Various Eligible Activities, 1992-2002

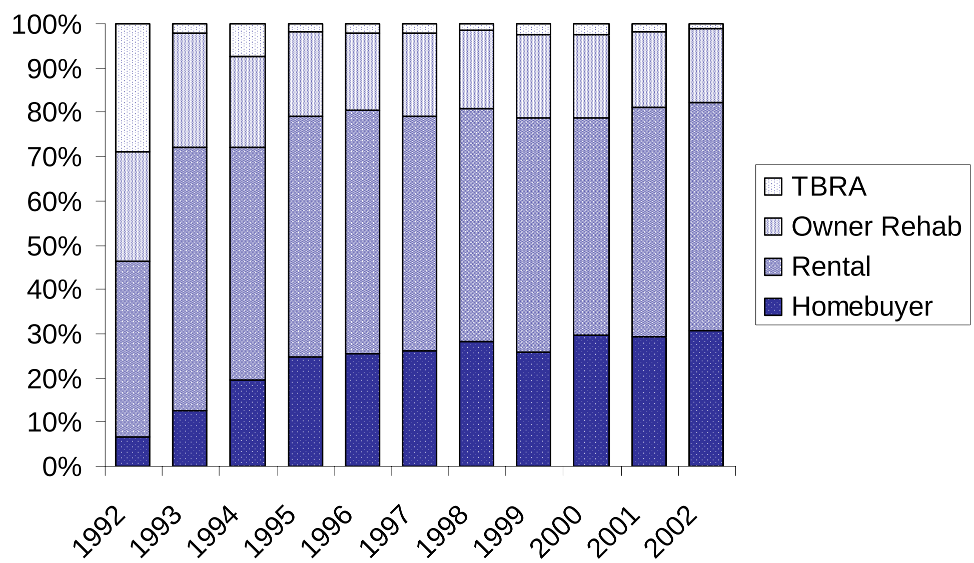


Source: IDIS

As the number of PJs committing HOME funds to homebuyer programs has grown, so has the average share of HOME funds committed to these programs (see Exhibit 3-5). Rental development has always commanded the largest share of HOME commitments, ranging from 40 percent of total commitments in 1992 to 52 percent in 2002. However, the share of HOME funds committed to homebuyer activities has grown steadily over this period. Since 1992, PJs have committed an average of 26 percent of HOME funds to homebuyer activities, 53 percent to rental development, 19 percent to owner-occupied rehab and 2 percent to

TBRA. In 2002, the share of HOME funds committed to homebuyer programs was 31 percent, the highest it has been since the program's inception. Rental development commanded 52 percent of the funds committed, owner-occupied rehab 17 percent, and TBRA 1 percent.

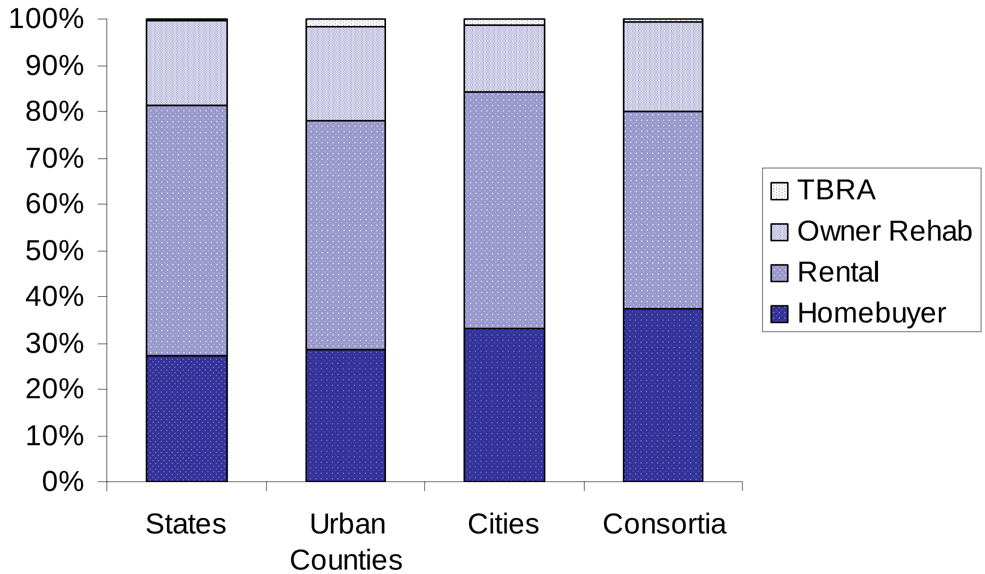
Exhibit 3-5
Distribution of HOME Funds Across the Four Eligible Activities, all PJs, 1992-2002



Source: IDIS

The share of HOME funds committed to homebuyer activities varies somewhat by PJ type. As shown in Exhibit 3-6, states and urban counties commit the smallest share to homebuyer activities. As will be discussed further below, in many cases states have other sources of funding for their homebuyer programs, such as down payment assistance and affordable loan products financed through state bonds. State PJs also tend to receive the largest HOME allocations and, therefore, may be more able to fund rental development, which has the highest cost per unit of the four HOME-eligible activities. Comparison of commitments shown in IDIS with the size of HOME allocations confirms that PJs with the largest HOME allocations tend to devote the smallest share to homebuyer activities and the largest share to rental development (see Exhibit 3-7).

Exhibit 3-6
Distribution of 2002 HOME Funds Across the Four Eligible Activities by PJ Type



Source: IDIS

Exhibit 3-7

Average Share of HOME Funds Committed to Each Activity Type, by Size of 2002 HOME Allocation

	Homebuyer Activities	Owner Rehab	Rental	TBRA	Number of PJs
$0 to $750,000	58%	17%	25%	0%	19
751 to $1million	38%	21%	41%	0%	11
$1.1 to 2 million	40%	25%	33%	2%	15
> $2 million	18%	20%	60%	3%	15
Average/Total	**40%**	**20%**	**39%**	**1%**	**60**

Source: IDIS and Fiscal Year 2002 HOME Allocations

The share of funds committed to homebuyer activities may also vary by housing market characteristics. Within the interview sample, PJs serving areas with higher than average housing costs tended to devote a smaller share of HOME funds to homebuyer activities. For example, the PJs operating in areas where the median house value was less than $150,000, according to the 2000 Census, committed an average of 44 percent of their HOME funds to homebuyer activities. By contrast, PJs in areas where the median house value was at least

$150,000 committed an average of 29 percent of their HOME funds to homebuyer activities.[18]

It may be that PJs serving higher cost markets perceive a relatively greater need to preserve affordable rental housing because the cost of for-purchase housing is beyond the reach of many low-income buyers, even with the subsidies provided through HOME. At least two of the PJs interviewed made this case. Moreover, analysis of the mail survey of PJs found that a larger than expected share of PJs that *do not* use HOME for homebuyer programs are in the highest cost housing markets relative to other PJs. As described in Chapter 5, we grouped all PJs into five housing cost categories using data on median house values from the 2000 Census and found that 30 of the 64 PJs surveyed that *do not* use HOME for homebuyer programs were in the highest cost category. If there were no relationship between housing costs and homebuyer programs, the expected number would have been 13 (see Chapter 5, Section 5.1.5.).

3.3 Characteristics of HOME-Assisted Households

HUD's IDIS system maintains data on the characteristics of households served by different HOME program types. Exhibit 3-8 presents the income, race, and household size of HOME-assisted households across the four activity types.

Of the four activity types, homebuyer programs tend to serve the highest income households. Owner-occupied rehab and rental development programs target households at or below 50 percent of area median, and TBRA is heavily concentrated on the lowest income households. Nearly half (48 percent) of HOME homebuyers have incomes between 60 and 80 percent of the area median income (AMI), compared with 14 percent for owner-occupied rehab, 4 percent for rental housing development, and 1 percent for TBRA. Similarly, only 30 percent of HOME homebuyers have incomes at or below 50 percent of area median, compared with 69 percent for owner occupied rehab, 82 percent for rental development, and 97 percent for TBRA. Over time, the share of homebuyer households in the highest income category (60 to 80 percent of AMI) has increased somewhat—from 49 percent in 1992 to 55 percent in 2002—although it has never been less than 43 percent.

In addition to serving relatively higher income households, homebuyer programs serve the highest share of minority households of the four HOME activities. Overall, 55 percent of HOME homebuyers are minority households, that is, they do not identify themselves as white and non-Hispanic. Nationwide, the homeownership rate among minority households is

[18] Of the 60 PJs interviewed, 24 operated in markets where the median house value in 2000 was less than $100,000 and 17 operated in markets where the median house value in 2000 was between $100,000 and $150,000. Both groups committed an average of 44 percent of their HOME funds to homebuyer activities in 2002. The remaining 19 PJs in the interview sample operated in markets where the median house value in 2000 was at least $150,000. These PJs committed an average of 29 percent of their HOME funds to homebuyer activities in 2002.

approximately 48.5 percent.[19] Over time, the share of minority households assisted by HOME homebuyer programs has fluctuated somewhat, but in recent years it has been consistently above 50 percent.[20]

Exhibit 3-8

Income Characteristics of Households Assisted by HOME-funded Activities, 1992-2002

	Homebuyer Activities		**Owner-Occupied Rehab**		**Rental Development**		**TBRA**	
	Number	*Percent*	*Number*	*Percent*	*Number*	*Percent*	*Number*	*Percent*
Income								
0 to 30% of AMI	11,931	7%	32,016	31%	55,385	42%	70,154	80%
31 to 50% of AMI	41,087	23	38,705	38	52,107	40	14,505	17
51 to 60% of AMI	41,709	23	13,789	13	19,547	15	1,736	2
61 to 80% of AMI	86,255	48	18,035	18	4,870	4	774	1
Race/Ethnicity								
White, Non Hispanic	81,889	45%	62,077	61%	63,497	48%	47,758	55%
Black	47,290	26	28,911	28	47,526	36	26,910	31
Asian	4,063	2	909	1	2,837	2	1,460	2
Native American	1,374	1	872	1	1,425	1	2,441	3
Hawaiian/Pac. Isl.	3	0	0	0	6	0	1	0
Hispanic	46,317	26	9,780	10	16,588	13	8,597	10
Household Size								
1 person	35,958	20%	39,857	39%	60,488	46%	24,611	28%
2 people	38,057	21	26,666	26	28,606	22	21,665	25
3-4 people	76,549	42	24,571	24	33,805	26	30,859	35
5-6 people	25,660	14	9,346	9	8,114	6	8,583	10
7 or more people	4,768	3	2,107	2	957	1	1,465	2

Source: IDIS

Note: The total number of households reported in this table reflects the total number of HOME-assisted households for which data were available at the time of the IDIS data extract. Household characteristics data are generally available after a unit is completed, so the number of HOME-assisted households in this table is lower than the number of units for which HOME funds have been committed over the same period.

Homebuyer programs serve larger households than the other activity types. Nearly 60 percent of HOME homebuyers reside in households with three or more people, compared with 47 percent of households assisted by TBRA, 35 percent households assisted by owner-occupied rehab, and 33 percent of households assisted by rental development. By the same token, HOME homebuyers are less likely to be in one- or two-person households than those receiving other types of HOME assistance.

[19] Based on U.S. Census Bureau statistics for the second quarter of 2002. See U.S. Department of Housing and Urban Development, "Economic Benefits of Increasing Minority Homeownership" (accessed via the HUD website at www.hud.gov).

[20] An exception is 2002, when only 46 percent of HOME homebuyers were minorities.

3.4 PJ Strategies for the Allocation of HOME Funds

This section draws upon the findings of the in-depth interviews conducted with 60 PJs to explore the individual PJ experiences underlying national trends in the allocation of HOME funds and to identify the key factors that influence PJ decisions about how to allocate HOME funds among the four eligible activities.

3.4.1. Trends in the Share of HOME Funds Committed to Homebuyer Activities

Across all PJs, the growth in the share of funds committed to homebuyer activities has been fairly steady since 1992 (see Exhibit 3-5 above). The trends for individual PJs, however, are much more erratic. Among the 60 PJs interviewed, for example, fewer than half showed steady growth in the share of HOME funds committed to homebuyer activities. For most PJs, the share of HOME funds committed to homebuyer activities is quite fluid, depending on project opportunities and development schedules, how quickly funds are expended on a given activity, and the availability of other PJ resources, such as CDBG, which may fund some of the same activities as HOME.

On average, the share of HOME funds and units committed to homebuyer activities for the 60 PJs interviewed has increased since the start of the HOME program. Fifty-eight percent of the PJs interviewed committed a greater share of HOME funds to homebuyer activities in 2002 than when they started funding homebuyer programs using HOME (typically one to two years after first receiving HOME funds). Twenty-five percent of PJs committed approximately the same share and 17 percent committed a smaller share. The following examples from the in-depth interviews illustrate some PJ strategies for allocating HOME funds.

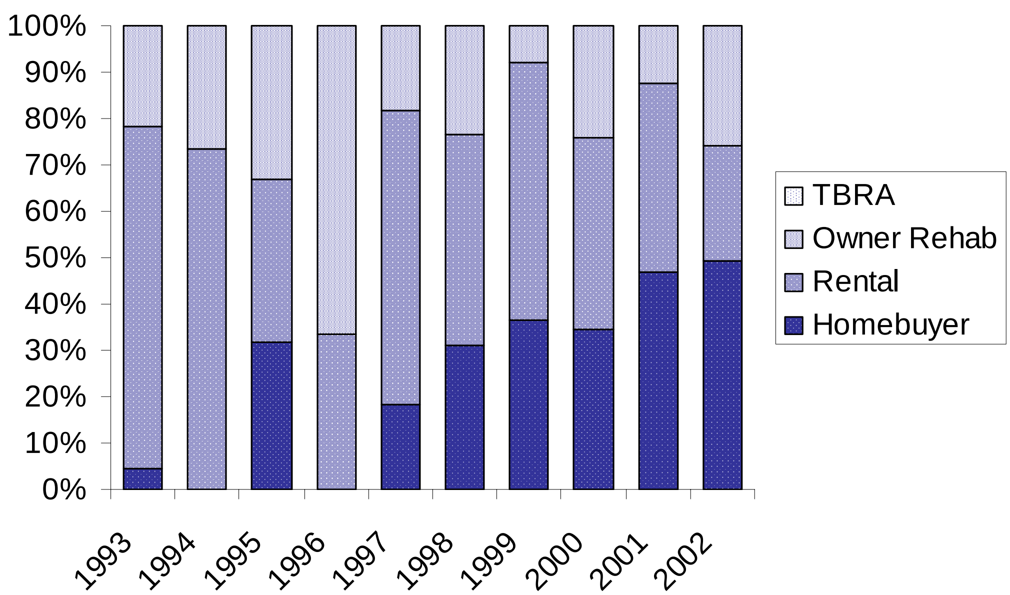
City of Madison, WI

The City of Madison, WI, has a strong, but not booming, housing market. Home to the University of Wisconsin as well as the state capital, Madison has a large number of university rental properties and a homeownership stock that is relatively affordable and generally in good condition. In 2000, the median house value in the city was $139,300 and the homeownership rate was 48 percent. Homebuyer assistance is one of the PJ’s three main housing priorities, which also include rental development and assistance to existing homeowners.

From 1993 to 1997, Madison allocated the majority of its HOME funds to rental development and owner-occupied rehabilitation (see Exhibit 3-9). The PJ only funded homebuyer activities in two years (1993 and 1997) and did not use HOME for TBRA at all. In 1997, however, the PJ decided to use HOME funds as “early stage seed capital” to allow CHDOs and other nonprofit developers greater flexibility to identify and obtain appropriate sites and leverage additional financing. This approach increased the capacity of the local CHDOs to develop homebuyer units and led the PJ to commit a growing share of HOME funds to homebuyer activities.

The PJ now has a mix of "workhorse" developers that consistently receive HOME funds and produce 5 to 10 units every year and "project-specific" developers that apply for HOME funding when they have an opportunity to produce a larger number of units. The PJ is satisfied with the current allocation of HOME funds and plans to continue to devote the majority to rental and homebuyer development, primarily in mixed income communities. The proportion of funds committed to rental versus homebuyer development, however, may fluctuate from year to year depending on CHDO capacity, development schedules, and the nature of the development opportunities that arise. In addition, the PJ plans to use HOME for TBRA for the first time in 2004, but possibly only for one year.

Exhibit 3-9
Allocation of HOME funds in City of Madison, Wisconsin, 1993-2002



Note: The PJ has never committed HOME funds to TBRA.

Source: IDIS

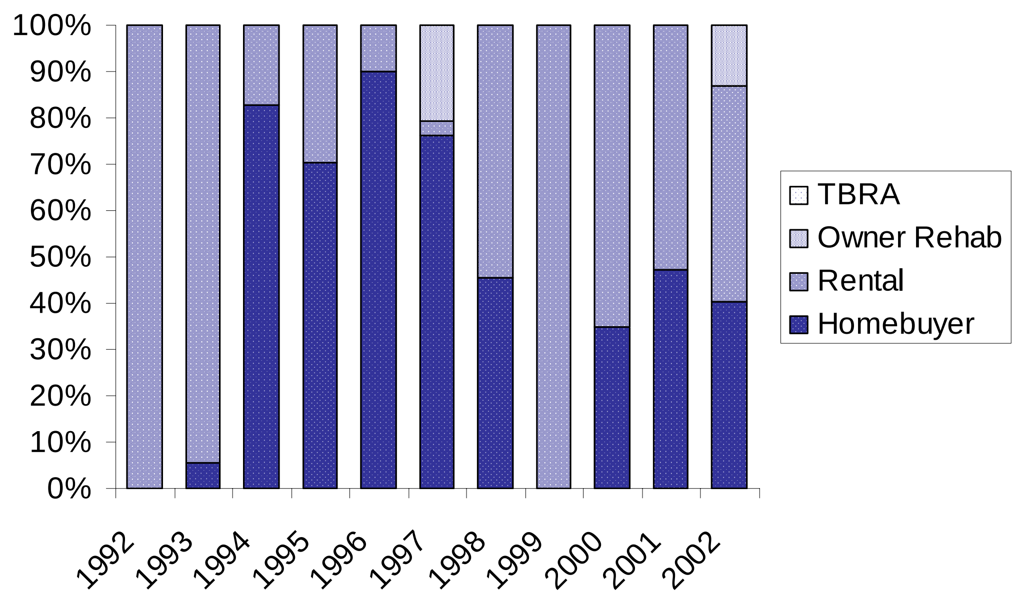
County of Miami-Dade, FL

The Miami-Dade County PJ administers the HOME program in parts of Dade County not covered by other PJs with the exception of the City of Miami, which is its own PJ.[21] Miami-Dade County receives about $6 million in HOME funds each year and since 2000 has committed approximately 40 percent of those funds to homebuyer activities, 55 percent to rental development, and 4 percent to owner-occupied rehabilitation. The PJ has never used HOME for TBRA and typically funds its owner-occupied rehabilitation program through CDBG and county funds.

[21] The following cities in Dade County are served by other PJs: Miami, Hialeah, Homestead, Miami Beach, and North Miami.

The PJ's priorities for the use of HOME funds have not changed much since 1994, when the PJ first committed a significant share of its HOME allocation to homebuyer activities. The main priorities are homebuyer and rental development, although the year-to-year commitment of funds between the two activities varies based on development opportunities. Between 1994 and 1997, the majority of HOME funds were committed to homebuyer activities, while rental development dominated in 1998 and 1999 (see Exhibit 3-10). In addition to HOME, the PJ also has access to two state funding sources for homebuyer activities—the State Housing Initiative Program (SHIP) and the Surtax program, funded through document taxes. In years when the majority of HOME funds were committed to rental projects, the PJ drew more heavily on these other sources of funding for its homebuyer programs.

Exhibit 3-10
Allocation of HOME funds in County of Miami-Dade, Florida, 1992-2002



Note: The PJ has never committed HOME funds to TBRA.

Source: IDIS

Prior to 2000, the PJ managed its homebuyer programs in-house, using HOME for both down payment assistance and development of homebuyer units. In the late 1990s, however, the local housing market tightened considerably and both purchasing existing homes and developing new homebuyer units became more difficult. According to PJ staff, local house prices have increased $40,000 to $50,000 since 2000, and the county is now a seller's market. In addition, the City of Miami has pushed development all the way to the edge of the Everglades, which means that new developments in Dade County all have zero lot lines because land is so scarce. In response to these changing conditions, the PJ decided in 2000 to combine its HOME-funded down payment assistance program with the state Housing

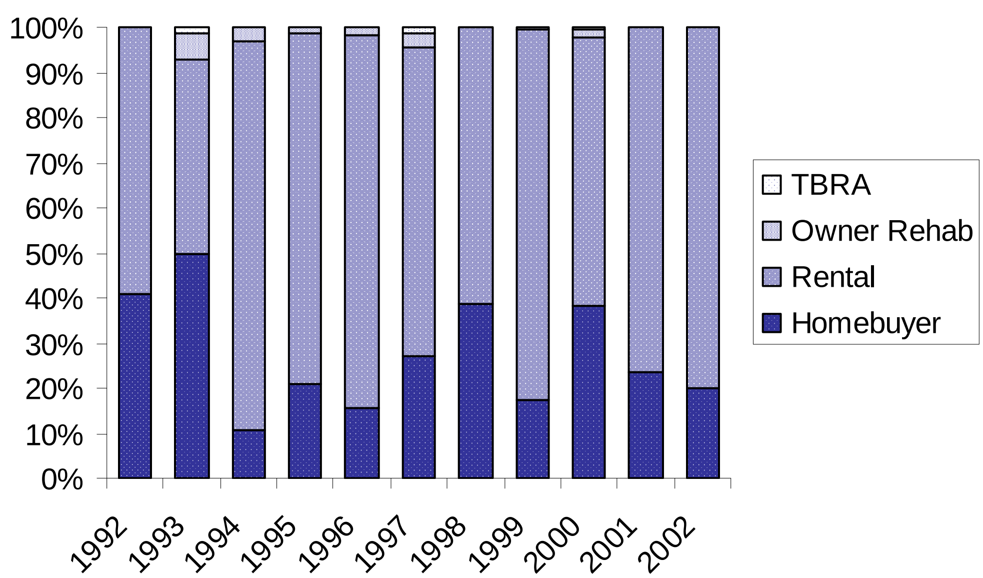
Finance Agency's bond program in order to offer a deeper subsidy to homebuyers. The PJ also opted not to do any homebuyer development itself but to use HOME to provide loans and grants to CHDOs, nonprofit developers, and for-profit developers to develop units of homeownership. The PJ plans to continue this arrangement, and the current allocation of HOME funds across the four activity types, for the foreseeable future.

State of Rhode Island

The State of Rhode Island uses HOME funds for all four activity types, with the majority of funds going to homebuyer programs and rental development. The PJ has several homebuyer programs, only one of which is funded by HOME. HOME funds are used only for development of homebuyer units because the state has other funding for down payment assistance and first mortgages. The PJ allocates all its HOME funds through two rounds of funding each year, open to cities, towns, and developers. Each round solicits proposals to use HOME funds for all eligible uses (rental, homeownership, homeowner rehab).

Since 1992, the State of Rhode Island has committed 15 to 40 percent of its HOME funds to homebuyer programs and 60 to 80 percent to rental development, with no clear pattern over the years (see Exhibit 3-11). TBRA is almost never funded, because the federal housing choice voucher program provides tenant-based rental assistance statewide. Similarly, owner occupied rehabilitated is typically funded through CDBG.

Exhibit 3-11
Allocation of HOME funds in State of Rhode Island, 1992-2002



Note: The PJ only committed HOME funds to TBRA in 1993, 1997, and 2000, and in each year the share of HOME funds committed to TBRA was less than two percent of the total funds committed in that year.

Source: IDIS

The PJ does not have a stated priority to fund rental development, but rental projects tend to be funded more often because they are considered more cost effective than homebuyer projects and are thus rated more highly in the biannual competitions for funding. The PJ considers rental development to be more cost effective because the per-unit costs associated with lead-based paint abatement are higher for single homebuyer units than for larger rental developments and because the state can leverage Low Income Housing Tax Credit (LIHTC) funding for rental developments, which it cannot do for homebuyer units. Indeed, based on IDIS data, the PJ spends an average of $26,743 in HOME funds per homebuyer unit, versus $21,900 per rental unit.

3.4.2. Future Allocation of HOME Funds

A large majority of PJs interviewed (51 of 60) reported that they did not expect any major changes to their allocation of HOME funds across the four eligible activities in the near future. Most of the PJ staff interviewed believed that the current allocation was appropriate to their local housing needs and priorities, although several noted that the share of funds allocated to homebuyer or rental activities might change significantly in a given year in response to unanticipated development opportunities. In addition, several of the PJs interviewed received a significantly smaller HOME allocation in 2003 than in 2002 and anticipated having to reduce program spending across the board.

Six PJs expected the share of HOME funds used for homebuyer activities to increase over the next couple of years. In three of these cases, a recent change in political leadership or a shift in local policy choices has increased the priority of funding homebuyer activities:

- A key factor in the City of Seattle (WA)'s decision to commit an increasing share of HOME funds to homebuyer activities was a local tax levy for affordable housing that included funding for homeownership efforts. The original tax levy was passed in 1995. Funds became available in 1997 and were first used in 1998. City voters passed a new levy in 2002 that calls for a further increase in funding for homeownership. Along with this funding, the PJ opts to devote about 25 percent of its HOME funding for homeownership as well. HOME funds are used to leverage the tax levy funds for the development of homebuyer units in distressed neighborhoods of the city.

- In Pierce County (WA), new political support for homeownership has led the PJ to explore ways to increase its use of HOME for homebuyer activities. The PJ would like to undertake more development, particularly new construction, but does not think it will have sufficient funds to do so. The PJ is also considering offering a higher level of subsidy per unit to serve households earning between 50 and 70 percent of AMI. Increased HOME funding for homebuyer efforts would come at expense of owner-occupied rehabilitation, which the PJ would fund through CDBG.

- In Will County (IL), PJ staff reported that priorities have shifted both at the community level and at the county government level from rental to homeownership in recent years. Local communities do not want new rental housing, but are receptive to single-family homeownership development. This changing view of development and the PJ's desire to provide down payment assistance to buyers has contributed to the decision to allocate more HOME funds to homebuyer activities.

Three other PJs also reported that they anticipated an increase in the share of HOME funds for homebuyer activities, but for more idiosyncratic reasons. In one case, a new needs assessment had revealed a greater local need for homeownership relative to rental. Another PJ decided to begin funding owner-occupied rehabilitation through CDBG rather than HOME, leaving a larger share of HOME funds for homebuyer activities. Finally, one PJ had not been using HOME for homebuyer activities because it had received a major supplemental allocation of CDBG funds and a waiver to use CDBG for new construction as a result of floods in 1994 and 1998. In 2002, the PJ spent the last of the CDBG funds and planned to resume funding homebuyer development through HOME.

Three of the 60 PJs interviewed expected that the share of HOME funds allocated to homebuyer activities would decrease over the next few years. In all three cases, the PJs planned to allocate a larger share of funds to rental development, but for somewhat different reasons:

- Since 1996, Baltimore County (MD)'s Office of Community Conservation (OCC) has committed a majority of its HOME funds to homebuyer activities, with the balance used for rental development. Political support for homeownership efforts is very strong in the county. Thus far, most of the rental development projects that OCC has funded with HOME have been small and focused on special needs populations who are not good candidates for homeownership. Over the past 10 months, OCC has undergone a planning exercise to reassess its priorities and consider alternative ways to use HOME funds for rental development. The PJ would like to broaden its rental programs to fund family rental projects and has been working to educate the county's elected officials that these kinds of projects, as well as homeownership, can help to stabilize and revitalize neighborhoods. In the future, OCC expects to be able to devote a larger share of HOME funds to rental activities.

- The County of Richland (SC) is a new PJ that received its first allocation of HOME funds in 2002. In the first year of the program, the PJ committed 100 percent of its HOME allocation to a down payment assistance program that it had previously administered for the State as a subrecipient. In future years, however, the PJ intends to use HOME for rental development as well as the homebuyer program, focusing first on rental rehabilitation as a way to increase public support for rental housing. PJ staff reported that many homeowners in the county see rental units as a problem in their communities and a threat to their property values.

- The City of Alexandria (VA) operates a HOME-funded down payment assistance program in an increasingly tight housing market. The City has traditionally focused on providing down payment assistance for homeownership, not wanting to duplicate the assistance—primarily rental—provided by the local housing and redevelopment agency. In recent years, however, housing prices in the city have risen dramatically, causing landlords to convert previously affordable rental units into luxury apartments or opt out of Section 8 project-based contracts. At the same time, the housing and redevelopment agency has reduced its spending on rental development. Given the pressing need to preserve the stock of affordable rental housing, the City has decided to commit a greater share of HOME funds to rental development for low- and extremely low-income households, including creating a Housing Development Fund (HDF) funded with HOME and City funds.

3.5 Factors Influencing the Allocation of HOME Funds

The above examples illustrate the diversity of PJ experiences underlying national trends in the allocation of HOME funds. One of the goals of the semi-structured interviews was to investigate how and why PJs choose to allocate HOME funds between homebuyer programs and the other eligible activities. During the interviews, we did not present PJ staff with a list of possible factors and ask them to rank the relative importance of each. Instead, we began with an open-ended question ("Why did the PJ choose to allocate its HOME funds across the four activity types in this way?") and probed as necessary to elicit deeper discussion about the specific factors influencing the PJ's allocation decisions and the relative importance of each of the factors.

This type of inquiry presents several challenges. First, we know from HUD's recent study of the Consolidated Planning process that jurisdictions do not always allocate funds to specific activities *strategically*—that is, based on a prior determination of what types of activities will be funded and at what levels of funding. Instead, the allocation process may be more *opportunistic*, reflecting the number and type of requests for funding received by the PJ in a given year.[22] The PJs interviewed used a variety of processes for allocating HOME funds ranging from highly strategic to highly opportunistic. In some cases, PJs had a clear sense of which activities or programs they wanted to fund and either operated those programs in-house or through subrecipients selected through a Request for Proposals (RFP) process. This type of allocation is typically strategic, in the sense that the type of program and level of funding is predetermined by the PJ and specified in the RFP. Other PJs issue a general

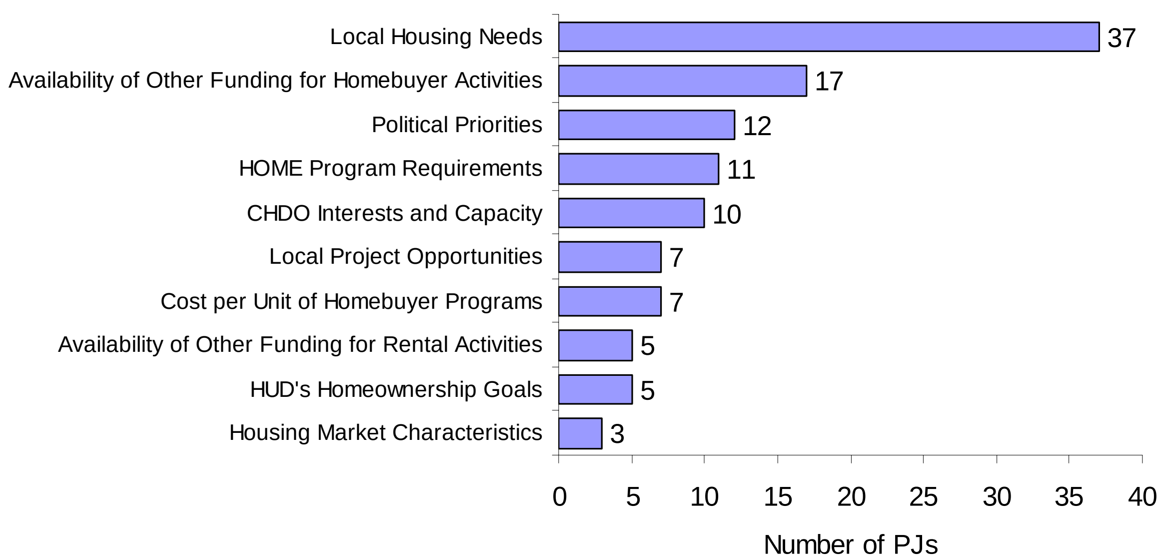
[22] U.S. Department of Housing and Urban Development, *Planning to Meet Local Housing Needs: The Role of HUD's Consolidated Planning Requirements in the 1990s*, December 2002, p. 4-4.

Notice of Funding Availability (NOFA) that invites local organizations to propose programs under any of the four eligible activity types. This process tends to result in a more opportunistic allocation of funds in that the PJ places fewer restrictions on the types of programs that can be proposed.

A second challenge with investigating the factors influencing the allocation of HOME funds across the four activity types is that in several cases the staff managing homebuyer programs were somewhat removed from agency decisions about the allocation of HOME funds. This was especially true of the larger agencies where the homebuyer programs were administered through a different department from other HOME-funded activities. In such cases, respondents sometimes attributed the allocation of HOME funds to "local needs" or "PJ priorities," without being able to provide further insight into how the needs were determined or the priorities set.

Although a majority of the PJs interviewed identified "local housing needs" as the key factor influencing funding allocation decisions, other factors, such as the availability of other funding, political priorities, CHDO capacity, and HOME program requirements were also important. Exhibit 3-12 presents the factors that influenced PJ allocations of HOME funds across the four eligible activities, based on the interviews with 60 PJs. Most PJs identified more than one factor as important to their allocation decisions; as a result, the numbers presented in the exhibit do not sum to 60.[23]

Exhibit 3-12
Factors Identified by PJs as Influencing the Allocation of HOME Funds Across Activities



Source: Interviews with 60 PJs.

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[23] Because of the open-ended nature of the interview, we did not have PJ respondents rank the factors identified as important; nor did we ask them to assign a weight to every potential influencing factor.

In many cases, the factors influencing the allocation of HOME funds to homebuyer activities appear to be related to the share of HOME funds committed to those activities. For example, PJs allocating a relatively small share (less than 25 percent) of their HOME funding to homebuyer activities were more likely to cite the availability of other funding for homebuyer programs as important. Included in this group are the 10 PJs that at the time of the mail survey did not have active homebuyer programs. Seven of these PJs had other sources of funding for homebuyer activities, and seven reported that HOME program requirements discouraged them from using HOME for homebuyer programs.

By contrast, PJs allocating a majority of their HOME funding to homebuyer activities were more likely to report that their allocation decisions were influenced by the priorities of elected officials or the interests and capacity of local partners to administer the homebuyer programs. Other factors, however, such as the cost per unit of homebuyer versus other activities and local project opportunities, did not appear to be related to the share of HOME funds the PJ had allocated to homebuyer activities. The following section discusses the most commonly cited factors, providing examples from the 60 PJs interviewed.

3.5.1. Local Housing Needs and Political Priorities

Thirty-seven of the 60 PJs interviewed cited local housing needs as a key factor shaping agency decisions on how to allocate HOME funds. For example, PJs allocating less than 25 percent of their HOME funds to homebuyer activities typically reported that the need for rental assistance was greater in their communities than the need for homeownership assistance. By contrast, PJs allocating a larger than average share of HOME funds to homebuyer activities pointed to the greater need for homeownership.

In many cases, the identification and prioritization of housing needs derived directly from a needs assessment based on Census and other local data. In other cases, the ranking of needs and identification of suitable policy responses were more overtly political. For example, several PJs reported that they began allocating HOME funds to homebuyer activities following the election of a new mayor or county executive for whom homeownership was a clear priority. Overall, 12 PJs said that the policies and priorities of locally elected officials influenced their decisions about allocating HOME funds.

PJ responses to the need to serve very low income households suggest the more subtle ways in which political priorities can influence funding decisions. Several PJs in the study identified providing housing assistance to households with incomes at or below 50 percent of AMI as a high priority. Most PJs responded to this need by allocating more HOME funds to rental development, on the assumption that rental assistance best serves the needs of this income group. Some localities in which homeownership enjoys particularly strong political support, however, responded to this need by providing a deeper homeownership subsidy or restricting their homebuyer programs to a lower income group (e.g., households earning up to 60 percent of AMI as opposed to the program limit of 80 percent). Obviously, this strategy may not be feasible in all markets, especially those in which the area median income is low relative to home prices.

3.5.2. Availability of Other Funding for Homebuyer Activities

Seventeen of the 60 PJs interviewed reported that the availability of other funding sources for homebuyer activities influenced their decisions about how to allocate HOME funds across the four eligible activities. The availability of other funding was most often cited by state PJs and PJs that commit only a small share of HOME funds for homebuyer activities. Seven of the eight state PJs interviewed reported using other resources for homebuyer activities. In most cases, the state PJs interviewed had bond-financed second mortgage programs that provided down payment assistance to buyers with incomes up to 80 percent of area median, in some cases up to 120 percent. In addition, some PJs had established affordable housing funds—in two cases as a result of a Fair Housing lawsuit—that they used to fund the development of affordable rental and homeownership units. Finally, two PJs in the sample had received a major allocation of federal disaster relief funds that allowed them to develop homebuyer units without using the HOME program.

In some cases, the non-HOME resources available to fund homebuyer activities in a given locality are so significant that there is little need to use HOME for this purpose. For example, the State of New Jersey's Balanced Housing Fund, used for homebuyer and rental development in targeted areas, is funded at approximately $40 million annually, whereas the State of New Jersey's total HOME allocation is approximately $7 million. For many PJs, however, the State of New Jersey included, decisions about whether and when to use HOME for homebuyer activities are also strongly influenced by the requirements of the different funding sources. In other words, having other sources of funding for homebuyer activities does not automatically mean that a PJ will devote fewer HOME funds to this purpose, although it certainly gives the PJ the option to do so.

For example, the State of Alabama has a tax-exempt bond program that provides down payment assistance to qualified homebuyers. The PJ also supports homeownership by purchasing loans from Habitat for Humanity for homebuyers at or below 30 percent of AMI and by encouraging owners of LIHTC developments to convert rental units to affordable homebuyer units at the end of the LIHTC affordability period. Given these other resources for homeownership and the priority placed on assisting households with incomes at or below 30 percent of area median, the State has opted to use the majority of its HOME funds as gap financing for LIHTC developments and has never used HOME for homebuyer activities.

3.5.3. HOME Program Requirements

Eleven of the 60 PJs interviewed reported that the requirements of the HOME program influenced their allocation decisions. Seven of the 11 PJs had alternative sources of funding for homebuyer programs that PJ staff reported were less restrictive than HOME in one or more of the following areas: resale and recapture requirements, lead-based paint requirements, and buyer income limits.[24] The remaining four PJs cited these requirements and others related specifically to development (maximum property value price for rehabilitated units and Davis-Bacon wage requirements) as limiting the share of HOME funds the PJ was willing to commit to homebuyer programs. These PJs would likely commit more HOME funds to homebuyer programs in the absence of these requirements.

In addition to asking PJs how they allocate HOME funds across the four eligible activities and which factors (including HOME program requirements) are most important in their allocation decisions, we asked PJs in a separate question whether HOME program requirements present any barriers to the use of HOME for homebuyer programs. The purpose of this last question was to provide feedback to HUD on what PJs perceive to be the main challenges associated with using HOME for homebuyer programs.[25] In total, 35 of the 60 PJs interviewed (including the 11 PJs cited above) reported that program requirements present challenges to the use of HOME for homebuyer programs.[26] The main program requirements identified as challenges to using HOME for homebuyer activities were:

- Lead-based paint requirement;
- Resale/recapture provisions and ongoing monitoring;
- Purchase price and income limits; and
- Davis-Bacon wage requirements.[27]

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24 Six PJs operated state bond-financed homebuyer programs and one PJ funded its down payment assistance program using CDBG funds.

25 In this part of the interview, we simply asked PJ respondents whether they saw any HOME rules as presenting barriers to the use of HOME for homebuyer programs. Across the 60 sites, we did not consistently probe for whether the program requirement was a particular problem for homebuyer programs versus the other eligible activities, unless the PJ staff identified program regulations as a factor influencing their overall allocation of HOME funds, in which case we did ask about all four activities. The result is that some of the challenges identified with using HOME for homebuyer programs also apply to other HOME activities, particularly rental development, and we have only limited information on whether and why the requirements are more problematic for homebuyer programs versus the other activity types.

26 Most PJ staff preferred the term “challenges” to “barriers,” saying that barriers was too strong a term to describe their concerns about HOME program requirements.

27 Other program requirements identified as problematic by a smaller number of PJs were: IDIS reporting (seven PJs); insufficient funding for PJ and CHDO program administration (five PJs); local match requirement (four PJs); the environmental review process (three PJs); the requirement to pay relocation expenses (two PJs); and the CHDO set aside requirement (two PJs).

Fourteen PJs cited the HOME lead-based paint requirement as a challenge to using HOME for homebuyer programs.[28] The lead-based paint requirement applies to all HOME activities and requires an assessment and, if necessary, treatment to remove defective paint. Several PJs noted that the lead-based paint requirement reduces demand for their HOME-funded down payment assistance programs, because buyers can often purchase using alternative sources of assistance that have less stringent requirements. For example, staff at several PJs reported that sellers are often unwilling to make repairs necessary to meet the HOME lead-based paint requirement. In such cases, either the sale falls through altogether and the buyer may or may not purchase another unit using HOME funds, or the buyer purchases the same unit using another form of assistance (such as a state bond-financed program or down payment assistance from a local bank) that does not have the same requirements. However, only one PJ reported that it had stopped using HOME for down payment assistance because of the lead-based paint requirement. Some PJs operating in areas where lead-based paint was a major problem in the existing housing stock had reduced the burden on buyers and sellers by restricting purchases to units built after 1978 (two sites) or applying for state funds to conduct lead abatement (three sites).

Staff at several PJs acknowledged that the lead-based requirement applies to rental as well as homebuyer activities. However, at least two PJs made the point that the requirement is particularly a problem for homebuyer programs because unlike rental units, most homebuyer units are acquired or developed as single units, which means there is less opportunity to realize economies of scale in conducting the lead-based paint assessment and abatement.

Twelve of the PJs interviewed reported that the requirement to enforce either a resale or recapture provision on HOME-funded homebuyer units was a burden. In particular, PJs complained that recapture and resale provisions were complicated to set up and time-consuming to monitor, particularly for the higher subsidy amounts that have a 10- or 15-year affordability period. In addition, some PJs noted that in loose housing markets, post-purchase restrictions attached to a unit reduce that unit's appeal for buyers. For example, the State of New Hampshire formerly used HOME funds to provide down payment assistance in conjunction with its bond-financed direct mortgage assistance program. The PJ stopped funding this program, however, because it was not very competitive with the low interest rates offered by private lenders. PJ staff reported that few homebuyers were willing to go through the hassle of the state program and agree to the recapture restrictions when they could more quickly and easily get a mortgage from a bank. As a result, the PJ does not offer a HOME-funded homebuyer program, but instead uses its HOME allocation primarily for

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[28] Housing assisted with HOME funds must meet all applicable state and local housing quality standards and code requirements (see 24 CFR 92.251). If there are no such standards or code requirements, the housing must meet the housing quality standards in 24 CFR 982.401 (Housing Choice Voucher Program Housing Quality Standards). In addition, HOME-assisted housing is subject to the Lead-Based Paint Poisoning Prevention Act (42 U.S.C. 4281-4846), the Residential Lead-Based Paint Hazard Reduction Act of 1992 (42 U.S.C. 4851-4856), and implementing regulations at 24 CFR 35 subparts A, B, J, K, M, and R (see 24 CFR 92.355).

rental development, as gap financing for LIHTC projects, and for owner-occupied rehab. Most of the PJs that reported that HOME's resale/recapture requirement presented a challenge to the use of HOME for homebuyer programs were PJs that committed no HOME funds, or very few HOME funds, to homebuyer programs. These were also the PJs most likely to have other—less restrictive—sources of funding available for homebuyer assistance.

HOME's purchase price and income limits presented a challenge for 12 PJs interviewed. Most had opted to use HUD's 203(b) limits as the maximum purchase price, but nevertheless reported that HUD's median purchase price estimates were too low. Some were unaware that HOME rules allow PJs to propose an alternative based on a local study. In addition, several PJs reported that the high cost of housing in their markets made it difficult to serve households with incomes at or below 80 percent of area median income. For example, PJ staff in the City of San Bernardino (CA) commented that if they could change one thing about the HOME program, it would be to raise the income limit slightly, because they often have people who just miss qualifying for the program but cannot afford to purchase without assistance. At least one PJ erroneously reported that the program requirement that 90 percent of *all HOME-assisted households* have incomes at or below 60 percent of AMI presented a problem for its homebuyer programs. (The program requirement is that 90 percent of *all households living in HOME-assisted rental units* must have incomes at or below 60 percent of the area median.)

Finally, 10 PJs cited Davis-Bacon wage requirements, which apply to developments of 12 units or more, as a challenge to the development of homebuyer units. Several PJs claimed that Davis-Bacon requirements limited the number of homebuyer units funded with HOME, including one PJ that stopped funding the development of homebuyer units entirely because of Davis-Bacon and other program restrictions. As with the lead-based paint requirements, several PJs acknowledged that Davis-Bacon requirements are a challenge to using HOME for rental development as well. However, staff at two PJs reported that although Davis-Bacon and other development-related requirements were unavoidable in their rental development programs, they had opted not to use HOME for homebuyer development so as to limit the administrative burden of complying with these requirements. Instead, they used the HOME funds allocated to homebuyer activities exclusively for down payment assistance. Other PJs tried to avoid Davis-Bacon in their homebuyer programs by restricting HOME-funded development projects to 11 units.

In summary, 11 of the 60 PJs interviewed reported that HOME program requirements influence their allocation of HOME funds across the four activity types, in most cases limiting the share of HOME funds being committed to homebuyer activities. In addition, 24 PJs identified program requirements that they perceived to be challenges to using HOME for homebuyer programs, but that did not directly influence the allocation of HOME funds across the four eligible activities. In general, the availability other funding sources for homebuyer activities was an important factor shaping PJ perceptions of the extent to which HOME program requirements presented challenges to homebuyer programs.

3.5.4. CHDO Interests and Capacity

Ten of the 60 PJs interviewed reported that the interests and capacity of CHDOs and other local partners has a significant influence on the share of HOME funds allocated to homebuyer programs. For PJs that pass some or all of their HOME funds through local partners, the kinds of services these organizations perform can influence funding allocation decisions. In most cases, limited capacity among program partners restricts the amount of funding that the PJ is willing or able to commit to homebuyer activities. For example, the partner may not have the capacity to serve a large number of homebuyers, or the PJ may not have sufficient in-house resources to manage partners effectively. These issues are particularly challenging for PJs using HOME funds to develop homebuyer units and are revisited below in the discussion of program types. By contrast, a small number of PJs reported that the presence of strong program partners allows them to fund more homebuyer units than they otherwise might have done.

3.6 Summary

This chapter used IDIS data to explore national trends in the funding of HOME activities and the characteristics of HOME-assisted households. We also used the in-depth interviews to discuss the factors influencing the allocation of HOME funds over time and across activities. The main findings of this chapter are as follows:

- Since 1992, HOME has assisted more than a quarter of a million low-income households to purchase homes. A total of $3.1 billion in HOME funds have been committed for approximately 270,000 homebuyer units.

- Although rental development continues to claim the largest share of HOME commitments, the share of HOME funds committed to homebuyer programs has increased over time, from 7 percent in 1992 to 31 percent in 2002. The share of HOME-assisted units that are homebuyer units has also increased, from 3 percent in 1992 to 39 percent in 2002.

- There was a clear "ramp up" period for the HOME program between 1992 and 1994, in which PJs experimented with a range of activities and were relatively more likely to fund owner-occupied rehab and TBRA. As of 2002, however, PJs were more likely to fund homebuyer programs than any other allowable activity, with fully 85 percent of PJs committing at least some of their HOME funds to homebuyer activities.

- The increase in funding for homebuyer programs primarily reflects an increase in the number of units assisted, although the average cost per unit has risen slightly since 1997. The per unit cost of homebuyer programs is lower than either owner-occupied rehab or rental development, although higher than TBRA.

- Homebuyer programs serve a larger share of households at the higher end of the eligible income range (households earning 60 to 80 percent of area median income) than the other activity types.

- Fifty-five percent of HOME-assisted homebuyers are minorities. Homebuyer programs serve the highest percentage of minority households of the four activity types.

- Underlying the steady growth in the share of HOME funds committed to homebuyer programs nationwide are much more erratic patterns at the PJ level. The key factors influencing PJs allocation of HOME funds to homebuyer programs include local housing needs and political priorities, the availability of other funding for homebuyer activities, HOME program requirements, and the interests and capacity of CHDOs and other program partners.

Chapter 4 delves more deeply into the in-depth interviews and introduces the mail survey results to provide an overview the types of homebuyer programs funded by HOME.

Chapter 4:
Overview of HOME Homebuyer Programs

This chapter provides an introduction to how HOME is used to fund homebuyer programs. Through the national mail survey and in-depth interviews, we gathered information on three main types of HOME-funded homebuyer programs: direct assistance programs, development programs, and joint direct and development assistance programs. The first part of this chapter defines the three program types and provides several examples of each based on the in-depth interviews. We then draw upon the results of the national mail survey to discuss the frequency with which each program type is used and the extent to which PJs fund multiple homebuyer programs. Finally, we return to the in-depth interviews to explore PJ perceptions of the benefits of providing direct assistance to homebuyers compared with subsidizing the development of homebuyer units. Subsequent chapters investigate the characteristics of HOME homebuyer programs and program outcomes.

4.1 Overview of Program Types

The HOME program provides PJs with a great deal of flexibility to design homebuyer programs to meet the needs of their communities.[29] In order to capture how PJs take advantage of this flexibility in designing efforts to support homeownership, we gathered information on each homebuyer program run by each PJ.

Before beginning the discussion of homebuyer program types, it is important to clarify what we mean by homebuyer "program" and to provide a definition of the three program types, because there is much variation in how PJs use these terms. For example, a PJ may define a homebuyer program as a single down payment assistance program run by the PJ, which would be consistent with our definition, or as a one-application "program" in which the PJ passes HOME funds through to local recipients for any of the four HOME-eligible activities, which would be too broad for the purposes of this study. In these cases, we asked PJs to divide their homebuyer activities into distinct program types. For example, a state PJ might categorize their HOME-funded homebuyer efforts into those supporting direct assistance, new construction developments, and rehabilitation developments.

Another problem arises when PJs fund individual development projects, which do not necessarily constitute a program from the PJ's perspective. In these cases, we asked PJs to treat individual homebuyer "projects" as "programs." However, individual homebuyer projects with the same requirements could be considered a single program. By categorizing PJ activities into discrete programs we are able to capture all of the variations in how individual PJs use HOME to provide home-buying opportunities for low-income households.

[29] Note that this definition excludes owner-occupied rehab, which is a homeownership program but one that assists existing homeowners rather than prospective homebuyers, but it includes rehabilitation as part of a homebuyer project or activity.

Through the mail survey and in-depth interviews, we gathered information on three main homebuyer program types: direct assistance programs, development programs, and programs that combine direct and development assistance (“joint” programs). Each of these program types is described below, with further examples provided in Section 4.3.

Direct assistance programs provide financial assistance directly to the homebuyer in order to make the purchase affordable. Direct assistance can take the form of a loan or grant for down payment, closing costs, or both; contributions to an individual development account; or mortgage assistance, such as a subsidized first or second mortgage, interest subsidy, or loan guarantee. The same homebuyer may receive more than one of these forms of assistance. In pure direct assistance programs, the HOME subsidy is attached to the homebuyer, not the unit being purchased. However, some direct assistance programs tie the assistance to the purchase of a unit that has received development subsidies. These are the joint direct and development assistance programs described below.[30]

Development programs subsidize the costs of developing homebuyer units. Development may include site or unit acquisition, unit rehabilitation, or new construction. HOME funds are typically used to acquire homebuyer units for resale to low-income buyers, to acquire units and rehabilitate them prior to resale, or to build new homebuyer units. The “development subsidy” allows the PJ or developer partner to offer the unit at a lower purchase price, thus increasing its affordability for HOME-eligible buyers.[31]

Joint direct and development assistance programs are a variant on development programs in that HOME funds are used to subsidize the development of a unit and provide direct assistance to the buyer *of that particular unit*. For example, HOME funds may be provided to the developer to finance a rehab or new construction project. At the completion of the project, all or part of the subsidy is transferred to the buyer to assist with the purchase of the home, usually in the form of a deferred or forgivable loan. In other cases, the direct and development assistance may be provided separately, but tied to a particular unit. For example, a PJ may use HOME to subsidize the acquisition and rehabilitation of a unit through a grant to the developer and may also provide direct assistance to the buyer at the time of purchase.

4.2 Distribution of Homebuyer Programs by PJ Type

The majority of PJs that use HOME funds for homebuyer programs fund more than one program. As shown in Exhibit 4-1, of the 487 PJs surveyed that use HOME for homebuyer programs, 41 percent fund one program only, 28 percent fund two programs, and 32 percent

[30] In HUD’s IDIS system, direct assistance programs should typically be reported as “acquisition” programs.

[31] Based on this definition, in HUD’s IDIS system, development assistance programs could be reported as “acquisition” (in cases where HOME funds are only used to acquire the unit), “acquisition with rehab,” or “new construction.”

fund three or more programs.[32] Across the different PJ types, states are somewhat more likely to fund several HOME homebuyer programs. This may reflect the fact that states work in multiple housing markets and therefore need multiple approaches. In addition, states typically have other resources for homebuyer activities, giving them a broader ability to blend or target HOME funds. Finally, many states use local administrators (state recipients and subrecipients) who vary program design by local conditions.

Exhibit 4-1

Number of HOME-Funded Homebuyer Programs by PJ Type

	State (n=45)	City (n=273)	Consortium (n=99)	Urban County (n=70)	All PJs funding homebuyer programs (n=487)
One program	31%	41%	41%	46%	41%
Two programs	33	29	20	30	28
Three or more programs	36	30	38	24	32

Source: Mail survey of HOME PJs.

In addition to offering multiple homebuyer programs, PJs typically fund more than one homebuyer program type. Overall, 94 percent of PJs that fund homebuyer programs use HOME to provide some kind of direct assistance and 73 percent of PJs use HOME for homebuyer development.[33] More than two thirds of PJs either combine these funds through joint direct and development assistance programs or offer a combination of program types (see Exhibit 4-2). Among PJs that offer more than one program, the most common program combinations are one direct assistance only program and one or more development or joint programs. These programs offer different forms and amounts of subsidy, discussed in detail in Chapter 5.

32 As discussed in Chapter 2, we conducted a mail survey of all PJs that received HOME funds in 2002. Of the 551 PJs that responded to the survey, 487 use HOME funds for homebuyer programs.

33 Based on responses to the mail survey. As discussed in Chapter 2, we discovered through the in-depth interviews that some PJs had reported inaccurate data on the mail survey. Among the 50 PJs interviewed that used HOME for homebuyer programs, five reported homebuyer programs on the survey that were not operational at the time of the survey and six failed to report homebuyer programs on the survey that should have been reported. We chose not to amend the survey results for these cases because we did not have the opportunity to conduct in-depth interviews with all 551 PJs surveyed, so could not determine what kinds of errors may have been found among the larger sample. At the time of the survey, the research team made every attempt to ensure that PJs completed the survey correctly.

Exhibit 4-2

Share of PJs Using HOME for Direct Assistance, Development, Joint Direct and Development Assistance, or a Combination of Program Types

	State (n=45)	City (n=273)	Consortium (n=99)	Urban County (n=70)	All PJs funding homebuyer programs (n=487)
Direct Assistance	18%	25%	31%	33%	27%
Development	7	6	6	6	6
Joint Programs	22	21	17	21	20
Combination of Program Types	53	48	45	40	47

Source: Mail survey of HOME PJs.

4.3 Examples of Direct, Development, and Joint Programs

The following examples illustrate the range of program types observed across the in-depth interview sites.

4.3.1. Direct Assistance

The ***City of Galveston (TX)*** uses HOME to fund a down payment assistance program for low- to moderate-income homebuyers. The program is administered by the Galveston Community Development Corporation (GCDC) and is available to first-time homebuyers with incomes up to 80 percent of AMI. Buyers receive between $4,500 and $5,000 in down payment assistance, depending on what is needed to bridge the gap between the purchase price and the first mortgage plus any down payment funds that the buyer is able to contribute. (All buyers are required to pay at least $50 of their own funds). The down payment assistance is in the form of a zero interest forgivable loan with a forgiveness term of five years (the HOME affordability period). The PJ has not imposed any restrictions on the amount of the first mortgage or the buyer's housing cost burden, although GCDC is encouraged to work closely with the buyer and lender to ensure that the loan terms are affordable. If the house is sold, transferred, or foreclosed within the five-year period, the PJ recaptures a pro-rated share of the assistance.

The ***State of North Carolina*** has two HOME-funded direct assistance programs. The first program, known as the Down Payment Assistance Program, provides up to $5,000 in down payment assistance to qualified buyers in the form of a zero interest deferred payment loan. Buyers receiving down payment assistance must purchase using first mortgage products funded by the North Carolina Housing Finance Agency (NCHFA). The first mortgages and down payment assistance loans are administered through a statewide network of NCHFA-approved lenders. North Carolina's other HOME-funded direct assistance program is a statewide second mortgage loan pool program, known as the New Homes Loan Pool. Public agencies and nonprofit organizations apply to NCHFA to become qualified members of the loan pool and then submit proposals for homebuyer development projects to the NCHFA. Once an approved member has a project approved, buyers of the project units can obtain a second mortgage of up to $20,000 or 20 percent of the purchase price, whichever is lower, in the form of a zero interest deferred payment loan. Although the New Homes program has a development component, we do not classify it as a "joint" program because HOME funds are only used for the direct assistance component, while the development is funded through other sources. Both the Down Payment Assistance program and the New Homes program require full repayment (recapture) of the HOME loan when the house is resold or the first mortgage is paid off.

The ***City of Pasadena (CA)'s*** Homeownership Opportunities Program (HOP) provides a second mortgage to qualified buyers to cover down payment and closing costs and pays one discount point to lower the interest rate on the primary loan. HOME funds are used for HOP buyers at or below 80 percent of AMI, while State Housing Trust funds are used for buyers at 80 to 120 percent of AMI. For the HOME-funded program, the maximum subsidy is $60,000 or 30 percent of the purchase price (whichever is smaller), and the average subsidy is approximately $45,000. The program encourages buyers to put as much funding as possible into the home purchase, so asset limits are set such that, after purchase, a borrower may only retain six months of savings plus $5,000 in emergency funds. The HOME loan has a 45-year term and a four percent interest rate. Monthly housing costs cannot exceed 40 percent of income. In many cases, the PJ allows the HOME loan to be deferred for five years in order to help ease the buyer into housing payments. Interest does not accrue during the deferral period. If the home is sold, refinanced, or transferred, the PJ recaptures a share of the appreciation (for this program the affordability period is the same as the loan term, 45 years). The recapture share is based on the ratio of the HOME loan to the purchase price and the age of the loan.

4.3.2. Development

The ***City of Racine (WI)*** funds four development programs using HOME funds. The goal of each of these programs is to increase the homeownership rate in the city, improve the quality of the existing housing stock, and stabilize marginal neighborhoods. Each program is associated with a particular CHDO and has slightly different requirements. In all four programs, however, the PJ provides a grant to the CHDO for gut rehabilitation or new construction of homebuyer units in a specific community. Each of the CHDOs has worked in its target community for more than 10 years and has a strong commitment to the local residents. For example, Neighborhood Housing Services of Kenosha (NHS) was brought to Racine by the Johnson Wax Foundation to serve the neighborhood surrounding the company's corporate headquarters. NHS is currently using HOME funds to build new construction units. The average HOME subsidy for units developed through this program is $50,000, and it is used to fill the gap between development costs and the market value of the unit. When the unit is purchased, repayment of the subsidy does not become the obligation of the buyer. However, if the unit is sold or transferred within the 15-year affordability period, it must be sold to another low-income household.

The ***County of Will (IL)'s*** development program subsidizes homebuyer units developed by the local chapter of Habitat for Humanity. The PJ allocates approximately $100,000 of its $500,000 HOME allocation to this program. The funding is in the form of a grant and is used to cover soft costs associated with Habitat's construction of new homebuyer units. The program funds approximately four units per year, with an average subsidy of $25,000 per unit. Development costs exceed the market value of these homes. All the HOME subsidy goes to Habitat for development costs, and it is *not* transferred to the buyer as a second mortgage at the point of sale (as is the case with the joint direct and development assistance programs described below). Habitat always develops new construction units and tries to follow a "block build" model in which several units are built on the same block. The goal is to revitalize neighborhoods as well as increase homeownership opportunities for low-income people. The program targets households at or below 50 percent of AMI, and buyers contribute sweat equity to the construction of the home. The HOME subsidy is not recaptured, but there is a resale provision. In the event of a resale or foreclosure, the house must be sold to another low-income household. However, this has not yet happened with any of the homes developed through this program.

The ***Parish of Terrebonne (LA)*** sets aside at least 15 percent of its annual HOME allocation to fund the development of rental and homebuyer units by local CHDOs. HOME funds are typically used for site acquisition and are provided in the form of a zero interest loan, repaid to the PJ once the unit is sold. Currently, the PJ is using HOME to subsidize the development of a new 20-unit rental and homeownership subdivision. The PJ provided a loan to the START Corporation to acquire the site and develop infrastructure. START built two rental properties and sold the remaining lots to several developers for new homebuyer units. The units developed on these lots must be sold to low- to moderate-income households. The average amount of HOME funding for this project is $15,000 per lot. The PJ will recapture the full amount of the loan from the CHDO at the time the units are sold.

4.3.3. Joint Direct and Development Assistance

The ***County of Nassau (NY)*** uses HOME to fund two joint development and direct assistance programs. One program focuses on the new construction and the other focuses on acquisition and rehabilitation. The PJ allocates approximately $6.8 million for the two programs combined to subrecipients through an annual RFP process. The subrecipients, typically towns and municipalities in the county, subcontract with developers to build or rehabilitate homebuyer units. The HOME funds are generally used for site acquisition, and given that there is not much undeveloped land in Nassau County (which is part of the New York metropolitan area on Long Island), most homebuyer development involves rehabilitation of existing units or demolition and reconstruction. On average, the HOME subsidy is $25,000 per unit for the new construction program and $40,000 per unit for the acquisition and rehabilitation program. Once the unit is sold, the subrecipient transfers the

HOME funding into a forgivable second mortgage for the buyer. The subrecipient, not the PJ, is the lender in this case and recaptures the HOME funds on the PJ's behalf if the unit is sold or foreclosed prior to the end of the forgiveness period. The PJ gives subrecipients some flexibility in setting the forgiveness term and recapture provisions, although the forgiveness term cannot be shorter than the HOME affordability period.

The ***City of Pontiac (MI)*** funds two homebuyer development programs administered by CHDOs operating in two low-income neighborhoods in the city. Each neighborhood has a City-approved master plan that identifies target areas for homeownership and contains a general development schedule. The two CHDOs work with the PJ to identify sites for new construction and rehab, which are often City owned (if not, the PJ uses CDBG funds to acquire the sites). The PJ then provides the CHDOs up to $50,000 per unit in HOME funds for new construction of homebuyer units. When the unit is sold, the HOME funds are transferred to the buyer in the form of a zero interest forgivable loan. The loan is forgiven incrementally over the affordability period and the PJ recaptures the unforgiven portion of the loan if the house is sold or transferred. The HOME loan helps close the gap between the cost of development ($100,000 to $125,000) and the purchase price of the unit ($65,000 to $80,000). The only other City funds used for these projects are CDBG funds for property acquisition and infrastructure improvements. As a result, the PJ encourages the CHDOs to leverage local funds as much as possible.

The Clyde Condominiums project was the first homebuyer program that the ***City of Evanston (IL)*** funded using HOME. The PJ provided $594,000 to a local CHDO to purchase a 24-unit building and convert it into 12 two-bedroom condominiums. When the CHDO purchased the property, it was in foreclosure and a blight on the surrounding neighborhood, which had several other large multifamily rental projects. HOME funds were used to subsidize the rehabilitation of 10 of the 12 units, which were then sold to HOME-eligible households. (The remaining two units did not receive HOME assistance and were sold to higher income households.) When the assisted units were sold, the CHDO repaid approximately $64,000 of the HOME subsidy to the PJ and divided the remaining $535,000 among the 10 HOME-eligible buyers in the form of a forgivable loan of approximately $53,000 per buyer. The loan is forgiven incrementally over the 15-year affordability period, and the PJ typically recaptures the unforgiven portion of the loan if the house is sold or transferred, although it has also used the resale option.[34] The PJ has been very satisfied with the project because the units have appreciated considerably in value since they were built.

[34] One of the units in this development was returned to the CHDO through deed-in-lieu of foreclosure and sold to another qualified buyer.

4.4 Why PJs Use HOME for Direct Assistance and Development Assistance

As part of the in-depth interviews, we asked the PJ staff why they chose to use HOME funds for direct assistance, development assistance, or both types of programs. The question was phrased as an open-ended question, but the interviewers followed up with probing questions as necessary to ensure that all factors were captured and to evaluate the relative importance of each factor.[35] For PJs that used HOME to fund direct assistance but not development programs, or vice versa, we asked why that was the case.

Of the 50 PJs interviewed that use HOME for homebuyer programs, 30 fund both direct and development assistance programs, 14 fund direct assistance only, and six fund development assistance only.[36] This section examines the reasons that PJs offered for why they fund the different program types.

4.4.1. Why PJs Fund Direct Assistance Programs

The PJs using HOME for direct assistance offered a number of reasons for funding this type of program (see Exhibit 4-3). Sixteen of the 44 PJs offering direct assistance programs said that direct assistance was the most cost effective way to assist low-income households to purchase. This was particularly true of areas where the existing housing stock was considered to be of good quality and relatively affordable, such as St. Louis County (MN), San Bernardino City (CA), and Pierce County (WA). PJs in these markets reported that providing a shallow subsidy of $5,000 to $10,000 in down payment assistance allows them to serve a greater number of buyers than if they were to fund development only. For example, Pierce County launched its direct assistance program when the HOME program started in order to expand its homebuyer activities. HUD's support for homeownership factored into this decision, as well as the fact that the shallow subsidy meant the PJ could serve a large number of households. The PJ modeled its direct assistance program on a down payment assistance program publicized by HUD and used by two other HOME PJs in the county, which provides a deferred payment loan of up to $5,000.

[35] The interviewers were instructed to use the probes if the PJ's response was not specific or could apply to several program types. For example, if the respondent provided "expand homeownership" as a reason for funding a direct assistance program, the interviewer would probe as to why the PJ chose to pursue this goal though direct assistance rather than development of homebuyer units, or if the PJ offered both, how the two program types work together toward the goal.

[36] We also interviewed 10 PJs that do not use HOME to fund homebuyer programs. These PJs are not included in this analysis.

Exhibit 4-3

Factors Identified by PJs as Influencing the Use of HOME For Direct Assistance

Key Factors:	Number of PJs
Direct Assistance Most Cost Effective Way to Serve Target Population	16
Direct Assistance Program Predates HOME	11
Availability of Other Funding for Direct Assistance	9
Interests and Capacity of Local Partners	9
Ease of Administration	4
Political Support for Direct Assistance Program	3
Lender Support for Direct Assistance Program	3
Limited PJ or Partner Capacity for Development Programs	3

Source: Semi-structured interviews

For PJs operating in higher cost markets, the ability to combine HOME funds with other sources of direct assistance was a key factor in the decision to offer this type of program. Nine of the 44 PJs using HOME for direct assistance programs cited the availability of other direct assistance financing as a key factor in the decision. For example, the City of Hialeah (FL) provides low-income purchasers a subsidy of up to $40,000 in the form of a zero-interest, deferred payment loan. The majority of the subsidy (up to $30,000) is funded through HOME, with the balance funded through the State Housing Investment Partnership (SHIP) program. The PJ reported that at least this level of subsidy is needed to assist low-income buyers in the Hialeah market, where the median house value is approximately $190,000 and the HOME income limit for a family of four is $38,550.[37] Prior to combining HOME and SHIP funds, the PJ attempted to operate a first-time homebuyer program using SHIP alone and offering up to $10,000 in down payment assistance. After several months of trying, the PJ was only able to identify one homebuyer who could qualify for a mortgage with this amount of assistance, so decided to apply the SHIP funds to its HOME-funded homebuyer program. The PJs in the study that emphasized the benefits of combining HOME with other funding to provide a higher level of subsidy include the State of North Carolina, the Parish of Terrebonne (LA), the City of Vineland (NJ), and Miami-Dade County (FL).

Approximately one quarter of the PJs using HOME for direct assistance (11 of 44) reported having direct assistance programs that predated the HOME program. In most cases, the PJ staff reported that HOME "fit well" with the existing program and enabled the PJ to divert the resources previously funding the program—most often CDBG funds—to other uses. In other cases, the PJ opted to pass its HOME funds through another agency with a proven program. For example, the Adams County (CO) Housing Authority operates a direct assistance program that offers intensive counseling and an average of $7,000 in down

[37] Home price data based on National Association of Realtors (www.realtor.org) and income data is based on HUD income limits for 2002.

payment and closing cost assistance. The goal of the program is to educate participants about the home buying process and help households make the choice that is best for their family circumstances, whether that means becoming a homebuyer or remaining as a renter. The housing authority initially used Federal Home Loan Bank funds for the program. In 1995, considering the program model successful, the Adams County PJ decided to fund the program with HOME.

Another key factor influencing PJ decisions to fund direct assistance programs is the capacity and interests of local program partners. A number of the PJs in our sample pass all of their HOME homebuyer funds through local subrecipients. Some PJs allocate funds through an RFP process, in which local organizations propose to serve a certain number of households through a certain type of homebuyer programs. The PJ rates the proposals and makes awards to some or all the organizations. In these cases, the PJ's decision to fund a direct assistance program may simply reflect what was proposed. For example, the City of Yonkers (NY) directs all its HOME homebuyer funds to a first-time homebuyer program that provides closing cost assistance in the form of low-interest, long term, non-forgivable loans to purchasers in the city. The program has always been administered by the Yonkers Community Action Program (YCAP), a community-based organization. YCAP proposed the program to the PJ shortly after the start of the HOME program, and it has evolved somewhat over time.

Other PJs contract directly with one or more organizations to implement a homebuyer program of the PJ's design. In these cases, the capacity of the local organization to implement the program can be a key factor in what type of program gets funded. The City of Galveston (TX), for example, uses HOME to fund a direct assistance program and a small development program. Both programs are administered by a local CHDO acting as a subrecipient.[38] The extent to which the PJ is able to allocate HOME funds to these programs is heavily influenced by the capacity of the subrecipient to operate them. In 2003, for example, the PJ reported that the subrecipient applied for a smaller allocation of HOME funds than in the previous year because of limited capacity to administer the direct assistance program.

The other factors cited by PJs as influencing their decision to use HOME for direct assistance include the support of elected officials and lenders for this type of program, as well as the relative ease for the PJ of administering direct assistance versus development programs. Finally, in some localities PJs are not able to commit as many HOME funds as they would like to for homebuyer development because of limited CHDO capacity to carry out the development projects. In such cases, direct assistance programs offer another way the PJ can support its homeownership goals using HOME.

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[38] A CHDO may act in the capacity of a subrecipient if it does not also receive HOME funds to develop, sponsor, or own housing funded through the subrecipient activity the CHDO administers, as doing so would constitute a conflict of interest for the CHDO.

4.4.2. Why PJs Do Not Fund Direct Assistance Programs

Six of the 50 PJs in our sample that use HOME for homebuyer activities do not offer HOME-funded direct assistance programs, but instead use their HOME funds for development only. Five of the six PJs fund direct assistance programs through other sources, including state HOME funds, CDBG, and state Housing Finance Agency (HFA) funds. Only one of these PJs, the City of Wilmington (DE), had ever used HOME for direct assistance. In the late 1990s, the City of Wilmington used HOME to fund a direct assistance program for homebuyers. The program was administered by a subrecipient and partner agency, the Wilmington Housing Partnership, and provided an average loan of $5,000 per participant. The City stopped funding the program because the Partnership found the HOME requirement to bring units up to HUD's HQS too time-consuming and the HOME regulations generally too burdensome (notably the deed restrictions and ongoing tracking required). The Partnership returned some of the HOME funds to the PJ, in 2002, and instead raised three million dollars from private lenders to fund a similar down payment and closing cost assistance program.

The State of New Jersey has never administered a direct assistance homebuyer program, although it has been funding homebuyer development projects since the late 1970s. The PJ does not view direct assistance as an effective tool for expanding the homeownership opportunities of low-income households in what is generally an expensive and tight housing market.[39] The PJ requires that 50 percent of the rental and homeownership units developed using HOME and other state housing funds serve households with incomes at or below 50 percent of AMI. Households at this income level would need a very large amount of direct assistance to purchase existing homes in New Jersey. As a result, PJ staff suggested that it is more effective to use HOME to bring more affordable units onto the market, providing a significant subsidy to cover the difference between the cost of production (new construction or rehabilitation) and what low and very-low income households can afford to pay.

4.4.3. Why PJs Fund Development Programs

Thirty-six of the 50 PJs using HOME funds for homebuyer activities use HOME for homebuyer development programs. The most commonly stated reason for doing so was to advance neighborhood redevelopment goals (see Exhibit 4-4).[40] Eighteen of the 36 PJs cited neighborhood revitalization as a key goal of their HOME-funded homebuyer programs.[41]

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39 In 2002, the median sales price of existing homes in New Jersey's eight metropolitan areas ranged from $143,600 in Atlantic City to $337,600 in Bergen/Passaic.

40 We asked PJs about neighborhood revitalization goals at two points in the interview. First, we asked PJs whether the goals of their HOME-funded homebuyer programs in general included neighborhood revitalization. Second, we asked about the importance of neighborhood revitalization goals in the decision to fund direct assistance versus development programs as one of several probes.

41 In addition, six PJs noted that their homebuyer development programs served neighborhood revitalization goals, but that neighborhood revitalization was not a major factor in their decision to fund this type of homebuyer program.

For example, the City of New Britain (CT), which suffers from a declining population and aging housing stock in its central city areas, has developed a revitalization plan that includes increasing homeownership, reducing density through demolition and new construction, and rehabilitating existing housing. Since 1993, the PJ has committed a majority of its HOME funds to homebuyer activities, including two development programs: a single-family new construction program and a CHDO co-op program. The single-family new construction program involves the infill construction of six single-family homes in the center city, replacing aging multi-family buildings. The PJ does its own site selection and development for this program. The CHDO co-op housing program uses a smaller share of HOME funds and involves the acquisition with rehab and new construction of 17 co-op housing units for a combination of rental and homeownership. The PJ has partnered with two non-profit organizations to develop the housing and is funding one of the homebuyer units through HOME.

Exhibit 4-4

Factors Identified by PJs as Influencing the Use of HOME For Development Assistance

Key Factors:	**Number of PJs**
Neighborhood Revitalization Goals	18
Local Need for Development to Increase Homeownership	14
Strength and Interests of Local Development Partners	13
CHDO Set Aside Requirement	5
Availability of Other Funding for Development	5
Local Demand for New Construction versus Existing Homes	5

Source: Semi-structured interviews

Fourteen PJs reported that the characteristics of the local housing market are such that they consider that development of homebuyer units, as well as direct assistance, is needed to increase homeownership opportunities for HOME-eligible households. (Ten of the 14 PJs also use HOME to fund direct assistance programs.) This is particularly true for PJs in markets where the existing housing stock available to low- to moderate-income buyers is of poor quality or in very short supply. Staff from the County of Waukesha (WI) consortium PJ cited a recent housing needs study that found that the County needed to build 26,000 affordable units to keep pace with need. As a result, the consortium funds a new construction development program in addition to two direct assistance programs. The challenge for the PJ, given the scarcity of land in Waukesha and the limited political support for affordable housing development, is how to balance the need for larger development projects—to benefit from economies of scale and to utilize fully the few available affordable development sites—against concerns about creating concentrations of affordable housing.

Other PJs reported that funding homebuyer development allows them to serve a lower income population by offering a higher level of subsidy than they would through a direct assistance program.[42] For example, Pierce County (WA)'s HOME-funded acquisition and rehabilitation program serves households with incomes between 50 and 60 percent of AMI and provides an average subsidy of $120,000. By comparison, the PJ's direct assistance program serves households with incomes between 70 and 80 percent of AMI and provides a subsidy of up to $5,000. The PJ is currently considering creating a down payment assistance program with a deeper subsidy (up to 20 percent of the home value) to serve households with incomes between 60 and 70 percent of AMI.

The third key factor in PJ decisions to fund homebuyer development programs is the strength and interests of local development partners. As is discussed further in Chapter 5, many PJs pass funding for homebuyer development activities through local CHDOs or other developers, although some PJs also operate development programs directly. If the development is done through local partners, the capacity of these organizations can be an important determinant of how much HOME funding goes to development and where the development takes place. PJs may identify several parts of their jurisdiction as needing revitalization, but the particular neighborhoods that have HOME-funded development projects are often those neighborhoods with the strongest CHDOs.

Other factors mentioned with some frequency include: the requirement that the PJ set aside 15 percent of its HOME funds for CHDO activities, together with a preference by CHDOs in these areas for homebuyer rather than rental development; the availability of other funding to provide deeper development subsidies and thus make homebuyer development more attractive; and the appeal of newly built homes over existing homes, which is especially important for PJs trying to attract homebuyers to less desirable neighborhoods.

4.4.4. Why PJs Do Not Fund Development Programs

Fourteen of the 50 PJs interviewed that use HOME for homebuyer activities do not use this funding for homebuyer development. For some PJs, the development of homebuyer units is not a priority because the existing housing stock is of good quality and can be made affordable to low-income households through direct assistance programs. In addition, some PJs have other sources of funding for homebuyer development and choose to allocate their HOME funds to other uses. The most commonly cited reasons for not using HOME to fund homebuyer development, however, are the lack of strong developer partners and the perception that development programs are burdensome or risky to administer. Four of the PJs interviewed reported that they had funded individual homebuyer development projects in the past but that these had not been successful because of the inexperience of the CHDO or the PJ staff involved. The PJs that cited the lack of developer interest or capacity as a key barrier to using HOME for homebuyer development said that they did not have sufficient staff to operate such a program in-house or to do the intensive monitoring that would be

[42] There are no program restrictions on the amount of HOME subsidy that can be provided through direct assistance versus development programs, but as discussed further in Chapter 5, PJs tend to offer a higher level of subsidy through development programs than they do through direct assistance programs.

required if the development were to be carried out by a local CHDO. Indeed, among the PJs that do use HOME for homebuyer development, several reported that they would do more development if they had greater in-house capacity or stronger CHDO partners.[43] With respect to in-house capacity, PJs pointed out that they could fund very few staff through their HOME allocations.

4.5 Summary

This chapter has used data from the national mail survey of PJs and the in-depth interviews to describe the three main types of homebuyer programs funded through HOME (direct assistance programs, development programs, and joint direct and development assistance programs), the frequency with which the different program types are used, and the goals and strategies that underlie PJ decisions about what type of program to fund. The main findings of the chapter are as follows:

- PJs use HOME to fund a wide variety of homebuyer programs in response to local market conditions and needs. We grouped these programs into three main types: *direct assistance programs*, which provide financial assistance directly to the homebuyer; *development programs*, which subsidize the costs of developing homebuyer units; and *joint direct and development assistance programs,* which use HOME to subsidize the development of a unit *and* to provide direct assistance to the buyer of that unit.

- PJs that use HOME funds for homebuyer programs typically fund more than one program. Many PJs offer multiple programs in order to support both direct and development assistance. Overall, 94 percent of PJs use HOME to provide some kind of direct assistance and 73 percent of PJs use HOME for homebuyer development. More than two thirds of PJs either combine these funds through joint direct and development assistance programs or offer a combination of program types.

- The most common reason cited by the PJ staff interviewed for why they chose to use HOME for direct assistance was that direct assistance offered the most cost-effective way to assist low-income households in their jurisdiction to purchase. For PJs operating in higher cost markets, the ability to combine HOME funds with other sources of direct assistance was a key factor in the decision to offer this type of program. Other PJs had direct assistance programs that predated the HOME program and were a “natural fit” when HOME funding became available. Among the six PJs interviewed that did not use HOME for direct assistance, five funded direct assistance programs through other sources, including state HOME funds, CDBG, and state HFA funds.

[43] HUD is currently developing a model guide on the topic of financing homebuyer programs in order to help PJs build capacity in this area.

- The most common reason cited for using HOME for homebuyer development is to advance neighborhood revitalization goals. In addition, the strength and interests of local development partners is a key factor in PJ decisions to fund development programs. Finally, in markets where the existing housing stock is of poor quality or in very short supply, homebuyer development is considered an important tool for increasing the homeownership opportunities of low-income households. Among those PJs that do not fund development programs, the main reason cited by PJ staff was the lack of strong developer partners and the perception that development programs are burdensome or risky for the PJ to implement on its own.

Chapter 5 continues to build upon the findings of the mail survey and in-depth interviews to investigate the financial characteristics of HOME-funded homebuyer programs.

Chapter 5:
Financial Characteristics of Homebuyer Programs

This chapter is the first of two chapters discussing the characteristics of homebuyer programs funded by the HOME program. The chapter focuses on the financial characteristics of homebuyer programs, analyzing the type and amount of the assistance, the use of other financing sources, and the affordability levels achieved. In the next chapter, we discuss other program characteristics: income and neighborhood targeting, the provision of homeownership counseling, and partnerships between PJs and other entities for program administration.

In contrast to Chapter 4, in which the focus is on strategic allocation decisions by the *PJ* about how to use HOME to support homebuyers, this chapter and the next focus on tactical decisions in the design and administration of individual homebuyer *programs*. As described in Chapter 4, the average PJ sponsors two different homebuyer programs using HOME funds. The survey of 487 PJs with homebuyer programs identified 997 homebuyer programs, of which 44 percent provide direct assistance only, 35 percent jointly provide both direct and development assistance, and 21 percent provide development assistance only. The financial characteristics of these 997 programs are the focus of this chapter.

The information presented in this chapter is based primarily on responses to the mail survey and the data collected on a sample of individual homebuyers assisted by homebuyer programs. Information from the in-depth interviews is also used at times to help illustrate the nature of program characteristics. The chapter is organized into five sections. First, we describe the uses, forms, and amounts of assistance provided to homebuyers using HOME funds. Next, we examine the use of other financing sources, including other subsidies, below market rate loans, and market rate loans. The third section of the chapter discusses the affordability levels achieved by buyers assisted by the HOME program. We then review other financial characteristics of homebuyer programs, including the affordability period, price limits, and the use of resale or recapture provisions. The chapter concludes with a summary of findings.

5.1 Uses, Forms, and Amounts of Assistance

While HUD is able to track the amount of HOME funds used to support homeownership, there is no systematic information available on how PJs structure their homebuyer assistance programs. The HOME program allows a wide variety of approaches to assisting buyers, including grants, loans, interest subsidies, loan guarantees, or contributions to IDA accounts. The mail survey of PJs, along with the data gathered on a sample of assisted buyers, was intended to provide greater detail on the forms of HOME assistance and how the amount of assistance varies by the form of assistance.

5.1.1. Uses and Forms of Direct Assistance[44]

Seventy-nine percent of the homeownership programs reported in the mail survey that they provide direct assistance to help buyers purchase the property, either alone (44 percent) or in conjunction with development assistance (35 percent). While most programs require buyers to buy units that meet housing quality standards as is, 32 percent of these programs allow buyers to acquire units that need rehabilitation. The vast majority (97 percent) of these programs provide some form of gap financing to meet down payment and closing costs or to make up the difference between the amount of the first mortgage the buyer can afford and the amount needed to finance the purchase. HOME funding is used relatively rarely for other forms of assistance, including interest subsidies[45] (7 percent), first mortgages (6 percent), loan guarantees (2 percent), or IDA contributions (1 percent).

Exhibit 5-1 presents the results of the mail survey on the forms of direct assistance used by these PJs.[46] The most notable feature of direct assistance to homebuyers is that recipients are often not required to repay the assistance as long as they occupy the home for the entire affordability period. Slightly more than half of all programs provide either forgivable loans (48 percent) or grants (6 percent), while another 11 percent of programs allow multiple forms of assistance, including forgivable loans or grants.[47] Among programs providing forgivable loans, it is most common for the loan to be forgiven incrementally over the affordability period, with 70 percent forgiven incrementally and 29 percent forgiven only at the end of the affordability period.

One third of programs provide assistance to homebuyers solely in the form of loans that must be repaid. These loans are fairly generous in terms of both when payment is due and the interest rate charged. Most repayable loans have deferred payments. Among programs offering repayable loans, 77 percent defer repayment of the loan until some number of years after origination. Most of these deferred loans (86 percent) are fully deferred, which entails having payment due upon sale of the property or at the end of the term of the first mortgage, whichever comes first. Another 13 percent are partially deferred, which typically calls for regular amortizing payments to begin after a specified number of years, usually at least five

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44 As noted in Chapter 4, 94 percent of PJs provide direct assistance, either alone or in combination with development assistance.

45 Interest subsidies are usually in the form of discount points paid for the first mortgage to lower the interest rate.

46 There were no significant differences in the forms of direct assistance used between programs that also provide development assistance and those that do not. As a result, this section does not make a distinction between these types of programs.

47 This flexibility in program design reflects situations in which the PJ allows subrecipients to specify program features. In these cases, funding for homeownership efforts may be made available through a request for proposals (RFP) process, and under a single program multiple forms of assistance are possible. (See Chapter 6 for further discussion of PJs’ partnerships with subrecipients.)

years and often longer.[48] The interest rate on deferred loans is most commonly zero percent, with 62 percent of deferred loans at this rate. Most of the remaining deferred loan programs offer below market interest rates, although 13 percent indicated some "other" interest rate, which is most commonly an equity sharing arrangement, with the amount of the loan repayment linked to the change in the overall property value. An example of a deferred loan program is the City of Seattle's direct assistance program. Under this program, buyers receive a second mortgage with no payments for 8 years, followed by 3 percent interest only payments until year 30, at which point the loan becomes amortizing over 8 years.

Exhibit 5-1

Forms of Direct Assistance to Buyers

	Number of Programs	Percent
Forgivable Loans	**375**	**48%**
Incrementally	264	34
End of Affordability Period	108	14
Grants/Other	**46**	**6**
Repayable Loans	**257**	**33**
Deferred Payment	198	25
Zero Percent	123	16
Below Market Rate	55	7
Non-Deferred Payment	49	6
Zero Percent	13	2
Below Market Rate	34	4
Multiple Forms	**89**	**11**
Total Programs	**787**	**100**

Notes: "Other" generally includes programs that offer aid that is a combination of a loan and a grant. Eight of the 46 programs are "other." Subcategories shown include: 3 forgivable loan programs that forgive loans both incrementally and at the end of the affordability period; 26 deferred payment loan programs with "other" interest rates, 5 offering a range of rates, and 1 non-respondent.

Sources: Mail survey of HOME PJs.

48 It is expected that repaying the mortgage at sale will not pose a problem for borrowers since they can refinance the balance on the HOME loan if they cannot afford to pay the entire loan at once. Payments due upon sale are not expected to be a problem as the sale's proceeds are available for repayment. Loans that begin payment after some period of time assume that borrowers will be able to afford these payments due to income growth. In our interviews we did not encounter any problems associated with buyers facing financial difficulties with these deferred loan programs, although since the HOME program has not been operating long enough for first mortgages to be paid off or for many deferred payments to being there are few buyers who have reached the point where either loans were due or deferred payments had begun.

Of programs offering repayable loans, only 19 percent (or 6 percent of all programs) do not defer payments, but rather require amortizing payments immediately following origination. While these programs do not provide the benefit of deferred payment, they do provide low interest rates. Virtually all of these amortizing loans are either below market rate (73 percent) or zero percent interest (27 percent). An example of this type of program is the City of Aurora (CO)'s direct assistance program that provides a second mortgage of up to $3,000 over a term of 30 years, with simple interest of five percent accruing over five years. Another example is the City of Raleigh (NC), which offers a joint direct and development assistance program in which the development subsidy is passed through to buyers as a second mortgage loan at the time of purchase. The loans are neither forgivable nor deferrable, but they have below market rate interest rates that range from zero to four percent, depending on the development project. PJ staff said they offer zero percent loans because the HOME regulations allow them and they are a good way to make homeownership more affordable.

5.1.2. Characteristics of Development Assistance[49]

The mail survey found that 56 percent of homebuyer programs funded through the HOME program provided some form of development assistance, including 35 percent that provided both development assistance and direct assistance to homebuyers and 21 percent that provided only development assistance. The mail survey identified two primary methods of providing development assistance. One is to subsidize the development process through a zero percent or below market rate development loan that helps to lower the overall development cost. The second method is to provide a subsidy to the developer that closes the gap between the sales price and the development cost.[50] Of course, these two methods are not mutually exclusive and, in fact, many development programs provide both types of assistance.

As shown in Exhibit 5-2, in slightly more than half of the development programs (58 percent), HOME funding is used to subsidize the development process through development financing. In most of these cases the development subsidy is then passed through to the buyer to subsidize the purchase price (these are the joint direct and development assistance programs described in Chapter 4). PJs are about as likely to use funding to reduce the sales price below the market value (57 percent) as they are to close the gap between development costs and market value (52 percent), with 30 percent of PJs employing both of these

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[49] As noted in Chapter 4, 73 percent of PJs provide development assistance, either alone or in combination with direct assistance.

[50] Note that there are two different situations in which a development subsidy is needed—those where development cost exceeds market value and those where development costs reflect market values, but the sales price is set below market value. Cases where development costs exceed market values can arise in depressed housing markets where the value of existing homes is less than the cost of new development or in cases involving rehabilitation where the acquisition and rehabilitation costs exceeds market value. In other cases, the development subsidy is used to set the sales price below market value to make the home affordable to low-income households. This approach is more common in high cost markets where low-income households cannot afford to purchase market rate units.

approaches. Only 17 percent of programs use HOME funds to finance the development process without also subsidizing the purchase price.

Exhibit 5-2 also presents information on the types of developments supported through HOME. Most programs support both new construction (78 percent) and acquisition with rehabilitation (53 percent). Acquisition only is less commonly supported (20 percent).

Exhibit 5-2

Characteristics of Development Assistance

	Number of Programs	Percent
Use of Assistance		
Provide Development Finance	327	58%
Development Finance Only	94	17
Development Finance and Subsidize Sales Price	233	41
Subsidize Sales Price	447	79
Reduce Price Below Market Value	153	27
Close Gap between Market Value and Development Cost	124	22
Either Reduce Price or Close Gap	170	30
Type of Developments Funded		
New Construction	441	78
Acquisition with Rehabilitation	301	53
Acquisition Only	114	20

Note: There are 563 total development programs. Missing data for variables in this table include 22 programs that did not report the use of development assistance and 5 programs that did not report the types of developments financed.

Sources: Mail survey of HOME PJs.

5.1.3. Amounts of Assistance

Exhibit 5-3 shows the median and average amounts of HOME assistance by type of assistance. There is a clear tendency for programs offering direct assistance only to provide smaller levels of assistance. The median amount of assistance among programs offering only direct assistance is $8,000, compared to $20,000 for programs offering both direct and development assistance, and $25,000 for programs offering only development assistance. The same pattern is evident among the average amounts of assistance, although the average amounts of assistance are higher than the median amounts, reflecting the fact that for all types of programs there are some PJs offering levels of assistance much higher than the median.[51]

[51] All of the pair-wise differences in the average amounts of assistance by program type are statistically significant at the 95 percent confidence level.

Exhibit 5-3

Median and Average Amounts of Homebuyer Assistance by Type of Program

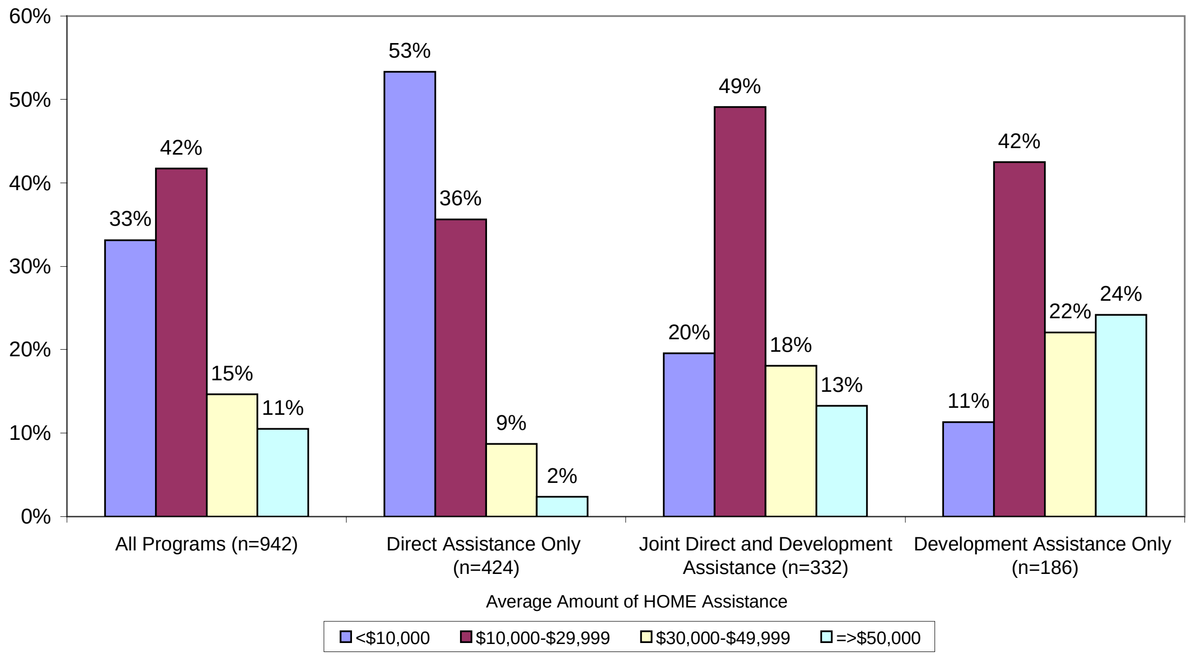
	All Programs (n=942)	Direct Assistance Only (n=424)	Joint Direct and Development Assistance (n=332)	Development Assistance Only (n=186)
Median	$15,000	$8,000	$20,000	$25,000
Average	$21,355	$13,263	$24,652	$33,914
Standard Deviation	$21,078	$14,157	$20,290	$27,144

Note: A total of 55 programs did not report average amounts of assistance, including 10 direct assistance only, 21 joint assistance, and 24 development assistance only.

Sources: Mail survey of HOME PJs.

Exhibit 5-4 further illustrates the distribution of assistance amounts by program type. Most direct assistance programs offer less than $10,000 on average, but 36 percent offer between $10,000 and $30,000, 9 percent offer between $30,000 and $50,000, and a few programs (2 percent) offer $50,000 or more. Both joint programs and development only programs have a significant concentration of programs that offer between $10,000 and $30,000 on average. However, compared to joint programs there are fewer development only programs with assistance below $10,000 (11 versus 20 percent) and more offering assistance of $50,000 or more (24 versus 13 percent).

Exhibit 5-4
Distribution of Average Amounts of HOME Assistance by Program Type
Share of Programs



Source: Mail survey of HOME Pjs.

5.1.4. Differences Across PJ Types in the Forms and Amounts of Assistance

Exhibit 5-5 illustrates differences in the forms of direct assistance offered by PJ type. A few key differences stand out.[52] Programs offered by cities and counties are about 10 percentage points more likely to provide forgivable loans or grants than programs run by states or consortia. One factor in a PJ's choice of the form of assistance is that repayable loans require more organizational capacity to service, which may deter some PJs from offering this form of assistance. For example, the City of Pasadena (CA), which offers a non-forgivable second mortgage at four percent interest, has been overwhelmed in the past year with the large volume of refinances occurring among their homebuyers. Because of this surge in loan processing volume, the PJ is currently looking to outsource the management of its direct assistance program to several lenders or an outside consultant. Consortia are more likely than other PJs to provide repayable loans, while states are more likely to offer programs that allow multiple forms of assistance. This last result reflects the fact that many states pass through their HOME funding to subrecipients around the state who determine the program structure to reflect variations in market conditions across the state.

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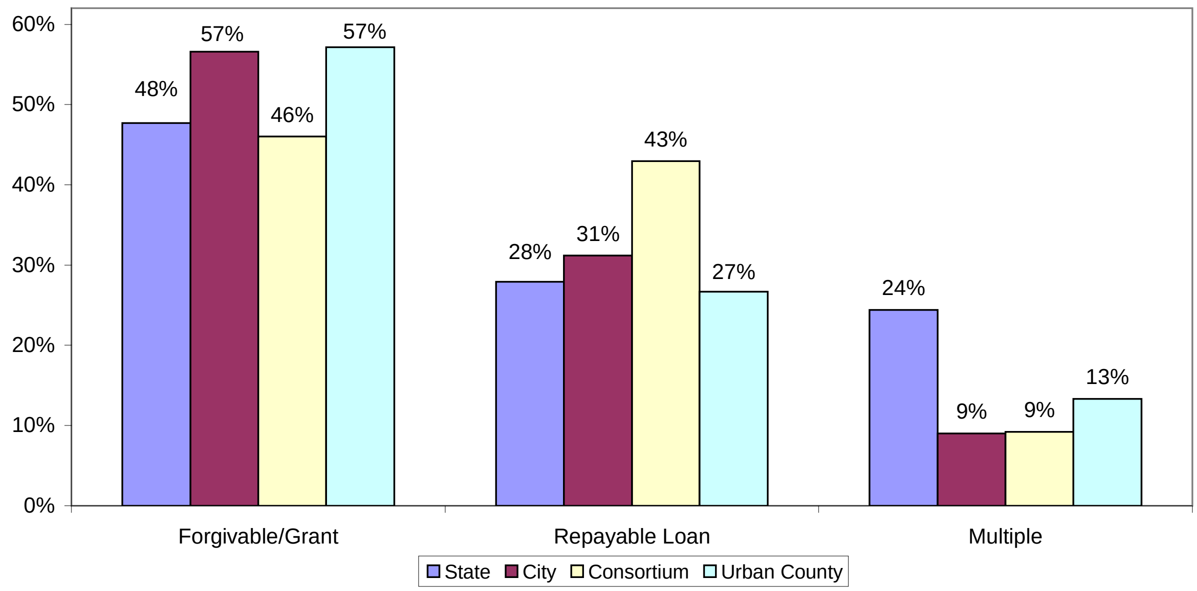
[52] Most of these differences are statistically significant at a 95-percent confidence level. The exceptions include: comparisons involving the state share of programs with forgivable loans or grants, as there are too few state programs of this type to support a statistically significant difference; and the difference between consortiums and counties in the share of programs with forgivable loans or grants, which is significant at the 90-percent confidence level.

Exhibit 5-5
Share of Direct Assistance Programs by Form of Assistance and PJ Type



Note: Data were collected on 86 State programs, 433 City programs, 105 County programs, and 163 Consortium programs. Non-respondents to this question include 14 City, 3 County, and 3 Consortium programs.

Source: Mail survey of HOME PJs.

Exhibit 5-6 presents characteristics of development assistance programs by PJ type. One difference evident across PJs is that counties are somewhat more likely than other grantees to provide development financing only without also subsidizing the sale price (although the only difference that is statistically significant is that between consortia and counties). Consortia appear somewhat more likely to have development programs that subsidize the purchase price than other PJs (although the difference between consortia and states is not statistically significant and the other differences are only significant at a 90 percent confidence interval). In terms of the types of developments financed, consortia are less likely than other PJs to fund acquisition with rehabilitation, while cities and counties are less likely to finance acquisition only as a means of providing affordable housing. Neither the survey data nor the in-depth interviews provide any clear explanation for these patterns.

Exhibit 5-6

Characteristics of Development Assistance by PJ Type
(Share of Programs)

	City (n=324)	Urban County (n=66)	Consortium (n=112)	State (n=61)
Use of Assistance				
Provide Development Finance	60%	61%	52%	56%
Development Finance Only	17	24	13	15
Subsidize Sales Price	78	74	86	79
Type of Developments Funded				
New Construction	78	77	77	84
Acquisition with Rehabilitation	57	55	41	57
Acquisition Only	18	14	26	28

Notes: Missing responses on these variables include: 15 City, 1 Consortium, 2 County, and 4 State programs that did not report the uses of development assistance; and 1 State and 4 City programs that did not report the type of developments funded.

Sources: Mail survey of HOME PJs.

As shown in Exhibit 5-7, there is relatively little difference in the amounts of assistance provided by PJ type. Cities, consortia, and states all have median amounts of assistance of about $15,000 and average amounts of assistance between $20,000 and $22,000. Counties tend to have lower average amounts of assistance, with a median of $10,000 and an average of $18,847. However, none of the difference in average expenditures between different PJ types is large enough to be statistically significant.

Exhibit 5-7

Average and Median Amounts of Assistance by Type of PJ, all Program Types

	City (n=509)	Urban County (n=128)	Consortium (n=205)	State (n=100)
Median	15,000	10,000	15,000	15,500
Average	22,417	18,847	20,331	21,261
Standard Deviation	21,215	20,644	21,174	20,655

Note: A total of 55 programs did not report average amounts of assistance, including 36 City, 5 Consortium, 8 County, and 6 State programs.

Sources: Mail survey of HOME PJs.

5.1.5. Variations in Type of Program and Amount of Assistance by Market Housing Costs

Aside from the type of PJ, another difference across markets that might be expected to influence the type and amount of assistance is the level of housing costs in the area. Using data from the 2000 decennial Census on median house values, we have divided PJs into five housing price categories with the categories defined to include an equal number of all PJs that responded to the mail survey.[53] Exhibit 5-8 presents summary information on the types of programs and the average amount of HOME assistance provided across these five market types. PJs in areas with median house prices in the top 20 percent of HOME PJs stand out as offering both different types of programs and more assistance per buyer. In these high cost areas, 56 percent of homebuyer programs offer direct assistance only, compared to 40 percent in most other market areas. The average amount of HOME assistance in these high cost areas is $30,936, compared to about $20,000 or less in all other housing cost categories. This suggests that in the highest cost markets PJs must offer greater funding to help homebuyers and that development assistance is less likely to be used.

Exhibit 5-8

Type and Average Amount of Homebuyer Assistance by Median Housing Price in PJs' Market

Median House Price in PJs' Market	No. of Programs	Share Direct Assistance Only	Average Amount of HOME Assistance	Standard Error of Average
Less than $77,900	204	41%	$18,426	$1,191
$77,900 to $96,400	197	41	19,401	1,321
$96,401 to $122,300	214	40	20,534	1,366
$122,301 to $166,900	180	52	19,964	1,606
More than $166,900	147	56	30,936	2,235

Note: Excludes 55 programs for which average assistance levels were not reported.

Sources: Mail survey of HOME PJs and median home values from U.S. Census Bureau, Census 2000.

5.1.6. Variations in Amount of Assistance by Buyer Income Level

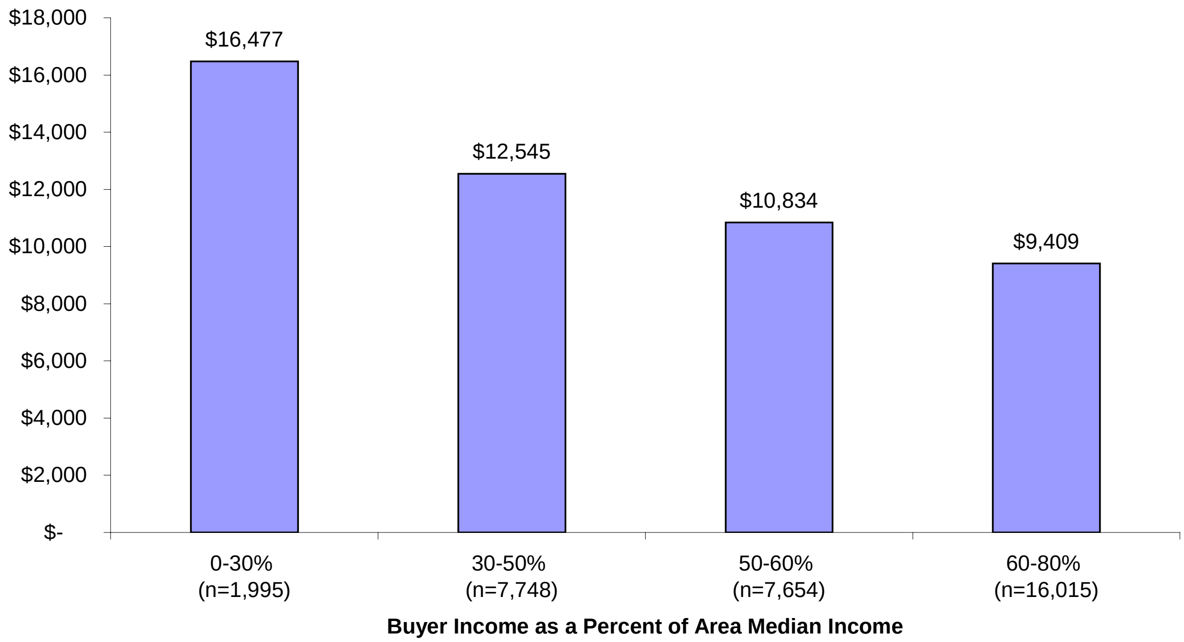
As noted in Chapter 3, while HOME homebuyer programs are more likely to serve households with incomes between 60 and 80 percent of area median income (AMI) than other forms of HOME assistance, a slight majority of homebuyer clients have incomes below 60 percent of AMI. While the mail survey did not gather information on the average income of homebuyers, HUD's IDIS data do provide an indication of the homebuyers' incomes and

[53] This includes PJs that did not have a homebuyer program. Interestingly, a larger than expected share of PJs without a homebuyer program were in the highest cost housing markets. Of the 64 respondents without a homeownership program, 30 were in the highest cost housing price category.

the amount of HOME assistance. These data can be used to evaluate how much the amount of assistance varies with buyer incomes. Exhibit 5-9 compares the average amount of HOME subsidy committed to buyers at different income levels since the program's inception, based on IDIS.[54] Perhaps not surprisingly, the amount of HOME subsidy that buyers receive appears to be closely related to buyers' income level. The average homebuyer at or below 30 percent of AMI received $16,447 in HOME assistance, compared to $9,409 for buyers between 60 and 80 percent of AMI. The differences in average subsidy between each of the income categories are all statistically significant at the 95-percent confidence level.

We also examined whether there were any differences in the form of HOME assistance (e.g., repayable loans versus grants or forgivable loans) based on borrower income using the buyer-level data collected for this study. Based on these data, we were not able to identify any difference in the use of different forms of HOME assistance based on buyer income.

Exhibit 5-9
Average Amount of HOME Assistance by Income of Homebuyer



Source: IDIS data on HOME commitments from 1992 through 2002.

[54] We calculated the per-unit subsidy of each assisted homebuyer unit by dividing the total funding committed to a given homebuyer property by the total number of household records for that property. We then matched the household records to the unit costs to obtain a subsidy per unit for every homebuyer, and averaged the per-unit subsidy for all households in a given income group.

5.2 Use of Other Financing Sources with HOME Funding

5.2.1. Findings from Mail Survey on Use of Other Public Subsidies

One question of interest for policymakers is the extent to which PJs are able to use HOME to leverage other funding sources in support of homeownership. Exhibit 5-10 summarizes survey results regarding the use of other public subsidies in conjunction with HOME funding. As shown in the top portion of the exhibit, of the 787 programs that provide direct assistance to homebuyers, slightly more than half (53 percent) report making use of other subsidies in addition to HOME funding. CDBG, local, and "other" funding sources are each used in 17 percent of programs, while 26 percent use state funding.[55] Multiple sources of other funding are used by 17 percent of programs. It is important to note that the survey does not ask how frequently these other sources of funding are combined with HOME funds. Thus, while 53 percent of programs report that other public subsidies are used, this does not mean that all buyers funded through these programs make use of these other subsidies.

In comparing the use of other public subsidies by PJ type, the most notable feature is that state PJs are significantly more likely than others to make use of additional subsidies. There is also a tendency for counties to make less use of other funding sources (although the difference between counties and cities is not statistically significant). Two-thirds of state programs combine HOME with other funds, compared to 55 percent of consortia programs, 52 percent of city programs, and 44 percent of county programs. State programs are not only more likely to use other subsidy sources, they are also more likely to use multiple sources of other subsidies. Forty-two percent of state programs use multiple other subsidies compared to 10 to 15 percent of programs offered by other PJ types. This finding reflects the tendency of state PJs to pass funds through to local subrecipients that provide other funding sources, as indicated by the very high share of state programs that tap local sources of funding. Another advantage of state PJs is that many are housing finance agencies with access to a variety of other public funding sources.

The lower portion of Exhibit 5-10 presents similar information on the use of other public subsidies to assist the development process. In general, compared to direct assistance efforts, a larger share of development programs combine HOME funds with other subsidies, with nearly three-quarters of development programs using other funds. The most common sources of other funds include CDBG, local government, state government, and donations of land, each of which is used by between 30 and 34 percent of development programs. Less frequently used are tax abatement, infrastructure donations, and "other."[56] It is also more

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[55] "Other" sources most often include other federal sources, such as funding from the Federal Home Loan Banks or the Rural Housing Service, and private funding from both non-profit and for-profit organizations, such as Habitat for Humanity, Neighborhood Reinvestment Corporation, or local banks.

[56] The "other" sources of funding used in development programs are the same as those used in direct assistance programs (see previous footnote).

common for PJs to tap multiple sources of other subsidies, with 45 percent of programs using more than one type of other subsidy.

Exhibit 5-10

Use of Other Public Subsidies with HOME Assistance by PJ Type

	All	City	Urban County	Consortium	State
Direct Assistance					
No. Programs	787	433	105	163	86
Share Using Other Subsidies	53%	52%	44%	55%	67%
Types of Subsidies					
CDBG	17%	17%	11%	14%	31%
Local	17	15	10	14	45
State	26	26	22	23	35
Other	18	13	14	23	31
Multiple Types	17	15	11	15	42
Development Assistance					
No. Programs	563	324	66	112	61
Share Using Other Subsidies	74%	75%	58%	75%	80%
Types of Subsidies					
CDBG	31%	31%	23%	36%	38%
Local	31	27	20	32	62
State	34	33	32	37	38
Tax Abatement	14	17	8	5	18
Land	30	33	24	23	33
Infrastructure	19	18	17	19	30
Other	10	8	8	14	12
Multiple Types	45	44	30	48	57

Note: There were no non-respondents to this question.

Sources: Mail survey of HOME PJs.

In comparing the use of other subsidies in development programs across PJs, the most notable pattern is that counties are less likely than other grantee types to use other subsidies. Fifty-eight percent of county programs use other subsidies for their development programs compared to 75 to 80 percent of programs offered by other PJs. This tendency to use fewer other sources of subsidies is most pronounced in lower use of CDBG and local funding sources (although not all of these differences in the use of specific funding sources are statistically significant). While states do not have a marked tendency to make greater use of other subsidy sources to aid their development programs, they are generally more likely to use multiple sources of funding (although the difference between state and county programs is not statistically significant). However, states are two to three times more likely than other

PJs to combine HOME funds with local funds, again reflecting the tendency of states to pass HOME funds through to local subrecipients.

5.2.2. Indications about the Use of Other Financing Sources from Buyer-Level Data

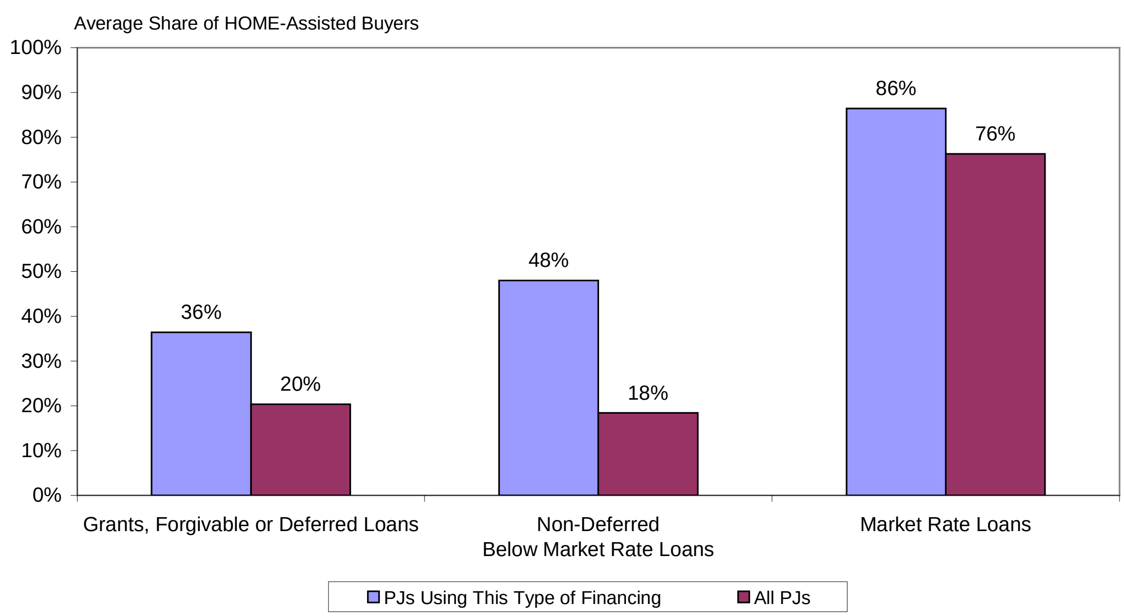
While data from the mail survey indicate how many programs use other sources of funding, the survey does not provide information on what share of buyers are able to benefit from these other subsidy sources, what the average amount of this assistance is, or what form this other assistance takes. Buyer-level data collected on site from PJs interviewed for this study provide further details on the frequency, types, and amounts of other financing sources used by buyers to purchase their homes. As noted in Chapter 2, these buyer-level data are not a random sample either of the PJs from which the data came or of the buyers served by these PJs. As a result, the buyer-level information is not necessarily representative of all buyers assisted by the HOME program. The data collection process was designed to gather information on a range of borrowers across the different programs offered by the selected PJs. In a number of cases, buyer records were only available on a specific subset of borrowers representing either a single program or a specific time period. Probably the most significant bias is that data were least likely to be available on programs that provide only development assistance without direct assistance to the buyer. As a result, the buyer-level data are largely from programs that provide direct assistance to buyers, either alone or in conjunction with development assistance. While the findings may not be representative, they do provide some indication of how HOME is used with other sources of financing, information that is not available from other sources.

Complete financial data were obtained for homebuyers from 34 PJs to evaluate the sources of financing used other than HOME. Financing from sources other than HOME is divided into three categories: grants and forgivable or deferred loans; below market rate amortizing loans, such as mortgages from Housing Finance Agencies (HFAs) or Rural Development; and amortizing market rate loans. These three categories are intended to capture different degrees of subsidy. Grants, forgivable and deferred loans provide the deepest subsidies; below market rate loans provide a shallower subsidy; and market rate loans do not provide any subsidy. Exhibit 5-11 presents the average share of buyers using different types of financing among the PJs from which data were obtained. The first set of bars in this chart shows the share of buyers using this source of financing among the PJs where at least one buyer used this source of funding. This information complements the findings from the mail survey about whether other subsidies are used to indicate how often these other financing sources are tapped. For example, while 53 percent of programs reported using other public subsidies, the findings from the buyer-level data indicate how often buyers in these programs make use of other subsidies. The second set of bars presents the average share of buyers using other sources of financing across all PJs, including those where buyers did not use this source of financing. These measures provide an indication of how common other sources of financing are among all buyers assisted by the HOME program.

Among PJs where other subsidies are used, 36 percent of all buyers sampled benefited from a grant or forgivable or deferred loan from sources other than HOME. Thus, other subsidies are not generally a fixed feature of the HOME program, but are used on a more sporadic basis. Of the 19 PJs from which data indicated the use of other sources of grants or forgivable or deferred loans, only 3 had these other subsidies used with more than 75 percent of their buyers. When all PJs are considered, including those where buyers did not use other subsidies, only 20 percent of buyers on average benefited from other grants or deferred or forgivable loans. In sum, while it is not uncommon for PJs to make use of other subsidies when available, only about a fifth of HOME-assisted borrowers benefit from other subsidies.

The buyer-level data also provide an indication of the sources and forms of these other grants or deferred or forgivable loans. As found with the mail survey, there is a wide range of sources, including private sector sources (7 PJs), Habitat for Humanity (5 PJs), Federal Home Loan Banks (6 PJs), CDBG (5 PJs), state funds (5 PJs), and local funds (4 PJs). The most common form of assistance from other subsidies is a grant or a forgivable loan, which together account for 44 percent of other subsidies across PJs. The remaining other subsidies are roughly split between deferred loans (26 percent) and loans of unknown type (30 percent).

Exhibit 5-11
Percentage of HOME Assisted Buyers Using Other Types of Financing – Among PJs Using Other Financing and Among All PJs



Source: Data collected on non-random sample of HOME-assisted homebuyers in 34 PJs.

When below market rate loans are used, it is more common to have a higher share of buyers use this form of assistance. Among PJs where at least one buyer used a below market rate loan in addition to HOME funds, 48 percent of all buyers took advantage of this additional assistance. In a quarter of these PJs, these loans were used by all buyers. In these cases, the

PJ had tailored its HOME program to be used in conjunction with below market rate loans offered by either the state housing finance agencies (HFAs) or local banks that are motivated by the Community Reinvestment Act to serve low-income households. When all PJs are considered, including those who did not have any buyers using below market rate loans, the average share of buyers using below market rate loans is 18 percent—only slightly lower than the share using other subsidies.

Finally, the last portion of Exhibit 5-11 shows the share of buyers using market rate loans to purchase their homes. Thirty of the 34 PJs from which data were collected had at least one buyer using market rate financing. The other 4 PJs all had programs that were designed with below market rate first mortgages provided by HFAs or local banks. Among PJs reporting at least one buyer using market rate loans, 86 percent of buyers used this type of financing in purchasing their homes. When all PJs are considered, including those with no buyers using market rate financing, the average share of buyers with market rate loans is 76 percent. Combining the share of buyers with below market rate and market rate mortgages finds that across these 34 PJs, 6 percent of buyers did not use either of these forms of financing to purchase their homes. In these cases, HOME funds and other subsidies alone were used to purchase the home. An example of this type of situation is Pierce County (WA), where buyers in a development program are given 3 percent first mortgages using HOME funds.

The buyer-level data also provide information about the relative amounts of financing used from different sources. In cases where other grants or deferred or forgivable loans are used, this other subsidy is (on average) 1.5 times the amount of funding provided using HOME funds. Thus, in these cases the HOME funds "leverage" $1.50 for every HOME dollar provided. The leveraging of below market rate loans is even higher, as in many cases these loans are used to provide the buyer's first mortgage. Across PJs where below market rate financing is used, these loans provide 3.3 times the amount of financing provided by HOME funds. Not surprisingly, the greatest degree of leveraging is associated with market rate loans. In cases where this type of financing is used, these loans provide (on average) 6.3 times the amount of financing provided by HOME funds.

Exhibit 5-12 summarizes the overall use of other financing sources found in the buyer-level data. These figures take into account all buyers, including those who do not use all of these financing sources. Across all buyers from PJs from which data were obtained, HOME funds account for 18 percent of the financing used. Thus, overall HOME funds leverage about four dollars in other financing for each HOME dollar provided. Most of this other funding consists of market rate loans (62 percent of all financing), while below market rate loans (17 percent) and other grants or deferred or forgivable loans (3 percent) account for slightly more funding than HOME.[57]

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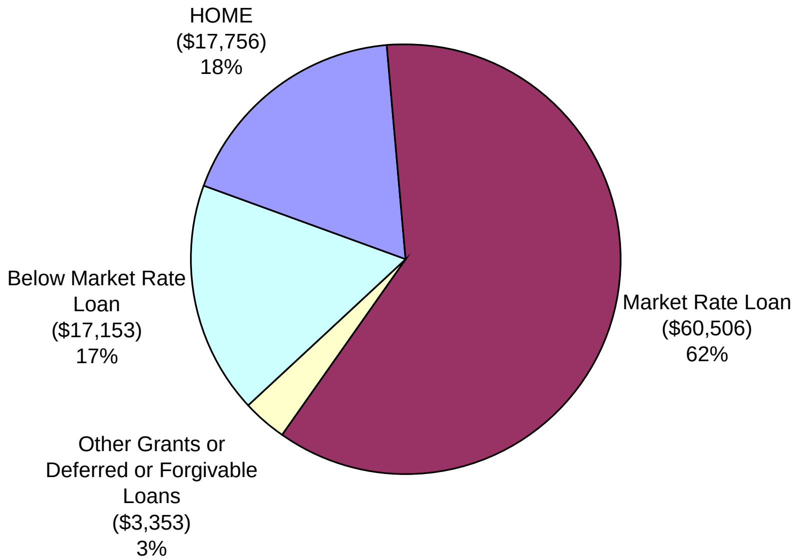
[57] The sources of financing do not include estimates of the buyer's own investment in the property.

Exhibit 5-12
Average Shares of Financing Amounts Used by HOME Assisted Homebuyers



Note: Does not include estimate of buyers' investment in the property.

Source: Data collected on non-random sample of HOME-assisted homebuyers in 34 PJs.

5.3 Affordability and Debt Levels

5.3.1. Affordability

One of the options for PJs to consider in designing homeownership programs is whether they want to set the amount of assistance provided at levels that will make homeownership not just feasible for buyers, but also affordable. Exhibit 5-13 summarizes findings from the mail survey about the maximums allowed by PJs for ratios of housing costs and total monthly debt to income.[58] As shown, a slight majority of programs do not set explicit goals for affordability, but rather defer to the first mortgage lenders' underwriting guidelines to determine affordability. Of those programs that do set affordability levels, only a small share set maximums that are as conservative as traditional conventional mortgage underwriting, which set maximum ratios of 28 percent of income for housing costs and 33 percent for total monthly debt. Only 3.7 percent of programs established maximums for housing costs to income of 28 percent or less and total monthly debt to income of 33 percent or less. The most common range for the housing cost ratio is between 28 and 32 percent of income (25 percent of programs), followed by the 33 to 38 percent range (11 percent). The range for the

[58] Housing costs as defined in mortgage underwriting include all payments for principal and interest on mortgages and monthly shares of property taxes and hazard insurance. Total monthly debt includes housing costs and any other recurring monthly debt such as car loans, student loans, or monthly revolving debt.

total monthly debt ratios tends to be somewhat less restrictive, as 21 percent of programs set maximum ratios of 40 percent or higher, while 11 percent set maximums in the range of 34 to 39 percent. In short, these results indicate that, for the most part, PJs and program partners focus their efforts on making homeownership feasible by providing enough assistance for buyers to meet lenders' underwriting criteria. Only a small share of programs set maximum income ratios that are lower than conventional mortgage underwriting allows.

Exhibit 5-13

Maximum Income Ratios Allowed by HOME Programs
(Share of Programs)

Income Ratio	**All Programs (n=997)**	**Direct Assistance Only (n=434)**	**Development Assistance Only (n=210)**	**Joint Direct and Development Assistance (n=353)**
Ratio of Housing Costs to Income				
Up to 28 Percent	4%	2%	7%	3%
29 to 32 Percent	25	21	18	35
33 to 38 Percent	11	14	8	10
Above 38 Percent	2	3	1	2
Defer to Lender Guidelines	56	60	60	47
Ratio of Total Monthly Debt to Income				
<33	4%	3%	4%	4%
34–39	11	9	9	14
40 and Above	21	21	17	25
Defer to Lender Guidelines	62	66	64	55

Note: Percents do not sum to 100 due to non-response. Among all programs, 2.4 percent of PJs did not respond to this question, including 0.5 percent of direct assistance programs, 7.1 percent of development only programs, and 2.0 percent of joint direct and development programs.

Sources: Mail survey of HOME PJs.

Exhibit 5-13 also provides information on the variation in affordability guidelines by program type. Programs that provide direct and development assistance jointly are more likely than other program types to set affordability goals. Slightly more than half of joint programs set maximum housing cost to income ratios, compared to 40 percent of other program types. Forty-five percent of joint programs set maximums for the total debt to income ratio, compared to about 35 percent of other program types. Based on the survey and in-depth interviews, we found that joint direct and development assistance programs tend to target a lower income population (and therefore provide a deeper level of subsidy) than programs that provide direct assistance alone.

While the survey provides information on maximum levels of these key affordability measures, the actual income ratios may be well within these limits. The buyer-level data obtained from a sample of PJs provide an indication of the actual income ratios achieved by buyers assisted by the HOME program. In general, the average HOME-assisted buyer has reasonable affordability levels. Across the 31 PJs for which data were available, the average housing costs to income ratio was 28 percent, with 17 of the 31 PJs having average ratios under 28 percent, 7 having averages between 28 and 32 percent, 6 with averages between 33 and 38, and 1 with a ratio above 38. While the average housing cost to income ratio was moderate by underwriting standards, the average total debt to income ratio was somewhat higher. Across the 22 PJs from which data on total debt to income were available, the average ratio was 37 percent. A large majority of these PJs (17), had total debt to income ratios that fell within the range of 33 to 38 percent, with 2 having average ratios below 33 percent and 3 having average ratios above 40 percent. The fact that on average buyers had total debt to income ratios at the higher end of the allowable range while the average housing cost to income ratio is at the lower end of the range suggests that limits on the level of total debt relative to income are more constraining for buyers trying to qualify for a mortgage than limits on the level of housing costs relative to income.

5.3.2. Loan-to-Value Ratios

Income ratios are key measures of mortgage risk. Another key measure used by underwriters is the loan-to-value (LTV) ratio. Larger equity investments in a house provide a cushion against drops in value and give owners greater incentive to maintain ownership of their homes. During the 1990s, a variety of new mortgage products were introduced to relax requirements for the LTV. While a 95 percent LTV had been the typical maximum allowed by conventional lenders, in recent years a 97 percent LTV has become much more commonly allowed. Establishing a maximum LTV in essence establishes a minimum amount for buyer down payment toward the home purchase. In addition to down payment requirements, borrowers must also pay closing costs associated with the mortgage, fund escrow accounts for property taxes and hazard insurance, and meet reserve savings requirements that can be drawn upon if there is an interruption to the buyer’s income. Taken together, homebuyers typically must have substantial savings to qualify for a mortgage.

The mail survey of PJs did not ask specifically about program requirements for LTVs, but rather asked whether there were requirements regarding the minimum amount of buyer contribution toward the purchase (Exhibit 5-14). This contribution could be applied to down payment requirements or closing costs. As with program requirements for income ratios, a large share of PJs (40 percent) did not set buyer investment requirements, thus deferring this decision to lenders underwriting the first mortgage. Among those that did establish requirements, the most common levels were either 2 to 3 percent of the house value (20 percent) or a fixed dollar amount (18 percent). The vast majority (87 percent) of the fixed dollar amounts reported in the survey were fairly modest, between $500 and $1,500.

There are some interesting variations in investment requirements by program type. Development assistance only programs are more likely than other types of programs not to have a monetary investment requirement (51 percent versus 37 percent). On the other hand, perhaps not surprisingly, development programs are also more likely to have requirements for owners to invest sweat equity in their properties, with one in five of these programs having sweat equity requirements. Direct assistance programs are more likely to establish fixed dollar amounts for an investment requirement, with 24 percent of these programs setting fixed dollar amounts compared to 9 percent of development only programs and 17 percent of joint direct and development assistance programs.

Exhibit 5-14

Program Requirements for Buyer Contributions Toward Purchase
(Share of Programs)

Investment Requirement	All Programs (n=997)	Direct Assistance Only (n=434)	Development Assistance Only (n=210)	Joint Direct and Development Assistance (n=353)
No Requirement	40%	37%	51%	38%
Sweat Equity	10	4	21	11
Up to 2% of Home Value	8	10	2	10
2 to 3% of Home Value	20	23	8	24
Above 3% of Home Value	4	3	3	4
Fixed Dollar Amount	18	24	9	17

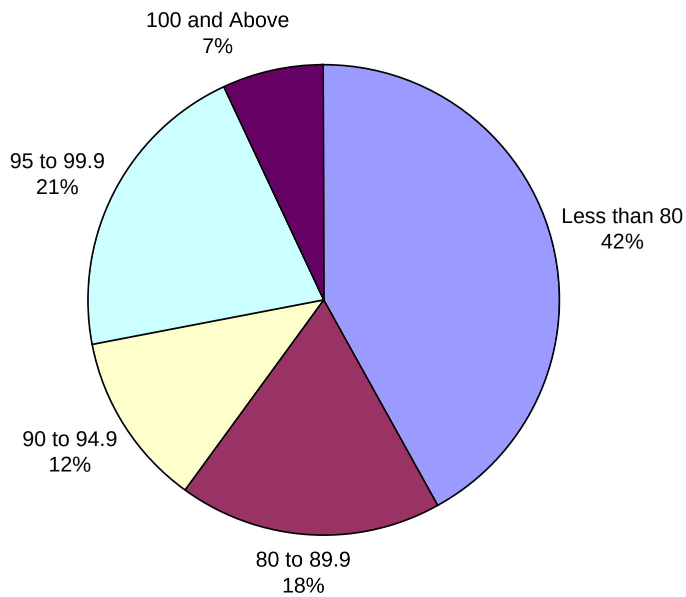
Note: This item had 34 non-respondents, including 10 direct assistance programs, 15 development programs, and 9 joint programs.

Sources: Mail survey of HOME PJs.

The buyer-level data provides further insights into the LTVs achieved under the HOME program. When all sources of financing are compared to sales prices, the ratio of financing to sales price is quite high. Not counting development assistance used to subsidize sales prices below either development costs or market value, the average LTV ratio is 100 percent, across the PJs from which buyer-level data were obtained. Since most loan programs require at least a borrower contribution of 3 percent of the sales price, the fact that financing sources on average equal the sales price indicates that HOME funds are often used to cover closing costs in addition to helping to meet down payment requirements. However, since HOME assistance is often in the form of grants or forgivable loans, the actual amount of debt that borrowers must repay represents a much lower share of the sales price. Overall, the average repayable LTV among HOME-assisted buyers is 84 percent. Exhibit 5-15 shows the distribution of loan-to-value ratios among HOME-assisted buyers, including only repayable loans as part of the overall debt on the property. As shown, 42 percent of buyers have ratios of less than 80 percent and only 28 percent of buyers have ratios of 95 percent or higher.

Thus, on average, HOME funding provides buyers with a significant equity stake in their properties.

Exhibit 5-15
Ratio of Repayable Loans to Sales Price
(Share of HOME-Assisted Buyers)



Source: Non-random sample of HOME-assisted buyers from 34 PJs.

5.4 Other Characteristics of Homebuyer Programs

There are other important program features about which PJs have some discretion that relate to the depth of the subsidy provided and the types of buyers who can be assisted. This section briefly discusses several of these key features.

Length of Affordability Period
As shown in Exhibit 5-16, most programs (67 percent) do not choose to lengthen the affordability period beyond that required by HOME. However, in 23 percent of programs PJs do extend the affordability period beyond that required by HOME regulations and in 10 percent of programs this requirement varies (reflecting cases where PJs defer to subrecipients to determine this program feature). Comparing this program characteristic by PJ type reveals that cities are the least likely to extend the affordability period beyond that required by regulations, as 19 percent of city programs extend the period compared to 27 to 29 percent of programs run by other PJs (although the difference between cities and states is only significant at the 90-percent confidence level). Since states are more likely to pass funding through to subrecipients, they are also more likely than other PJ types to have affordability limits that vary (although the difference between states and counties is not statistically significant).

Housing Price Limits

Another program feature that provides PJs some discretion is whether to use the FHA 203(b) program price limits as set by regulation or to set their own price limits—either to set a more restrictive limit or to undertake a market study of house prices to set a less restrictive limit based on 95 percent of the area median price. Again, in most cases (63 percent) PJs adopt the standard 203(b) limits. If PJs do adopt other limits, they are somewhat more likely to seek less restrictive limits (20 percent) than to adopt more restrictive limits (13 percent). Across PJ types, cities stand out for being more likely to adopt their own price limits and, in particular, to establish less restrictive price limits based on a survey of area prices. States, on the other hand, are more likely than counties or consortia to set more restrictive price limits than the 203(b) program. This probably reflects the fact that many state PJs are HFAs tailor their HOME programs to work with the mortgage revenue bond program, which generally has more restrictive price limits than the 203(b) limits.

Recapture and Resale

While the HOME program specifies the length of the affordability period, PJs have discretion about how to handle cases where buyers do not occupy their homes for the entire affordability period. PJs can either require that all or a prorated share of the subsidy be returned (or recaptured) by the PJ if the buyer sells or moves out of the property. Alternatively, the PJ can require that the unit be resold to another income-eligible household. The bottom panel of Exhibit 5-17 shows the share of programs that use recapture, resale, or both approaches to ensure the long-term affordability of HOME-funded units. Most programs (63 percent) rely exclusively on recapture to ensure affordability, while 13 percent rely on resale provisions and 21 percent allow either approach. The most significant variation in this program feature is related to the type of program. Development programs are much more likely than direct assistance programs to rely on resale provisions, with 31 percent of development programs always using resale, compared to 5 percent of direct assistance programs.

The PJ interviews provide some insights into the factors that affect the choice of using recapture versus resale and were consistent in their reasons for why they opted to use one provision over the other. All of the PJs that use recapture only offered one or more of the following explanations: recapture is simpler to administer because it does not require the PJ (or realtor) to identify another income-eligible buyer; recapture allows the PJ to reuse the HOME funds for other homebuyers or other (non-homebuyer) activities if desired; and recapture provides more opportunity for the homebuyer to build equity. Among these three reasons, ease of administration was the most commonly cited.

Exhibit 5-16

Other Features of Homebuyer Programs
(Share of Programs)

	All Programs (n=997)	City (n=535)	Urban County (n=133)	Consortium (n=213)	State (n=106)
Affordability					
Same as HOME	67%	73%	65%	60%	52%
Longer than HOME	23	19	29	27	27
Varies	10	7	5	13	20
Price Limits					
FHA 203(b) Limits	63	58	71	71	65
PJs Estimate of Area Median	20	24	17	15	11
More Restrictive than 203(b)	13	14	9	8	20

	All Programs (n=997)	Direct Assistance Only (n=434)	Development Assistance Only (n=210)	Joint Direct and Development Assistance (n=353)
Resale/Recapture				
Always Recapture	63%	79%	44%	55%
Always Resale	13	5	31	13
May Use Either	21	14	22	30

Note: Percentages may not sum to 100 because data were missing for 0.7 percent of survey respondents to the affordability period question, 4.3 percent of the price limits questions, and 2.2 percent of the resale/recapture question.

Source: Mail survey of HOME PJs.

Among the PJs that require resale of assisted units to another income-eligible buyer, the most commonly cited reason was that resale was consistent with the PJ's or program partner's mission of preserving the stock of affordable housing. Staff at these agencies did not view recapturing the funds and using them for another buyer as maintaining affordable housing in the same way as resale, which ensures that a particular unit will remain affordable. Other PJs that use resale suggested that, given the amount of assistance that went into the unit (in the form of development subsidy) and the resulting length of the affordability period, resale is easier to administer than recapture because it does not require the PJ to establish formulas for how much will be recaptured (i.e., whether the PJ will recapture the HOME subsidy only or the subsidy plus a share of the appreciation of the unit) and does not require the PJ to recoup the actual funds from the buyer many years after the purchase.

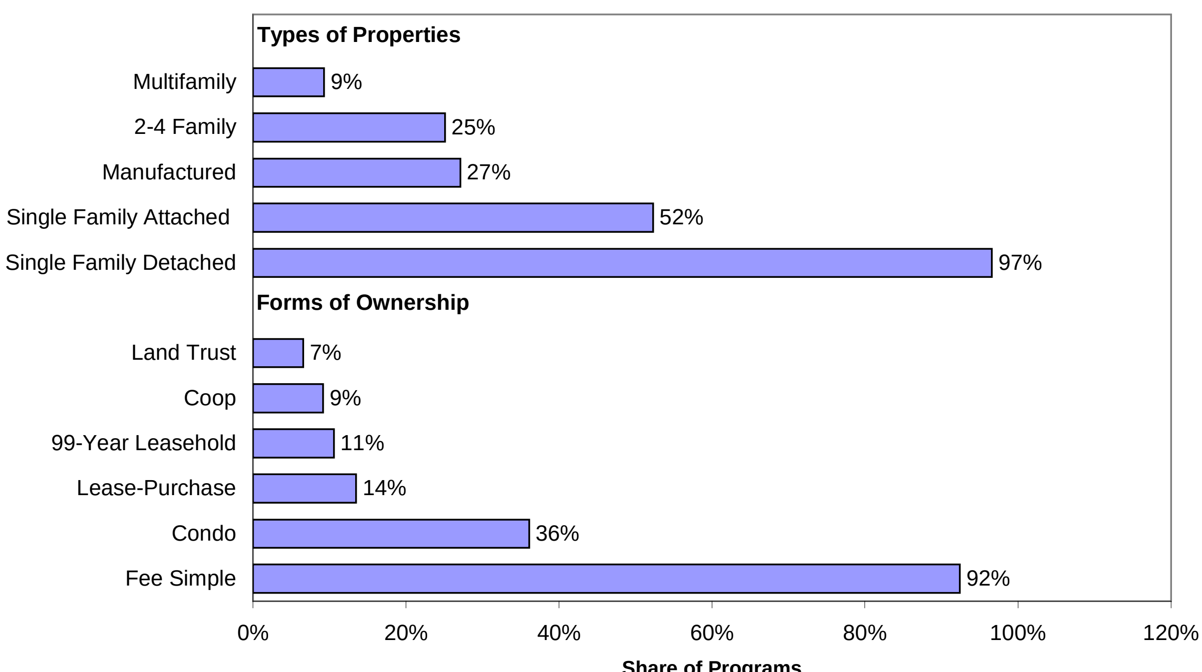
Two of the PJs in our interview sample require both recapture of the HOME assistance and resale of the assisted unit to a qualified buyer. For example, the Orange County (NC) consortium requires recapture and resale in both direct assistance and development programs.

All HOME-funded direct assistance is provided in the form of a zero percent loan (typically about $12,000) that is forgiven incrementally over a 30-year period. If the buyer remains in the house for fewer than 30 years, he/she is required to repay the remaining balance of the loan at the time of resale. In addition, resale to another low-income buyer is required for 99 years after the original purchase via a restrictive covenant. This restriction applies to units purchased with HOME direct assistance as well as units developed using HOME funds. According to the PJ staff interviewed, the restriction was introduced many years ago by a County Commissioner who wanted to protect the stock of affordable homeownership units developed with public funds.

Types of Properties

The mail survey also asked PJs about the types of properties that are allowed under their programs. The top portion of Exhibit 5-17 summarizes these responses. The vast majority of programs support the purchase of single-family detached homes. A slight majority of programs also allow purchase of single-family attached homes, while about a quarter allow the purchase of manufactured homes or properties with 2 to 4 units in the structure. Finally, only 9 percent of programs allow the purchase of properties with 5 or more units. Based on information gathered during interviews, it appears that PJs' policies mostly reflect the opportunities in their market areas rather than an aversion to certain property types. When asked why certain property types were not allowed, a typical response was that there simply was not demand among homebuyers for those types of properties.

Exhibit 5-17
Forms of Ownership and Types of Properties Supported by Homebuyer Programs



Source: Mail survey of HOME PJs.

Forms of Ownership

The bottom portion of Exhibit 5-17 summarizes findings about the forms of ownership allowed by PJs. The vast majority support fee simple ownership, while 36 percent allow for condos. The remaining ownership types were more rarely allowed, including lease-purchase arrangements (14 percent), 99-year leaseholds (11 percent), coops (9 percent), and land trusts (7 percent). Again, our interviews suggest that the support for these other ownership forms mainly reflect whether these other forms of ownership are prevalent in the PJs market area.

5.5 Summary

The mail survey of HOME PJs identified 997 homebuyer programs, of which 44 percent provide direct assistance only, 35 percent jointly provide both direct and development assistance, and 21 percent provide development assistance only. This chapter drew upon the results of the mail survey, buyer-level data collected from 34 PJS, and the in-depth interviews to analyze the financial characteristics of homebuyer programs, including the type and amount of HOME assistance, the use of other financing sources, and the affordability of HOME-assisted loans.

The main findings of the chapter are as follows:

- More than three-quarters of homebuyer programs provide direct assistance to help buyers purchase the property, either alone (44 percent) or in conjunction with development assistance (35 percent). The majority of these programs provide some form of gap financing for down payment or closing costs or to make up the difference between the amount the buyer can afford and purchase price. HOME is rarely used for other forms of direct assistance such as interest subsidies, first mortgages, loan guarantees, or IDA contributions. A key feature of direct assistance to programs is that recipients often do not have to repay the assistance if they occupy the home for the entire affordability period. Just one third of programs provide assistance to homebuyers solely in the form of repayable loans and only 6 percent of programs require amortizing payments immediately following origination of these loans.

- Just over half of homebuyer programs provide some form of development assistance, including 35 percent that provide both development assistance and direct assistance to homebuyers and 21 percent that provide only development assistance. Among development programs, 79 percent of programs provide financial support to close the gap between the sales price and the cost of development. Forty-one percent of programs provide both sales price subsidies and financial support for the development process to lower the cost of the homes. Only 17 percent of development programs only finance the development process without also closing the gap between the sales price and development cost. Development programs most commonly support new construction (78 percent), followed by acquisition and rehabilitation of existing housing (53 percent), and acquisition only (20 percent).[59]

- There is a clear tendency for direct assistance programs to offer smaller levels of assistance. The median amount of assistance among programs offering only direct assistance is $8,000, compared to $20,000 for programs offering both direct and development assistance and $25,000 for programs offering only development assistance. There is relatively little difference in the amounts of assistance provided by PJ type.

- A majority of both direct assistance and development programs make use of other subsidies in addition to HOME funding. Key additional sources of subsidy include state funds, local funds, CDBG funds, and an "other" category that includes other federal sources as well as private funding from nonprofit organizations and lenders. Although a large share of homebuyer programs draw upon other sources of funding, the buyer-level data collected from 37 PJs suggest that these other subsidies tend to be used on an occasional basis rather than with every HOME-assisted purchase. Nevertheless, when these other subsidies are used, they provide an average of 1.5 times the amount of funding provided by HOME alone.

- More than half of the programs surveyed did not set any goals for the affordability of the home purchase, but rather deferred to the first mortgage lenders' underwriting guidelines for ratios of housing costs and total monthly debt to income. Based on our sample of buyer-level data, the average homebuyer has reasonable affordability levels, with an average housing cost to income ratio of 28 percent and an average total debt to income ratio of 37 percent.

- As with affordability goals, a large share of PJs (40 percent) did not set buyer investment requirements. Among those that did establish requirements, the most common levels were either 2 to 3 percent of the house value or a fixed dollar amount. The vast majority of the fixed dollar amounts reported in the survey were fairly modest, between $500 and $1,500. Among the buyers in our sample, the average LTV is 100 percent, which is high by conventional lending standards. However, excluding forgivable loans and grants, the average LTV among HOME assisted buyers is 84 percent, suggesting that buyers that remain in their homes for the full forgiveness period (usually the same as the HOME affordability period) have a significant equity stake in their properties.

[59] Percentages sum to more than 100 percent since many programs support a variety of development types.

The next chapter examines other characteristics of homebuyer programs based on the mail survey and in-depth interviews, including approaches to income and geographic targeting, homeownership counseling, and program partnerships. Chapter 7 then revisits the sample of buyer-level data to discuss program outcomes, both financial (foreclosure and default rates) and geographic (to what extent homebuyers move to different and better neighborhoods when they purchase through the program).

Chapter 6:
Targeting, Counseling, and Program Partnerships

This chapter presents the findings of the mail survey and in-depth interviews on the non-financial characteristics of homebuyer programs. As in Chapter 5, the focus of this chapter is on the characteristics of the 997 individual homebuyer *programs* captured by the mail survey, although some program decisions, such as homeownership counseling, tend to cut across program types and may therefore be described at the PJ level. The chapter begins by discussing the extent to which homebuyer programs target particular types of households or types of neighborhoods. Next, we examine the role of homeownership counseling in homebuyer programs. The last section of the chapter discusses PJs' use of local partners—including lenders and nonprofit housing providers—to assist with the administration of homebuyer programs.

6.1 Income and Neighborhood Targeting

The HOME program regulations provide significant latitude for PJs to tailor homebuyer programs to fit local needs. In choosing program guidelines, PJs may target both certain types of homebuyers and specific neighborhoods. In this section, we discuss income and neighborhood targeting, as well as other kinds of requirements that PJs establish for their homebuyer programs, such as restricting programs to first-time buyers.

6.1.1. Income Targeting

The HOME program requires that HOME-assisted buyers have incomes at or below 80 percent of the area median income (AMI), but allows PJs to set lower income thresholds if they wish to do so. As presented in Chapter 3, IDIS data show that nearly half of all homebuyers using HOME assistance are in the maximum allowable income range of 61 to 80 percent, whereas rental and owner-occupied rehab programs tend to serve people at significantly lower incomes.

The national survey of homebuyer programs conducted for this study indicates that the vast majority of homebuyer programs do not include additional income targeting beyond HOME program requirements. Overall, 91 percent of all homebuyer programs serve buyers with incomes at or below 80 percent of AMI, while four percent limit assistance to buyers with incomes at or below 60 percent of AMI, and three percent target an even lower income group (see Exhibit 6-1).

Exhibit 6-1

Maximum Income Permitted in Homebuyer Programs

	All Program Types (n=997)	Direct Assistance (n=434)	Development Assistance (n=210)	Joint Direct and Development Assistance (n=353)
80 percent of AMI	91%	92%	88%	92%
60 percent of AMI	4	4	5	3
50 percent of AMI	2	1	5	2
Below 50 percent of AMI	1	1	2	1

Note: Percentages may not sum to 100 because data on maximum income were missing for 1.3 percent of the programs surveyed.

Source: Mail survey of HOME PJs.

Among the PJ staff interviewed for this study, several reported that they find it difficult to stay within the HOME income limit. For example, the City of Newton (MA) consortium has found that, because of the high cost of housing in the area, it can only serve a very small number of clients, all of whom have incomes just below 80 percent of AMI. Even at this income level, most homes in the consortium's jurisdiction are not affordable, despite the $50,000 to $100,000 in direct assistance provided through HOME. In contrast, several PJs have chosen to target a lower-income population than HOME requires. For example, Will County (IL) set the maximum income limit for its direct assistance program at 70 percent of AMI, both to serve a lower-income population and to limit the number of households applying for the program. At one time, the program's maximum income requirement was 60 percent of AMI, but the PJ found buyers at this income were much more likely to have credit problems and could therefore not qualify for a primary loan. Similarly, the County of Richland (SC) targets buyers at 60 percent of AMI; staff said this is the lowest income group likely to transition successfully to homeownership. In Dade County (FL), the PJ has chosen to set the income limit at 65 percent AMI. To maximize affordability for this group, the PJ has combined its HOME funding with state HFA bond funds to provide a deep subsidy of approximately $43,000 per buyer.

Among the three program types, development programs are slightly more likely to target lower income households (Exhibit 6-1), but this difference is not statistically significant. As discussed in Chapter 4, staff interviewed at several of the PJs reported that funding homebuyer development enables them to serve a lower income population than they could with direct assistance programs. In addition, development programs that are tied to another source of funding tend to target a lower income group than is required by HOME regulations alone. For example, several of the PJs interviewed use HOME to fund homebuyer units developed by local chapters of Habitat for Humanity, which typically serve households with incomes at or below 50 percent of AMI.

Among the 50 PJs we interviewed, several operated direct assistance programs funded by HOME for households at or below the HOME income limit, and used with another funding source for those above the HOME income limit. For example, the City of Pasadena (CA) uses State Housing Trust Funds to assist homebuyers between 80 and 120 percent of AMI. Conversely, the City of Yonkers (NY) targets households with incomes between 50 and 80 percent of AMI in its HOME-funded direct assistance program because other sources of funding are available for households at *lower* income levels. Some PJs make further distinctions among the income groups served by HOME homebuyer programs. For example, the State of New Jersey requires 50 percent of the units developed with HOME funds to be sold to buyers with incomes at or below 50 percent of AMI. The City of Fort Collins (CO) has found it useful to divide homebuyers into two groups: those with incomes between 50 and 80 percent of AMI and those with incomes below 50 percent of AMI. Households in the lower income group receive double the subsidy of the higher income group and are required to go through more extensive counseling and case management.

6.1.2. Credit Screening and Underwriting

In addition to screening applicants for income eligibility, most PJs also screen potential program participants for creditworthiness and available cash reserves. As shown in Exhibit 6-2, three-quarters of homebuyer programs conduct credit reviews to screen program applicants, with joint direct assistance and development programs slightly more likely than direct programs to do so (81 percent). In addition, more than half of all homebuyer programs screen for the availability of buyer cash to contribute to the purchase. Finally, a small number of programs surveyed reported using other kinds of screening, including pre-qualification by lenders, interviews, home visits, and letters of recommendation.

Exhibit 6-2

Participant Screening Beyond Income Eligibility

	All Program Types (n=997)	Direct Assistance (n=434)	Development Assistance (n=210)	Joint Direct and Development Assistance (n=353)
Credit Reviews	75%	68%	76%	81%
Buyer cash availability	57	60	51	58
Other screening criteria[a]	10	11	9	10

Note: Percentages sum to more than 100 because multiple responses were permitted.

[a] Other screening criteria reported include pre-qualification by lenders, interviews, home visits, and letters of recommendation.

Source: Mail survey of HOME PJs.

6.1.3. Other Participant Targeting

In addition to meeting the program's income restrictions and other screening criteria, most HOME-funded homebuyer programs are restricted to or targeted to first-time homebuyers. Eighty-nine percent of the programs surveyed either require participants to be first-time buyers or target first-time buyers by focusing outreach efforts on them. Among the three program types, direct assistance programs are most likely to require first-time homebuyer status. Nearly 60 percent of direct assistance programs require participants to be first-time homebuyers, and an additional 34 percent target first-time homebuyers but do not require first-time homebuyer status for program eligibility (see Exhibit 6-3).

Exhibit 6-3

Targeting of First-Time Homebuyers

	All Program Types (n=997)	Direct Assistance (n=434)	Development Assistance (n=210)	Joint Direct and Development Assistance (n=353)
Program is restricted to first-time homebuyers	50%	59%	41%	44%
Program is targeted to first-time homebuyers but not restricted to them	39	34	40	45
Program is not targeted or restricted to first-time homebuyers	10	6	16	11

Note: Percentages may not sum to 100 because data on first-time homebuyer targeting were missing for 1.0 percent of the programs surveyed.

Source: Mail survey of HOME PJs.

The in-depth interviews revealed that some homebuyer programs are designed for particular household types, such as families, those with special needs (including the elderly and those with disabilities), those who live in substandard housing, and local residents. For example, San Bernardino County (CA) requires HOME-assisted homebuyers to be county residents for one year prior to purchasing a home through their program. The PJ sees this as a way of preventing people from moving to the county just to take advantage of the program. The City of Alexandria (VA) also requires that program participants live or work within the city. In Madison (WI), the PJ funds a CHDO that provides social services and develops homeownership units for people with disabilities. The agency develops four to six condominium units per year that are designed to meet the specific needs of the purchaser. The CHDO then provides case management services and extensive homeownership counseling support to prepare the buyer to become a homeowner. The PJ helps finance the construction of the unit and provides deep down payment assistance (up to $38,000).

Other PJs set work requirements for program participants. Will County (IL) requires all non-elderly, non-disabled adults living in the household to be employed full-time and to have at least three years of employment history. PJ staff reported that this requirement is a way of preventing recent college graduates from taking advantage of the program. The requirement also places emphasis on serving working families, which is part of the PJ's broader mission. The City of Yonkers (NY) requires at least two years of employment history.

6.1.4. Neighborhood Targeting

More than half of the homebuyer programs surveyed target or are restricted to certain parts of the PJ's jurisdiction. Development programs and joint direct assistance and development programs were the most likely to have geographic targeting or restrictions. More than 60 percent of development and joint programs had some kind of geographic restriction, compared to 44 percent of programs that provide direct assistance only (see Exhibit 6-4).

Exhibit 6-4

Neighborhood Targeting by Homebuyer Programs

	All Program Types (n=997)	Direct Assistance (n=434)	Development Assistance (n=210)	Joint Direct and Development Assistance (n=353)
Program is restricted to certain area(s)	32%	26%	30%	41%
Program is targeted to certain area(s) but not restricted to those areas	22	18	30	23
Program has no geographic targeting or restrictions	45	55	39	35

Note: Percentages may not sum to 100 because data on geographic targeting income were missing for 0.9 percent of the programs surveyed.

Source: Mail survey of HOME PJs.

Among the 50 PJs interviewed who use HOME for homebuyer activities, several state and county PJs reported restricting their homebuyer programs to areas not encompassed by other HOME entitlement communities. These restrictions were put in place because the required funding match was often difficult to obtain from other entitlement communities.[60] Other PJs interviewed restricted their homebuyer programs to particular distressed neighborhoods. For example, the City of Hollywood (FL) has partnered with a coalition of community development corporations (CDCs) to focus homebuyer development on two designated

[60] PJs must match at least 25 percent of the HOME funds drawn down with local, non-Federal funds. Matching contributions must be: a permanent contribution to housing and from non-Federal sources such as local government agencies, state agencies, charitable organizations/foundations, and private sector organizations such as lending institutions and corporate donors (24 CFR 92.218).

revitalization neighborhoods. In this case, the HOME-funded homebuyer program is part of a larger effort by the city to improve these neighborhoods. Similarly, Baltimore County (MD) restricts its direct assistance program to designated community conservation areas—older neighborhoods around Baltimore City that are either in decline or considered to be at risk. The City of Pontiac's (MI) development program is restricted to two neighborhoods designated as redevelopment areas. Finally, the cities of Madison (WI), Beaumont (TX), and Port Arthur (TX) restrict their HOME homebuyer programs to CDBG target areas, defined as areas in which more than half of resident households have incomes at or below 80 percent of AMI.

Other PJs target certain designated areas for their homebuyer programs but nevertheless allow program participants to purchase outside those areas. For example, the City of Ogden (UT) gives a $2,000 bonus to households moving into targeted central city neighborhoods. The State of Rhode Island's development program, which is based on a competitive RFP process, awards higher points to projects proposed in revitalization areas. Overall, this PJ has awarded 80 percent of HOME development funds to projects in such areas. Other PJs partner with CHDOs that only work within a certain target area, creating a de facto area of program activity. In Chester (PA), for example, two CHDOs conduct HOME-funded acquisition and rehabilitation on homebuyer and lease-purchase units in specific city neighborhoods. Similarly, the City of Las Cruces (NM) recently allocated its CHDO set-aside funds to a single CHDO that does infill development in an older neighborhood. The funds will be used for the development of homebuyer units in that neighborhood.

6.2 Homebuyer Counseling

In this section, we describe PJ approaches to providing homeownership counseling to participants in HOME homebuyer programs. The first part of the section draws primarily upon the survey results to answer the following questions: Which homebuyer programs require counseling? When does the counseling take place? What is the form and content of the counseling? Who provides the counseling and how is it funded? The second part of the section draws upon the in-depth interviews with 50 PJs that use HOME for homebuyer activities to provide examples of how different PJs structure the counseling component.

6.2.1. Which Homebuyer Programs Require Counseling?

The majority of HOME-funded homebuyer programs require some form of homeownership counseling. Of the 997 homebuyer programs reported in the mail survey, more than three-quarters require homeownership counseling (see Exhibit 6-5). Among the three program types, direct assistance programs are most likely to require counseling, followed by joint direct assistance and development programs. Development programs are the least likely to require counseling; however, a quarter of the development programs surveyed generally provide counseling, even if it is not required. As a result, 85 percent of development programs either require or generally provide counseling. For direct assistance and joint programs, this share is 92 percent and 94 percent.

In addition to PJs offering development assistance programs, state PJs are the least likely to require homeownership counseling (although only the difference between states and cities is statistically significant). Many state PJs are state HFAs or work in close partnership with HFAs, which may require homeownership counseling for their affordable loan products.

Exhibit 6-5

Counseling Requirements by Program Type and PJ Type

	All Program Types (n=997)	Direct Assistance (n=434)	Development Assistance (n=210)	Joint Direct and Development Assistance (n=353)
Required	77%	84%	60%	79%
Not required but generally provided	14	8	25	14
Not required and not generally provided	8	7	13	6
	State (n=106)	**City (n=545)**	**Consortium (n=213)**	**Urban County (n=133)**
Required	72%	78%	78%	78%
Not required but generally provided	16	14	17	7
Not required and not generally provided	8	8	5	14

Note: Percentages may not sum to 100 because data on counseling requirements were missing for 0.9 percent of the programs surveyed.

Sources: Mail survey of HOME PJs.

Among the 50 PJs selected for in-depth interviews, only seven did not require counseling. In five of these cases counseling was not required by the PJ but was generally provided by the partner agencies administering the homebuyer program, such as CHDOs, CDCs, and other nonprofit organizations. At two sites, counseling was neither required nor consistently provided. One of these sites is a state PJ that works with multiple local partners, some but not all of which provide counseling. PJ staff reported that they think counseling is a good idea and could not explain why the PJ does not require it. The other PJ that does not require counseling relies on its three lender partners to market the program, establish debt burden limits, inspect and appraise the properties, and refer loan applicants to homeownership counseling as necessary. PJ staff reported that their “hands off” approach to program administration approach has worked well thus far, and as a result they are unlikely to set additional program requirements unless the loan default rate increases or HUD changes the HOME regulations.

6.2.2. When Does the Counseling Take Place?

For the most part, the counseling provided by HOME homebuyer programs is pre-purchase homebuyer education (see Exhibit 6-6). For 49 percent of homebuyer programs, the pre-purchase counseling always takes place before the buyer is approved to receive HOME assistance and is a condition of receiving the assistance. In such cases, the counseling can act as a screening mechanism to help the PJ or program partner determine whether the applicant is qualified for homeownership. Households determined not to be purchase-ready—perhaps because of an unstable employment history, poor credit, or insufficient income or savings—are believed to benefit from the counseling nonetheless because of the emphasis on budgeting and credit repair.[61]

For 17 percent of homebuyer programs, the counseling always takes place after the household is approved for assistance but prior to the purchase, ensuring that most if not all of the households counseled will go on to purchase with HOME assistance. For the remaining 25 percent of homebuyer programs, pre-purchase counseling takes place either before or after the buyer is approved for assistance, or at both points.[62] Based on the findings of the in-depth interviews, programs that are flexible about when the counseling takes place allow buyers to join the program at different points in the home search process so as not to preclude any buyers from receiving assistance. Programs in which counseling is provided to the same prospective homebuyer both before and after approval have typically adopted a "handholding" approach to counseling, in which the counselor works with the buyer through the entire process of qualifying for the program, qualifying for a mortgage, selecting a home, and completing the purchase.

A significant share of homebuyer programs provide post-purchase as well as pre-purchase counseling. Twenty-one percent of all homebuyer programs and 23 percent of development programs provide post-purchase counseling. Development and joint programs may be more likely to provide post-purchase counseling, because in a development project the PJ (or developer partner) may have more opportunity to maintain contact with homebuyers after they purchase. This is because development programs tend to be more localized than direct assistance programs that allow buyers to purchase anywhere and because developers often provide home warranties for the first year or so that allow the buyer to call upon the developer for repairs. However, based on the findings of the in-depth interviews, there is likely much variation in the form and content of post-purchase "counseling," which ranges from letters sent to buyers once a year for five years after purchase to mandatory workshops and individual counseling sessions (see discussion on the form of counseling below).

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[61] Program regulations allow HOME funds to be used for counseling households that purchase HOME-assisted units (see 24 CFR 92.206(d)(6)). As described in Exhibit 6-9 below, most PJs use a combination of funding sources for homebuyer counseling, which enables them to provide counseling to a broader group than just those households who will ultimately purchase HOME-assisted units.

[62] We are not able to distinguish between programs that provide counseling before *or* after approval and those that provide counseling at both points because the survey simply asked respondents to indicate all the points at which counseling is provided.

Exhibit 6-6

Type and Timing of Counseling by Program Type

	All Program Types (n=997)	Direct Assistance (n=434)	Development Assistance (n=210)	Joint Direct and Development Assistance (n=353)
Type of Counseling				
Pre-purchase only	70%	76%	62%	69%
Post-purchase only	1	0	1	1
Pre- and post-purchase	20	16	23	23
Timing of Counseling				
Before approval of HOME assistance	49%	51%	46%	47%
After approval of HOME assistance	17	18	11	18
Either or both	25	23	23	27

Note: Percentages may not sum to 100 because data on type of counseling were missing for 1.8 percent of the programs surveyed; data on timing of counseling were missing for 2.6 percent of the programs surveyed.

Source: Mail survey of HOME PJs.

6.2.3. What is the Form of the Counseling?

For homebuyer programs that provide homeownership counseling, the level of counseling is moderately intensive. A majority of the programs surveyed provided at least six hours of counseling, and 25 percent provide more than eight hours (see Exhibit 6-7). Among the in-depth interview sites, the PJs that placed a great deal of emphasis on counseling typically provided more than eight hours of counseling, although this was only 10 out of 50 sites. Counseling requirements vary little by program type; direct assistance programs are most likely to provide counseling overall but do not necessarily provide more hours than development programs or joint programs.

Nearly 50 percent of homebuyer programs offer a combination of counseling types—typically group workshops combined with one or more individual sessions as needed—and about a third of homebuyer programs provide group counseling only. A smaller share of programs (11 percent overall) provide only individual counseling. Development programs are more likely than the other program types to provide individual counseling only, perhaps because many HOME-funded development projects only involve one or two units, making group counseling impractical. Less than one percent of the homebuyer programs surveyed provide counseling entirely via home study, although approximately 10 percent of programs use home study in combination with other forms of counseling.

Exhibit 6-7

Counseling Characteristics by Program Type

	All Program Types (n=997)	Direct Assistance (n=434)	Development Assistance (n=210)	Joint Direct and Development Assistance (n=353)
Total Amount of Counseling				
Less than 1 hour	2%	2%	3%	1%
1 to 2 hours	10	10	10	10
3 to 5 hours	21	25	13	20
6 to 8 hours	30	30	26	32
More than 8 hours	25	23	31	25
Form of Counseling				
Group counseling only	31%	33%	27%	32%
Individual only	11	8	20	9
Home study only	0	1	0	0
Combination of counseling forms	49	50	39	52

Note: Data on the total amount of counseling were missing for 4.3 percent of the programs surveyed; data on the form of counseling were missing for 1.6 percent of the programs surveyed.

Source: Mail survey of HOME PJs.

Based on the in-depth interviews, PJs and counselors have concluded that a combination of group and individual counseling is optimal for homebuyer programs. PJ staff interviewed commented that a counseling approach combining group and individual sessions allows counselors to tailor the counseling to each client, depending on his/her readiness to buy a home. They found individual counseling to be especially effective for discussion of sensitive issues such as credit repair and budgeting, while group workshops are an efficient way to deliver basic information and can be motivating to buyers—particularly if they take place over several sessions with the same group of participants.[63]

Most of the PJ staff and program partners interviewed reported that they thought homebuyer counseling was effective in reducing delinquency rates, although many were not familiar with the details of the counseling curriculum and few had any data to support their claims. The majority of these staff emphasized the counseling provided on budgeting and credit issues as being most important. In several cases, however, staff noted that just as important

[63] A 2001 study of mortgages originated under Freddie Mac's Affordable Gold program found a 34 percent reduction in delinquency rates among borrowers receiving individual counseling, all other things equal. Borrowers receiving classroom and home study counseling experienced 26 percent and 21 percent reductions. Abdighani Hirad and Peter Zorn, "A Little Knowledge is a Good Thing: Empirical Evidence of the Effectiveness of Pre-Purchase Homeownership Counseling," in *Low-Income Homeownership: Examining the Unexamined Goal,* edited by Nicolas P. Retsinas and Eric S. Belsky, Washington, DC: Brookings Institute Press, 2002.

as the information provided is the opportunity that counseling provides for buyers to build lasting relationships with individual counselors and their agencies (usually either the PJ or a nonprofit housing organization). According to these PJs, a good experience with the counselor prior to the purchase and opportunities for post-purchase follow-up, either through structured counseling sessions or informal "check-ins," makes it more likely that buyers will return to the counselor or agency as soon as they encounter problems and prior to defaulting on the mortgage.

At five sites, PJ staff expressed skepticism about the effectiveness of counseling in helping first-time homebuyers stay in their homes. For example, one HOME program director noted that the buyers in his programs typically fall into one of two groups—those who are ready to purchase and do not need counseling and those who need much more than the required five hours of counseling in order to improve their chances at long-term homeownership success. Another HOME administrator said that he thought it was not the counseling itself that reduces the likelihood of loan default, but the fact that counseling, if fairly intensive, typically takes place over a period of weeks or months, which requires considerable commitment on the part of the homebuyer and tends to weed out less motivated buyers. However, these views were not expressed by the majority of PJ staff interviewed.

6.2.4. Who Provides the Counseling?

For 81 percent of homebuyer programs that have counseling, the counseling is not provided by the PJ directly but is provided by one or more local partner organizations (see Exhibit 6-8). PJs are least likely to provide the counseling for development programs. The partner organizations that provide counseling for homebuyer programs include CHDOs, Community Action Program (CAP) agencies, CDCs, NeighborWorks® Organizations, and other nonprofit housing counseling providers.[64] Some, but not all, of these organizations have been certified by HUD's Certified Housing Counseling Program, by the Neighborhood Reinvestment Corporation, or by a state housing finance agency (in some cases at the requirement of the PJ). For 18 percent of the programs surveyed, lenders provide some homebuyer counseling (although not necessarily the full amount of counseling required).[65]

Among the 50 PJs interviewed with HOME homebuyer programs, only four provided some or all of the pre-purchase counseling in-house. For example, the City of Aurora (CO) is a HUD-approved and state HFA-approved counseling provider and employs two full-time homeownership counselors to serve its HOME-funded direct assistance program. The City of Hollywood (FL) also employs two full-time counselors. The City of Cambridge (MA) requires that all buyers of units developed with HOME funds complete the PJ's first-time homebuyer course, which is also offered to the general public and to residents of

[64] Other providers of counseling reported in the in-depth interviews include a university extension school and the local public housing agency.

[65] Lenders provide counseling for 19 percent of direct assistance programs, 12 percent of development programs, and 20 percent of joint direct and development programs. (Source: Mail survey of HOME PJs.)

neighborhoods where units are being developed. The course consists of four two-hour sessions led by PJ staff with some guest speakers, such as lenders, as appropriate. In addition, the CHDOs that receive HOME funds to develop homebuyer condominium units provide small-group counseling to approved buyers as a supplement to the PJ's course. This counseling focuses on the purchase process and the responsibilities of being in a condominium association.

Exhibit 6-8

Providers of Homebuyer Counseling

	All Program Types (n=770)[a]	Direct Assistance (n=366)	Development Assistance (n=125)	Joint Direct and Development Assistance (n=279)
Who Provides Required Counseling?				
PJ	19%	19%	13%	22%
Program partner	81	81	87	78
Who Sets Counseling Requirements?				
PJ alone sets requirements	63%	63%	55%	65%
Program partners set requirements (may be in partnership with PJ)	37	37	45	35

Note: Percentages may not sum to 100 because data on counseling requirements were missing for 0.9 percent of the programs surveyed and data on requirements set by program partners were missing for 5.6 percent of the programs surveyed.

[a] Includes only those programs that require counseling.

Source: Mail survey of HOME PJs.

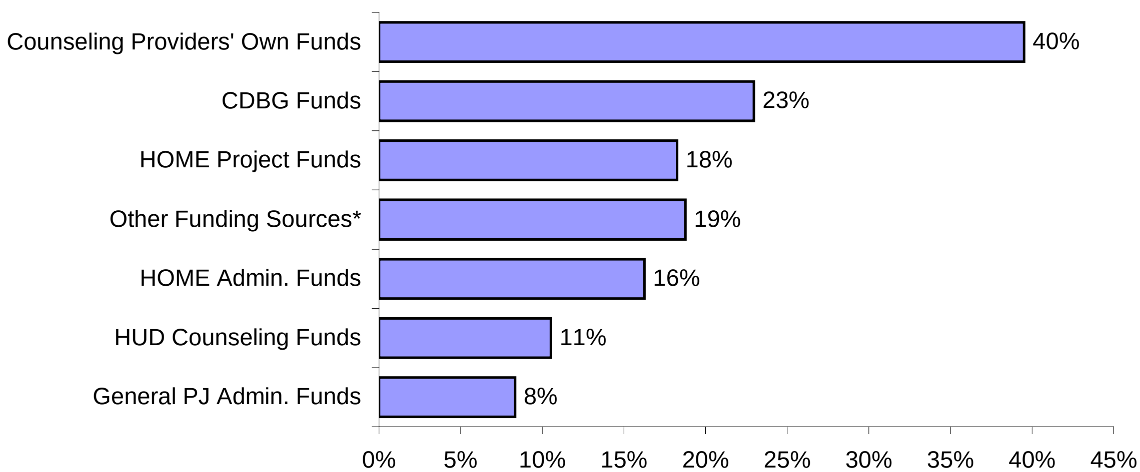
In nearly two-thirds of homebuyer programs surveyed, the PJ alone sets the program's counseling requirements (see Exhibit 6-8). Beyond the basic requirement, however, partner organizations typically enjoy some latitude in determining the form and content of the counseling. Among the 50 PJs with homebuyer programs interviewed for this study, 29 (58 percent) did not set any guidelines for the amount or type of counseling provided by partner organizations, and an additional nine PJs only required that the partner organization be a HUD- or state HFA-approved counseling agency.

Twelve of the PJs interviewed, however, took a more active role in counseling by developing or reviewing the counseling curriculum, or by conducting part of the counseling. For example, the Baltimore County PJ developed written guidelines for the four nonprofit organizations that provide counseling to participants in its HOME-funded homebuyer programs. The guidelines include a list of services the nonprofits must provide to all HOME clients, including requesting a credit report and reviewing it with the buyer and ordering a home inspection with the firm selected by the client. At the same time, the nonprofits have flexibility to tailor their counseling programs to local needs and to their interests. Part of the County's mission is capacity building among neighborhood organizations, so the PJ encourages the nonprofits to use HOME counseling funds to pursue initiatives of interest to them, such as anti-predatory lending initiatives. As a result, although PJ staff report that the content and quality of the counseling is consistently high across the four nonprofits, each has a slightly different emphasis.

6.2.5. How is the Counseling Funded?

Most PJs and their partners draw upon a variety of funding sources to pay for homebuyer counseling. Exhibit 6-9 presents the funding sources that the surveyed PJs reported using for counseling in their HOME-funded homebuyer programs. The most common sources of funding for homebuyer counseling are the counseling providers' own funds, CDBG funds, and HOME funds. The funding sources presented in the figure are not mutually exclusive—that is, PJs may have reported multiple sources of funding for counseling for a given homebuyer program. Indeed, across all program types 58 percent of homebuyer programs use multiple funding sources for counseling.

Exhibit 6-9
Sources of Funding for Homebuyer Counseling



Source: Mail survey of HOME PJs.

** "Other" funding sources was a category on the mail survey. Respondents were asked to write in the funding source but relatively few did. Among those that did write in a response, the most common responses were: state funds, staff grants, and rural development funds, and unknown.*

Notes: Survey data on sources of funding for counseling were missing for 3.1 percent of programs. Percentages are based on all programs surveyed (997).

Consistent with the national mail survey, among the sites interviewed counseling was most often funded not by HOME but by other sources of funding that the counseling providers had obtained. However, the PJ often provided HOME and CDBG funds for counseling as well. Thirty-five percent of programs reported using HOME to fund counseling. At some sites, PJs paid the counseling providers based on the total number of households counseled, whether or not they purchased. This approach requires a funding source other than HOME, which can only be used to provide counseling to households that actually purchase HOME-assisted units. In the City of Evanston (IL), the PJ has been successful in identifying local partners who provide the counseling free of charge to the PJ, using the PJ's offices for workshops.

6.2.6. Examples of Counseling for HOME Homebuyer Programs

Following are three examples of different approaches that the PJs in our interview sample took to providing counseling for their HOME-funded homebuyer programs.

State of North Carolina

Staff at the State of North Carolina PJ (also the state housing finance agency) reported that homeownership counseling is very important to purchaser success. The hope of PJ staff is that in a nurturing counseling environment, counselors develop lasting relationships with clients that make it more likely that buyers who encounter difficulties after purchasing will turn to the counselors for assistance. The PJ, therefore, requires pre-purchase counseling for its two HOME-funded direct assistance programs. The first program provides a deferred loan of up to $5,000 for the purchase of an existing home. The other program is available to buyers of select new construction and rehabilitated units and offers a deferred loan of up to $20,000 or 20 percent of the purchase price.[66] For both programs, the PJ depends on a network of local lenders, CHDOs, nonprofit developers, NeighborWorks® Organizations, and other agencies to provide counseling statewide.

The PJ reported that counseling quality varies significantly across the state and that good counseling programs are hard to find in rural areas. In some rural areas, the counseling is minimal, consisting mainly of presentations by various homeownership professionals. Other rural organizations bus purchasers into cities for counseling. Given the scarcity of counseling resources in rural areas, the PJ allows informal, lender-determined counseling for its smaller-scale direct assistance program in order to ensure that the program can be available across the state. In such cases, the counseling may be as much as a full-day course or as little as an information packet the lender sends home with the purchaser, with the choice left up to the lender. Although the PJ would like to improve the quality of the counseling available through this program, the funding is not available to provide high-quality, intensive counseling statewide.

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[66] As described in Chapter 4, this program is not a development program or joint direct assistance and development program because HOME funds are only used for the direct assistance component.

For the PJ’s larger-scale direct assistance program (linked to new construction and rehabilitated developments), the PJ requires that counselors be HFA- or HUD-certified and cover a specific list of topics during pre-purchase counseling. PJ staff used to fear being too prescriptive with counseling requirements, but have since decided that it is important to prevent counselors from “taking shortcuts.” As a result of the PJ’s minimum counseling standards and stated preference for 8 hours of group training plus individual counseling, some organizations cannot provide counseling for the program. The PJ works to increase local counseling capacity and quality by disseminating a housing counseling network directory and offering a homeownership counseling certification program.

County of Nassau (NY)

PJ staff from the County of Nassau view counseling as critical to homeownership success and favor an intense, hands-on approach. The PJ requires counseling for its HOME-funded homebuyer programs, so all applications for HOME homebuyer funding through the PJ’s RFP process must include a counseling component. As one of the main program partners and counseling providers, the Long Island Housing Partnership (LIHP) provides both pre- and post-purchase counseling (in both group and individual formats), a strong lender network, and support throughout the purchase process. LIHP staff noted that, given how expensive homes are in the county, families typically obtain the largest mortgages they can afford and have little room for financial and budgeting errors, making effective counseling all the more critical.

Furthermore, PJ staff noted that, in cities and urban counties, it is important for purchasers to be well-educated about current interest rates and mortgage products to ensure that they make informed decisions regarding which lender to use. In addition to providing homebuyer counseling, LIHP staff review purchase and loan agreements with buyers. LIHP also partners with a large network of lenders called the New York Mortgage Coalition that buyers may access after completing counseling. In order for these lender partners to stay on board, LIHP wants to ensure that the buyers it refers are successful homeowners. As a result, LIHP has a great deal invested in making sure that families are educated well and understand the responsibilities of homeownership. In addition, this puts LIHP staff in a helpful, intermediary position where they often negotiate with their partner banks on the purchaser’s behalf to make sure the purchaser gets the best rates. Because the lender partners are very interested in having high-quality counseling delivered to borrowers, they provide part of the funding for LIHP’s counseling program. LIHP noted that the combination of strong relationships between counselors and clients and between lenders and LIHP ensures that if something goes wrong, LIHP hears about it and can intervene.

Because Nassau County’s HOME program funds a number of subrecipients besides LIHP, each with its own counseling program, there is some variation in the type and quality of counseling that homebuyers receive. While the PJ has not mandated a minimum number of counseling hours or a specified curriculum, it requires that counseling be “reasonable and rational” and investigates the preparedness of purchasers as part of its monitoring of subrecipients.

City of Pasadena (CA)

The City of Pasadena PJ emphasizes counseling and education for its HOME-funded direct assistance program and partners with Pasadena Neighborhood Housing Services (PNHS), a local nonprofit, to provide all counseling and training. The PJ requires 10 to 12 hours of group workshops followed by individual counseling. Because the PJ places a high priority on quality counseling, it provides significant funding to PNHS for counseling services, including post-purchase follow-up. PNHS staff reported that in the past they ran their own homeownership program that required even more counseling (24 hours) and are proponents of an intensive counseling approach.

In addition to a comprehensive pre-purchase curriculum that focuses on budgeting, PNHS provides individual, post-purchase counseling to all buyers on budgeting, home maintenance, and avoiding default. Counselors also track buyers for several years, proactively checking in to make sure things are on track. Although the PJ allows homebuyers to receive counseling from other organizations besides PNHS, most buyers go to PNHS at the suggestion of the PJ.

Both PNHS and PJ staff reported that counseling is a key to helping first-time purchasers stay in their homes, and cited their three percent default rate as evidence of the effectiveness of the counseling program. Staff explained that the extensive time spent on budgeting at PNHS plays a big role in preventing delinquencies and that the relationship created through one-on-one counseling means that homebuyers are comfortable asking questions if and when they need help.

6.3 Homebuyer Program Partnerships

Most PJs that allocate HOME funds for homebuyer programs rely on outside partners to administer all or part of those programs. Overall, 78 percent of the homebuyer programs surveyed use local partners for program administration, while 22 percent of homebuyer programs are administered entirely by the PJ (see Exhibit 6-10). The use of partners is very common among all program types, although somewhat less common for direct assistance—83 percent for development programs, 81 percent for joint direct assistance and development programs, and 74 percent for direct assistance programs. Based on the in-depth interviews, the frequency with which PJs use partners for development programs is closely related to the perception that development programs require a higher level of staff effort and specialized expertise that many PJs do not possess in-house.[67]

[67] As discussed in Chapter 4, the most commonly cited reasons for not using HOME to fund homebuyer development were the lack of strong partners and the perception that development programs are burdensome or risky to implement. Moreover, the PJs that cited the lack of partners as a barrier to funding homebuyer development programs suggested that they did not have sufficient staff to operate such programs in-house.

Looking across PJ types, we find that the use of program partners is common among all PJ types. Approximately 82 percent of homebuyer programs administered by states use partners, compared to 80 percent for consortia, 78 percent for cities, and 74 percent for urban counties. It is not surprising that states rely on partners to administer their homebuyer programs given the geographic area that they need to cover; what is more surprising is the extent to which all PJ types use partners, and the fact that some states—albeit a small percentage—administer homebuyer programs without the use of partners. Of the four state PJs that were interviewed for this study, none operated homebuyer programs entirely without partnerships. However, the state of North Carolina PJ, which is also the state HFA, operates a direct assistance program in which the only partners are the 66 HFA-approved lenders that provide pre-purchase counseling and originate the loans.

Exhibit 6-10

Use of Partners for Homebuyer Programs

	All Program Types (n=997)	**Direct Assistance (n=434)**	**Development Assistance (n=210)**	**Joint Direct and Development Assistance (n=353)**
Program uses partners of some kind	78%	74%	83%	81%
Program does not use partners	22	26	17	19
	State (n=106)	**City (n=545)**	**Consortium (n=213)**	**Urban County (n=133)**
Program uses partners of some kind	82%	78%	80%	74%
Program does not use partners	18	22	20	26

Note: There were no missing data for this variable.

Source: Mail survey of HOME PJs.

In the mail survey, we asked PJs about two different kinds of partnerships: partnerships with lenders and partnerships with other types of organizations. Each of these partnership types is discussed below.

6.3.1. Partnerships with Lenders

Among the homebuyer programs surveyed, a majority (91 percent) use lenders in some capacity. Across all program types, 48 percent of homebuyer programs work with a specific set of lenders, which we refer to as “preferred lenders” (see Exhibit 6-11). Nearly as many homebuyer programs (42 percent) do not work with specific lenders, but allow buyers to use any lender they choose. The balance of homebuyer programs, nine percent overall, do not use lenders at all. In such cases, the PJ or subrecipient acts as the lender, originating and servicing both the primary mortgage and the HOME-funded subordinate loan (as applicable). This kind of arrangement (i.e., in which outside lenders are not used) is most common among development programs. Among the 50 PJs interviewed, we found several that partnered with

Habitat for Humanity for development programs. In these programs, Habitat originates and services buyers' first mortgage loans.

Among the homebuyer programs that work with specific lenders, the majority work with five lenders or fewer. Working with preferred lenders allows PJs to exercise a measure of control over the loan products that homebuyers use for their primary mortgage. Preferred lenders also often serve key functions in marketing the HOME-funded program to prospective buyers because they are very familiar with the way the HOME assistance can be combined with traditional loan products. For example, the County of St. Louis (MN) consortium works with two primary lenders that offer a standard conventional mortgage product for buyers using HOME for down payment assistance. The two CAP agencies that administer the homebuyer program as subrecipients work closely with the lenders to ensure that the loan terms are affordable to program buyers. The Genesee County (MI) PJ works with three preferred lenders for its HOME-funded direct assistance program. The lenders market the program, process the loan applications, conduct the property appraisals, and originate and service the loans. PJ staff noted that limiting the program to three lenders reduces the possibility that buyers will have trouble with lenders. The PJ recently dismissed a fourth lender from the program because of "problems with serving the needs of purchasers."

Exhibit 6-11

Partnerships with Lenders

	All Program Types (n=997)	Direct Assistance (n=434)	Development Assistance (n=210)	Joint Direct and Development Assistance (n=353)
Use of lenders				
Program works with specific lenders	48%	54%	40%	46%
Program works with all lenders	42	42	38	44
Program does not work with any lenders	9	4	20	8
Use of specific program lenders[a]				
1 to 2 specific lenders	26%	18%	36%	32%
3 to 5 specific lenders	33	30	40	34
6 to 10 specific lenders	18	21	13	17
More than 10 specific lenders	23	31	11	17

Note: Percentages may not sum to 100 because data on use of lenders were missing for 1.4 percent of the programs surveyed.

[a] Includes only those programs that work with specific lenders: 233 direct assistance programs, 84 development assistance programs, 161 joint direct and development assistance programs, and 478 programs overall.

Source: Mail survey of HOME PJs.

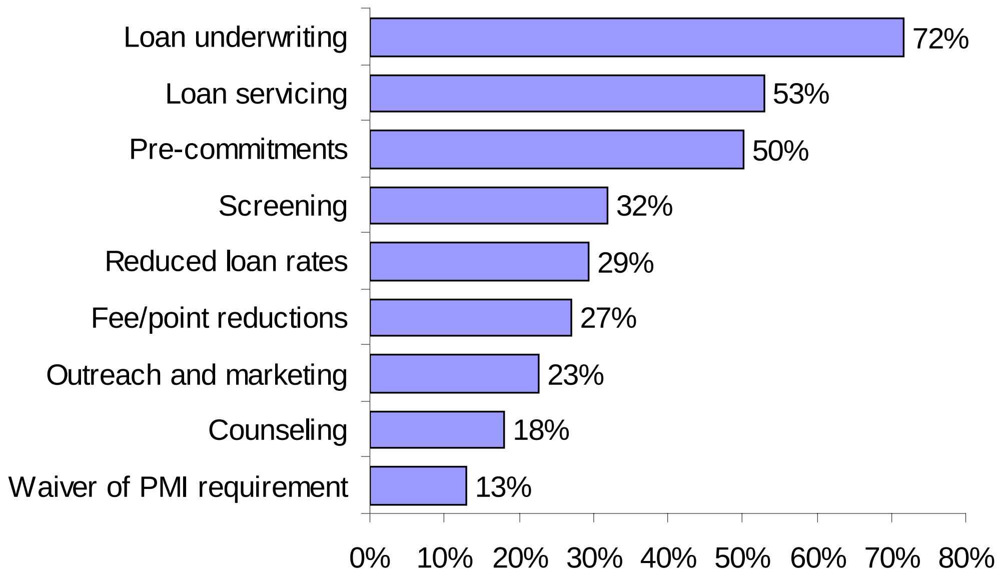
Approximately 23 percent of the homebuyer programs that work with specific lenders work with 10 or more preferred lenders. Such programs are often administered in partnership with a state HFA and use a network of HFA-approved lenders. In addition, at least two of the PJs interviewed had created their own systems for certifying lenders for participation in HOME-funded homebuyer programs. For example, Baltimore County uses 23 lenders for its direct assistance program. Lenders must apply to the PJ to participate in the program, and the PJ carefully reviews the lending institution's qualifications before accepting it into the program. The PJ and lender then sign a formal agreement that is reviewed and renewed biannually. The lender also pays a biannual fee to participate in the program. Participating lenders qualify families for both the first mortgage and the HOME loan and originate the first mortgage loans. The PJ has no additional procedures in place to oversee the lenders, but staff commented that the application process ensures the quality of the lenders accepted into the program. In addition, PJ staff approve each buyer's first mortgage loan terms before making the HOME loan. If the first mortgage is not affordable, the PJ will not provide the family the HOME loan. The PJ uses the lender fee to offset the costs of marketing the program to realtors, other lenders, and potential buyers.

The City of Racine (WI) has created a similar network of 15 lender partners. Having such a network allows the PJ to impose certain restrictions on the types of mortgages offered to program buyers. For example, the PJ recently became concerned about predatory lending and plans to revise its program guidelines to establish a ceiling on the interest rates, points, and fees that participating lenders can charge, limit prepayment penalties, and restrict the use of adjustable rate mortgages.

Although, among the 50 PJs interviewed for this study, those with networks of preferred lenders were most likely to be involved in reviewing loan terms and setting affordability guidelines, other PJs do this as well. Buyers in the City of Yonkers' (NY) direct assistance program, for example, can obtain a first mortgage from any lender as long as that lender is willing to work with the HOME program and puts together a loan package that PJ staff determine is affordable to the buyer. For every buyer that receives HOME assistance, PJ staff review the loan package to ensure that the housing cost ratio is between 28 and 30 percent and that the debt ratio does not exceed 38 percent.

Lenders play a variety of roles in HOME-funded homebuyer programs (see Exhibit 6-12). As would be expected, lenders most often provide the standard services of loan underwriting, servicing, and pre-commitments. To a lesser extent, lender partners may also provide more advantageous loan terms to homebuyer programs to fulfill the requirements of being a preferred lender or to help their institutions meet Community Reinvestment Act obligations. For example, lenders provide reduced loan rates in 29 percent of homebuyer programs, reduced fees or points in 27 percent of homebuyer programs, and waive private mortgage insurance (PMI) requirements in 13 percent of homebuyer programs. Finally, lenders fulfill key programmatic functions such as participant screening (32 percent of homebuyer programs), outreach and marketing (23 percent of homebuyer programs), and counseling (18 percent of homebuyer programs).

Exhibit 6-12
Services Provided by Lender Partners



Source: Mail survey of HOME PJs.

Notes: Survey data on lender roles were missing for 7.7 percent of programs. Percentages are based on all programs surveyed (997).

Most PJs and lenders do not remain closely involved with HOME homebuyers after they purchase. Not all lenders service the loans themselves and, based on the in-depth interviews, relatively few lenders and PJs have established procedures for tracking loan payments and intervening in the event of delinquencies. Among the 50 PJs interviewed, five had systems in place for tracking homebuyers' mortgage payments (primary and subordinate mortgages) on a monthly basis. Two of these PJs originate and service the first mortgages themselves. The remaining PJs interviewed have less formal mechanisms for tracking loan payments post-purchase. Several PJs that work with a small number of preferred lenders have established close working relationships with those lenders, such that PJ staff are confident that they would be notified immediately in the event of a missed payment. Most PJs simply rely on the lender to notify them of loan defaults, at which point they try to intervene through counseling or short-term loans to prevent foreclosure.

The majority of PJs interviewed were concerned about the threat of predatory lending in the refinancing market but were unsure how to address it. Because HOME assistance is backed by a lien on the property, PJs are notified when buyers are seeking to refinance their homes, giving the PJ a chance to stop predatory loans by refusing to subordinate their lien to the new first mortgage. PJs that permit refinancing typically subject the new loan package to a strict review and only agree to it if the refinancing results in a lower interest rate or otherwise makes the mortgage more affordable. However, PJs may not be able to stop buyers who include the HOME assistance in the refinance. In these cases, the use of forgivable mortgages may provide buyers with greater incentive to keep their HOME assistance, and thus avoid predatory loans. Staff at the Dade County PJ are particularly concerned about this problem and are working with the legal services committee to find out what can be done to assist buyers who have repaid the HOME assistance but have fallen victim to predatory lending.

6.3.2. Partnerships for Program Administration

As shown in Exhibit 6-10 above, 78 percent of homebuyer programs use program partners for program administration. The most common partners in homebuyer program administration are nonprofit organizations. Approximately 60 percent of the programs surveyed partner with nonprofit organizations for homebuyer program administration (see Exhibit 6-13). These nonprofit partners can be either subrecipients of HOME funds (40 percent of programs surveyed) or partners that assist with program administration but are not subrecipients of HOME funds (20 percent of programs surveyed).[68] Nonprofit subrecipients are typically community-based organizations, although a small share of homebuyer programs reported that faith-based organizations serve as subrecipients.[69]

Homebuyer programs that use HOME funds for development are more likely to use nonprofit subrecipients for program administration than those that use HOME funds for direct assistance only. According to the survey data, approximately 50 percent of development programs use nonprofit subrecipients, compared to 33 percent of direct assistance programs. Furthermore, 71 percent of development programs partner with CHDOs in some capacity, generally for development but in some cases for program administration.[70] The survey results do not enable us to estimate the share of homebuyer programs that use CHDOs for program administration as opposed to development. However, we know from the in-depth interviews that some PJs use CHDOs as developers for one program or activity and as subrecipients for another.[71]

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[68] A HOME subrecipient is a public agency or nonprofit organization selected by the PJ to administer all or part of the PJ's HOME program. A subrecipient can be a nonprofit organization or it can be a local agency that is a member of a consortium PJ or a subrecipient of state HOME funds. A public agency or nonprofit organization that receives HOME funds solely as a developer or owner of housing is not a subrecipient (24 CFR 92.2).

[69] Development programs are somewhat more likely to use faith-based organizations as subrecipients than the other program types. Approximately 13 percent of development programs surveyed use faith-based organizations as subrecipients, compared to 7 percent across all program types.

[70] Each PJ must reserve 15 percent of its HOME allocation for CHDO development activity—housing that is owned, developed, or sponsored by local CHDOs. HOME funds transferred to CHDOs as subrecipients do not count toward the 15 percent set-aside.

[71] A CHDO may act in the capacity of a subrecipient if it does not also receive HOME funds to develop, sponsor, or own housing funded through the same subrecipient activity that it administers, as doing so would constitute a conflict of interest for the CHDO.

For example, the City of Galveston partners with the Galveston Housing Development Corporation (GCDC) for two separate homebuyer programs. At present, GCDC is the only CHDO in Galveston.[72] As a CHDO, GCDC has received HOME funds to rehabilitate and resell four homes on a "model block" in a distressed neighborhood of Galveston.[73] However, in its capacity as a nonprofit subrecipient, GCDC also administers the PJ's HOME-funded direct assistance program, which provides a forgivable loan of up to $5,000 to eligible buyers of existing homes in the city. GCDC operates all aspects of this program, including screening applicants for eligibility, providing homebuyer education, assisting buyers to obtain an affordable first mortgage, providing the HOME loan for down payment assistance, and ensuring that a share of the loan is recaptured if the house is sold or transferred within the five-year affordability period.[74]

Exhibit 6-13

Use of Program Partners for Homebuyer Program Administration

	All Program Types (n=997)	Direct Assistance (n=434)	Development Assistance (n=210)	Joint Direct and Development Assistance (n=353)
Nonprofit Subrecipients	40%	33%	50%	41%
Nonprofits but not Subrecipients	20	15	20	25
PHAs	13	13	11	13
Local Governments	12	14	9	12
For-Profit Contractors	11	11	6	14
	State (n=106)	**City (n=545)**	**Consortium (n=213)**	**Urban County (n=133)**
Nonprofit Subrecipients	37%	39%	41%	42%
Nonprofits but not Subrecipients	42	16	20	15
PHAs	14	13	16	6
Local Governments	47	0	25	14
For-Profit Contractors	18	10	10	15

Note: Data on the use of program partners for program administration were missing for 11.9 percent of the programs surveyed and data on partnerships with PHAs were missing for 2.2 percent of the programs surveyed. Further, percentages do not sum to 100 because the categories are not mutually exclusive. A single homebuyer program may use more than one partner for program administration.

Source: Mail survey of HOME PJs.

72 At the time of the interview, in February 2003, PJ staff reported that they had been trying to develop new relationships with other local nonprofit housing organizations but thus far had not identified any organizations with the capacity or desire to become a CHDO.

73 This development project was initiated in 1997 and is funded through the PJ's CHDO set-aside funds.

74 Note that when a CHDO is acting in the capacity of a HOME subrecipient, it may not also receive HOME funds to develop, sponsor, or own housing funded through the subrecipient activity the CHDO administers. U.S. Department of Housing and Urban Development, *Building HOME*, August 2002, p. 8-16.

Among the four PJ types, state PJs are the most likely to use multiple partner types, including local governments through which a number of state PJs channel funds. Urban counties and consortia also partner with local governments to administer HOME homebuyer programs. This is particularly true of the larger urban counties, such as Nassau County, where about 10 towns and municipalities typically compete for HOME funds. Consortium PJs are by definition partnerships among local government entities, so those consortia that reported on the mail survey that they partner with local governments were in most cases describing the structure of the consortium partnership, rather than government partners in addition to the consortium members.[75]

In addition to nonprofit organizations and local governments, a modest share of PJs partner with PHAs to administer their HOME-funded homebuyer programs. Approximately 13 percent of all homebuyer programs are administered in partnership with local PHAs. An example of this type of partnership is the County of Adams (CO), which passes about 60 percent of its HOME funds through to the Housing Authority of Adams County for the administration and operation of the Homeownership Opportunities Program (HOP), a direct assistance program with a strong emphasis on homeownership counseling. The housing authority provides the counseling, reviews the mortgage documents, sets the program guidelines and underwriting criteria, and advances the funds for closing. The PJ reimburses the housing authority for the funds advanced. Because the amount of HOP funds provided to each buyer is not known until the loan package is finalized, the housing authority initially provides the HOP assistance out of its own funds so as not to delay closing while the HOME funds work their way through the PJ's accounting system.

Another example of a PHA partnership is the DuPage County (IL) consortium's HOME-funded closing cost grant program. This program is administered through the DuPage Housing Authority and provides between $2,500 and $5,000 in closing cost assistance to households purchasing through the housing authority's voucher homeownership program. Both pre- and post-purchase counseling is required for this program and is provided by the DuPage Homeownership Center, a nonprofit organization funded by a public/private partnership between government, lenders, and social service providers in the county.

Finally, 11 percent of HOME homebuyer programs are administered in partnership through a for-profit contractor. Among the 50 PJs interviewed for this study, several funded homebuyer development projects using for-profit developers. For example, Baltimore County (MD) is just starting to use HOME for homebuyer development in two neighborhoods. In both cases, the development will be managed by a community-based

[75] Each consortium has a legally binding cooperation agreement between the participating local governments that authorizes one local government to act as the lead agency and assume overall responsibility. City PJs that reported on the survey partnering with local governments were excluded from this analysis because in most cases the PJ is the local government and it was not clear whether PJ respondents were referring to their own agency or another local government entity administering the program.

organization in partnership with an experienced for-profit developer of affordable housing. The community-based organizations have strong track records in their respective neighborhoods and were chosen through a community process. Neither organization, however, has a lot of experience in developing housing for homeownership. The partnership with for-profit developers is a way to ensure that the developer teams have both the local experience and the technical expertise to complete the projects successfully.

One of the PJs interviewed, the City of Westminster (CA), uses a for-profit consultant to administer its direct assistance program. Comprehensive Housing Services (CHS) operates HOME-funded homebuyer programs for several cities in the San Francisco Bay area and has developed many other HOME homebuyer programs administered directly by PJs. CHS has a multiyear contract with the City of Westminster to administer its direct assistance program, administering approximately $240,000 per year, 40 percent of the PJ's HOME allocation. The City chose to contract out the program because of limited in-house staff resources and CHS's experience with HOME homebuyer programs.

6.3.3. Role of Partners in Program Administration

Although more than three-quarters of homebuyer programs use partners for some aspect of program administration, partner organizations have relatively little control over program requirements such as income eligibility. In general, it appears that PJs involve partners far less in the determination of program requirements than in program implementation.

Exhibit 6-14 shows the extent to which partners set program requirements in HOME homebuyer programs. Across all program types, partners most often set requirements for counseling (34 percent), underwriting standards (26 percent), and property types or location (25 percent). There is little difference across program types, except that program partners for development and joint programs are more likely to set program requirements regarding property types and locations, which is not surprising considering that these partners are typically the developers of this housing.

Exhibit 6-14

Requirements Set by Program Partners

	All Program Types (n=997)	Direct Assistance (n=434)	Development Assistance (n=210)	Joint Direct and Development Assistance (n=353)
Income limits	17%	16%	15%	20%
Other eligibility factors	22	21	23	22
Property value limits	14	13	15	15
Property type/location	25	19	29	29
Underwriting standards	26	26	29	26
Counseling requirements	34	35	35	32
Resale/recapture terms	20	19	17	24

Exhibit 6-14

Requirements Set by Program Partners

Note: Data on requirements set by program partners were missing for 5.6 percent of the programs surveyed.

Source: Mail survey of HOME PJs.

Program partners also play a key role in marketing the programs to prospective buyers. Overall, 86 percent of homebuyer programs use partners of some kind for marketing and outreach activities. Among direct assistance programs, lenders and realtors are used most often. For programs involving the development of homebuyer units, CHDOs commonly play this role (see Exhibit 6-15). Across all program types, the most common methods of marketing the program to prospective buyers are presentations to community groups, brochures, and newspaper advertisements. Ninety-four percent of homebuyer programs use at least one of these marketing methods.[76]

Exhibit 6-15

Who Recruits Potential Homebuyers to the Program

	All Program Types (n=997)	**Direct Assistance (n=434)**	**Development Assistance (n=210)**	**Joint Direct and Development Assistance (n=353)**
PJ	53%	63%	36%	51%
Subrecipients	40	37	39	45
CHDOs	51	33	68	62
Other developers	20	16	23	23
Lenders	50	64	23	48
Counselors	28	33	20	27
Realtors	51	64	28	48

Note: Data on requirements set by program partners were missing for 5.6 percent of the programs surveyed.

Source: Mail survey of HOME PJs.

6.4 Summary

This chapter used the mail survey and in-depth interviews to describe the approaches that homebuyer programs take to income and neighborhood targeting, counseling, and partnerships. As was found in Chapter 5, the diversity of these approaches highlights the

[76] Across all homebuyer programs surveyed, 78 percent market the program through community groups or meetings, 74 percent use brochures, 66 percent use newspapers, 45 percent use mailings, and 31 percent use TV or radio advertisements. There is little difference among program types, except that direct assistance programs are more likely to use brochures (80 percent) than the other program types.

flexibility of HOME as a program that can be tailored to meet local homeownership needs and opportunities. Moreover, the extent to which PJs use local partners in program administration underscores the decentralized nature of the program. The main findings of the chapter are as follows:

- The majority of homebuyer programs do not include additional income targeting beyond the HOME program requirement that assisted households must have incomes at or below 80 percent of AMI. Overall, less than 10 percent of programs limit assistance to buyers with incomes at or below 60 percent of AMI. Among the three program types, development programs are most likely to target lower income households.

- In addition to screening applicants for income eligibility, most PJs also screen potential program participants for creditworthiness and available cash reserves. Overall, 75 percent of homebuyer programs conduct credit reviews to screen program applicants, and 57 percent of programs screen for the availability of buyer cash. In addition, a small number of programs surveyed reported using other kinds of screening, including pre-qualification by lenders, interviews, home visits, and letters of recommendation.

- Overall, 54 percent of the homebuyer programs surveyed target or are restricted to certain parts of the PJ's jurisdiction. Development programs and joint direct assistance and development programs were the most likely to have geographic targeting or restrictions. Among the PJ staff interviewed in-depth, several reported restricting their homebuyer programs to areas not encompassed by other HOME entitlement communities. Others restricted their homebuyer programs to particular distressed neighborhoods or CDBG target areas.

- Seventy-seven percent of the HOME-funded homebuyer programs require homeownership counseling. For the most part, the counseling is pre-purchase counseling, although 20 percent of homebuyer programs also provide post-purchase counseling. Fifty-five percent of programs provide six hours or more of counseling, and 25 percent provide at least eight hours.

- In more than 80 percent of homebuyer programs, the counseling is provided by a partner agency. Thirty-five percent of the programs surveyed use HOME to fund counseling.

- Overall, 74 percent of direct assistance programs and 83 percent of development programs use local partners for program administration, including nonprofit subrecipients, other nonprofit partners, PHAs, and lenders. Partner organizations have relatively little control over program requirements such as income and eligibility requirements, but are heavily involved in program administration, as formal subrecipients—in which the partner administers the entire program—and partners for specific functions such as counseling.

- As would be expected, approximately 90 percent of homebuyer programs work with lenders in some capacity. Lenders provide a variety of services to homebuyer programs, including loan underwriting, servicing, pre-commitments, and special services such as reduced loan rates, reduced fees or points, and PMI waivers. Finally, in some programs lenders fill key programmatic functions such as participant screening, outreach and marketing, and counseling.

Chapter 7:
Geographic Mobility and Foreclosure Experience of HOME-Assisted Homebuyers

This chapter uses the sample of buyer-level data to discuss two kinds of program outcomes for HOME-assisted buyers: geographic mobility and foreclosure experiences. Geographic mobility refers to the extent to which HOME-assisted buyers move to different neighborhoods when they purchase houses. In the first part of this chapter, we examine the distances that homebuyers move when they purchase and compare the characteristics of the neighborhoods in which program participants purchased to the characteristics of the neighborhoods in which they lived prior to purchasing. In the second part of the chapter, we explore foreclosure and home sales rates among the sample of buyers and analyze the extent to which the affordability of the financing and the incidence of counseling explain variation in these rates.

7.1 Geographic Mobility and Neighborhood

Neighborhood location is an important aspect of home purchase, because the neighborhood can affect the future for homebuyers in several ways. Apart from shaping quality of life for the new residents, neighborhood can also influence homebuyers' economic opportunities (through transportation access and proximity to employment) and educational opportunities (through the school system and access to institutions of higher education). Finally, neighborhood characteristics and trends may affect the future value of the home—whether the buyer's investment appreciates, remains stable, or depreciates over time. Homeownership has long been an important source of wealth accumulation for American families, and this is one of the key reasons for public policies supporting and seeking to broaden access to homeownership.

In this section, we examine the characteristics of the neighborhoods chosen by the HOME-assisted homebuyers from the sites visited in this study. As described in Chapter 2, the data come from a sample of loans made under the HOME-funded homebuyer programs operating at these sites. In interpreting the findings on geographic mobility, it is important to remember that the buyer-level data on which they are based are not necessarily representative of either the programs of the PJs from which the data were obtained or the buyers served by these PJs.[77]

[77] As described in Chapter 2, the sample of PJs from which we collected buyer-level data was a purposive sample drawn to include a balanced cross-section of PJs that had data available to support the research goals of the study. It is not a statistically representative sample. Moreover, the on-site data collection process was designed to gather information on a range of borrowers across different programs offered by the selected PJs. However, in a number of cases buyer records were only available on a specific subset of buyers representing either a single program or a specific time period.

7.1.1. Data for the Mobility and Neighborhood Analysis

This neighborhood analysis uses the information on property location gathered for the loans in the study sample. Where available, data were collected on the address of the dwelling purchased with HOME assistance and also on the homebuyer's prior address. These addresses were geocoded to determine the exact location of the properties.[78] Then, the geocodes were used to link the loan addresses to information about the immediate neighborhood (census tract), such as median income, mix of housing types, rate of home ownership, and employment and education of local residents. The address information was also linked to data on certain characteristics of the entire metropolitan area (for sampled loans within an MSA) or of the county (outside of MSAs), such as housing price indexes.

Out of the 1,270 loans and grants in the study sample drawn from 37 PJs, 788 (62 percent) had both current and prior addresses that could be linked to 1990 and 2000 Census data.[79] This subset of 788 cases was drawn from 33 of the 40 PJs in the study sample. For these cases, we can examine neighborhood characteristics and neighborhood trends. We can also compare the purchase address with the buyer's previous location. As a result, we are able to describe the *geographic mobility* of the HOME-assisted buyers and make some comparisons between their previous and current neighborhoods. This is the first step in our mobility and neighborhood analysis.

7.1.2. Mobility Among HOME-Assisted Purchasers

In general, the homebuyers who purchased with HOME assistance in the sample jurisdictions moved to homes in neighborhoods relatively close to their prior residences. Exhibit 7-1 shows the distances homebuyers moved, from 0 miles (purchasing in place) to more than five miles. Almost half the sample (47 percent) moved between one and five miles, while about a quarter (24 percent) moved more than five miles. The average move distance for the whole sample was 7.6 miles, but the median distance was just two miles; that is, half these purchasers moved two miles or less. The pre-purchase and post-purchases addresses are in the same city for 68 percent of the loan files sampled.

There appears to be relatively little known about the distances moved by first-time, lower-income homebuyers, or lower-income homebuyers in general, so it is difficult to place these

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78 Geocoding is an automated process that uses address standardization techniques in combination with geographic databases to assign a string of variables representing location to an address. These variables include latitude and longitude, census tract, place, county, and MSA identifiers. The identifiers can be used in turn to link the address with data from the 2000 Census about the location.

79 Most of the difference in number of cases between the full loan sample (n=1,270) and the address sample (n=788) is due to the absence of prior address information in the loan files. In particular, nearly 300 loans from the State of North Carolina PJ had current but not prior addresses. Three sites with small numbers of loans in the sample had no geocoded prior address data (Vineland, Fort Collins, and Hollywood). A dozen other sites had prior addresses for most, but not all, the loan files sampled. In about two percent of the cases (scattered across the other sites), there was a prior address that could be geocoded but the purchase address could not.

figures for the loans and grants in the HOME homeownership sample in context. However, a similar analysis was done in a recent assessment of the Voucher Homeownership Program, which offers some low-income households the option to use their Housing Choice Vouchers for homeownership.[80] Using data on a small number of participants from 12 study sites (a total of 81 home purchases), the analysis of moves showed a very similar pattern to the HOME loan sample (see Exhibit 7-1). About 40 percent of the purchasers in the voucher study moved less than one mile, and another 40 percent moved one to five miles. However, a larger proportion of the voucher buyers (15 percent, compared to 5 percent for HOME) purchased in place. The average move distance was 4.7 miles in the voucher sample, compared to 7.6 miles in the HOME sample.

Exhibit 7-1

Distance Between Pre-Purchase and Homeownership Units

Distance Moved	**Percent of Home Purchasers (n=788)**
0 miles (purchased in place)	4.8%
0.5 miles or less	13.6
0.5-1 mile	11.4
1-5 miles	46.5
More than 5 miles	23.7
Distance Moved (all)	**All Home Purchasers (n=788)**
Mean	7.6 miles
Median	2.0 miles
Distance Moved (excluding in-place movers)	**Home Purchasers, excluding In-Place (n=750)**
Mean	8.0
Median	2.2

Sample: All homeownership loans and grants with useable current and prior addresses (n=788).

Source: Data collected on non-random sample of HOME-assisted homebuyers in 33 PJs.

Exhibit 7-2 displays information on the housing in the pre- and post-purchase neighborhoods (and also shows parallel information for all the neighborhoods in the same HOME PJs). Information on the pre-purchase neighborhoods is shown in column (1), on the post-purchase neighborhoods in column (2), and on all the neighborhoods in the 33 PJs in column (3). We focus first on column (2), which contains the descriptors of the current locations of the HOME loan sample buyers. Across all the loans, the homeownership rate in these neighborhoods averages 58 percent. This rate is slightly below the mean for these PJs (59 percent) and the mean for all the jurisdictions in this study, which was just under 60 percent.

[80] Jennifer Turnham et al., *Voucher Homeownership Program Assessment Final Report: Volume 1—Cross-Site Analysis* (Cambridge, MA: Abt Associates Inc., September 2002).

In just over a third of the cases, the buyers selected homes in neighborhoods with homeownership rates more than five percent above that of the PJ as a whole. But in about 40 percent of the cases, the neighborhood homeownership rate is more than five percent below that of the PJ as a whole.

Exhibit 7-2

Characteristics of Neighborhood Housing in Pre- and Post-Purchase Neighborhoods

	Pre-Purchase Neighborhoods (1)	Post-Purchase Neighborhoods (2)	PJs as a Whole[b] (3)
Housing vacancy rate (mean)	6.7%	6.7%	7.1%
Homeownership rate (mean)	54.3%	57.9%	59.1%
Value of owner-occupied units (median[a])	$120,450	$118,200	$144,600
Neighborhood homeownership rate compared to PJ as a whole			
Neighborhood's rate 5+ points higher	33.0%	36.9%	--
Neighborhood's rate about the same	21.1	23.4	--
Neighborhood's rate 5+ points lower	45.9	39.7	--
Type of housing in neighborhood			
Single-family, detached	48.3%	51.7%	51.3%
Single-family, attached	12.1	12.5	11.7
Multi-family	36.6	33.0	34.2
Trailer, mobile home, or other	3.0	2.8	2.8
Year housing built			
1999-2000	1.3%	1.4%	1.5%
1995-1998	3.9	4.1	4.9
1990-1994	4.3	4.8	5.2
1980-1989	12.0	11.1	12.9
1970-1979	16.2	15.6	17.0
1960-1969	15.5	15.2	15.1
1950-1959	17.5	18.5	16.5
1940-1949	10.9	10.8	10.1
1939 or earlier	18.3	18.5	16.9

Sample: All homeownership loans and grants with useable current and prior addresses (n=788).

[a] Median of the tract medians. Dollars are not adjusted for inflation.

[b] Average characteristics across the 33 PJs with loans in this sample (data weighted by the number of loans from each PJ). For consortia, data represent lead jurisdiction.

Source: Data collected on non-random sample of HOME-assisted homebuyers in 33 PJs.

The median value of the owner-occupied units is about $118,000 in the buyers' new neighborhoods. This is lower than the median for these PJs ($144,600) and very close to the national median house value of $119,600 in 2000.

The housing in these post-purchase neighborhoods tends to be a mixture of single-family residences (primarily detached but including some townhouses) and multifamily structures.

While the multi-family structures account for a third of all the housing units, they account for a smaller proportion of the buildings in the area, so the single-family structures predominate. In terms of the age of housing, in the current neighborhoods about a quarter of the units were built between 1970 and 1990, while another 10 percent were built even more recently.

Data about the pre-purchase neighborhoods are shown in column (1) of Exhibit 7-2. Perhaps because of the geographical proximity of the prior and current addresses, the neighborhoods surrounding these locations were generally quite similar, although there were some differences. The current neighborhoods of the buyers have slightly higher homeownership rates and a slightly greater proportion of single-family detached homes. The biggest difference is in home values: the median value is 25 percent higher in the post-purchase locations compared to where the buyers were living before ($150,999 compared to $120,450).

Exhibit 7-3 contains further information on the pre- and post-purchase neighborhoods from the loan sample and how they compare to all the neighborhoods in the same PJs. This exhibit shows a range of socioeconomic characteristics for the census tracts surrounding the dwellings purchased with HOME assistance and for the entire jurisdiction. Most characteristics are measured from the 2000 Census, but we have included the value of some indicators in 1990 as well. The characteristics are grouped under the headings of poverty indicators (measures often associated with chronic poverty) and opportunity indicators (measures related to self-sufficiency and upward economic mobility). The exhibit also provides information on the racial and ethnic composition of the neighborhoods and on local trends over the decade of the 1990s. As in the previous exhibit, the data on pre-purchase neighborhoods are shown in column (1), on post-purchase neighborhoods in column (2), and on these PJs as a whole (that is, all their neighborhoods combined) in column (3).

The overall pattern of the pre- and post-purchase neighborhood comparisons in Exhibit 7-3 is that the neighborhoods are largely similar. For example, the poverty rates (16 to 17 percent), percentages of households receiving public assistance (5 to 6 percent), and percentages of high school dropouts (14 percent) are very alike. So are the proportion of married-couple families (66 percent), the percentages of households with wage or salary income (78 to 79 percent), and the percentages of college graduates in the adult population (29 to 30 percent). Median family income in the current neighborhoods is about one percent higher than in the pre-purchase locations ($42,181 compared to $41,560).

Exhibit 7-3

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

	Pre-Purchase Neighborhoods	Post-Purchase Neighborhoods	PJs as a Whole[b]
Poverty indicators	**(1)**	**(2)**	**(3)**
Percent of persons in poverty, 2000	16.8%	16.3%	14.4%
Percent of persons in poverty, 1990	16.5%	16.5%	14.2%
Median family income, 2000[a]	$41,560	$42,181	$52,517
Median family income, 1990[a]	$32,506	$33,070	$36,760
Percent of HH with public assistance	5.6%	5.6%	4.5%
Percent of families with no workers	12.5%	12.0%	11.9%
Percent female-headed families, own children	29.0%	29.4%	24.8%
Percent high school dropouts	14.3%	14.3%	12.4%
Opportunity Indicators			
2000 tract median income as % of AMI	81.9%	82.0%	91.6%
1990 tract median income as % of AMI	87.3	87.5	96.9
Percent married-couple families	66.3	66.5	71.4
Percent of families with incomes 2x poverty	63.1	63.7	68.3
Percent of HH with wage or salary income	78.4	79.0	78.8
Percent more than high school education	49.7	49.3	55.0
Percent college graduates	29.7	29.1	34.9
Percent youths in school	77.9%	78.6	81.1
Racial and ethnic composition of population			
Percent black	25.6%	26.7%	19.9%
Percent Hispanic	20.0	19.5	18.2
Percent minority	53.0	54.3	45.5
Local trends, 1990-2000			
Neighborhood or PJ-wide percent poverty:			
Decreasing	15.4%	18.4%	0.0%
Stable[c]	65.0	59.3	100.0
Increasing	19.7	22.3	0.0
Neighborhood or PJ-wide percent minority:			
Decreasing	1.9%	1.1%	0.0%
Stable[c]	38.8	34.1	25.0
Increasing	59.3	64.7	75.0
Neighborhood or PJ-wide income relative to AMI:	55.6%	54.4%	50.3%
Decreasing	22.8	24.4	38.1
Stable[c]	21.6	21.2	11.6
Increasing			

Sample: All homeownership loans and grants with useable current and prior addresses (n=788).

[a] Median of the tract medians. Dollars are not adjusted for inflation.

[b] Average characteristics across the 33 PJs with loans in this sample (data weighted by the number of loans from each PJ). For consortia, data represent the lead jurisdiction.

[c] Stable is defined as a change of fewer than 5 percentage points in either direction.

Source: Data collected on non-random sample of HOME-assisted homebuyers in 33 PJs.

The median income among the buyers in this loan sample was $28,692, which was considerably lower than the median of $42,181 for the post-purchase neighborhoods. On average, their incomes were 71 percent of the median for the neighborhoods where they bought their homes. Exhibit 7-3 also shows that the post-purchase neighborhood median income in 2000 was about 82 percent of the AMI for that year (in both the pre-purchase and post-purchase tracts). The maximum eligibility income for HOME assistance is 80 percent of AMI. But the buyers assisted by HOME and represented in the loan sample purchased in neighborhoods where at least half the households had incomes above that eligibility threshold and where the other residents had substantially higher incomes (on average) than theirs.

The characteristics of the post-purchase neighborhoods in Exhibit 7-3 are generally slightly higher on poverty indicators and slightly lower on opportunity indicators than the average characteristics of neighborhoods across these PJs shown in column (3). For example, high school dropout rates average 14 percent in the post-purchase neighborhoods compared to 12 percent across the PJs. Some 35 percent of the PJs' residents are college graduates, compared to 29 percent of the residents in the post-purchase neighborhoods. And the median family income across the PJs as a whole ($52,517) is about 10 percent higher than the median in the neighborhoods where HOME-assisted buyers purchased their homes.

The last section of Exhibit 7-3 provides information on trends in the local areas over the decade of the 1990s. The local areas are census tracts in Columns 1 and 2, while in Column 3 they are the PJ as a whole (the state, city, urban county, or consortium lead community). Looking first at poverty trends, we can see that about 60 percent of the post-purchase neighborhoods chosen by these HOME-assisted purchasers in this sample were stable in their poverty rates—that is, the poverty rate at the census tract level had changed by less than 5 percent (in either direction)—over the decade from 1990 to 2000. Another 22 percent of the post-purchase neighborhoods had increasing proportions of poor population, while 18 percent had decreasing poverty rates. But all 33 whole PJs represented in the loan and grant sample were characterized by stable overall poverty rates, even though there were shifts among the neighborhoods within these jurisdictions.

With respect to trends in population composition, nearly all the neighborhoods had stable or increasing minority populations over the decade of the 1990s. And with respect to trends in income compared to the HUD AMI, at least half the neighborhoods and PJs had decreasing relative incomes. This is consistent with the opportunity indicators (earlier in the exhibit) showing that 2000 tract median income as a percent of AMI was lower than the same measure in 1990 for the pre-purchase neighborhoods, the post-purchase neighborhoods, and the PJs as a whole.

7.1.3. Characteristics of Current Neighborhoods

We turn now to a closer examination of the neighborhoods where the HOME-assisted buyers in the loan sample purchased their homes. First we examine the housing characteristics of the local areas in relation to the type of place where the purchases were made. The purpose of this analysis is to provide perspective on the variety and range of locations where these buyers bought homes. We use the same loan addresses as in the previous section comparing pre- and post-purchase locations.

The sample of PJs in this study primarily spans urban and suburban locations. But in a few cases—the state PJs and some of the consortia in the sample—rural locations were also included.[81] We know that there tend to be important and systematic differences between cities and suburbs in the age and mix of housing, in housing prices, and in homeownership rates. Are there differences between the city and suburban locations of the homes in the loan sample? If so, what do these differences tell us about the neighborhoods chosen by HOME-assisted buyers?

Exhibit 7-4 shows the housing characteristics of the neighborhoods where the loan sample properties were located, divided between city and suburban or other locations.[82] (These are the same characteristics and locations shown in Exhibit 7-2 in column (2).) By splitting the locations, we can see that there are some substantial differences. For example, the city neighborhoods on average have higher vacancy rates, lower homeownership rates, and lower home values than the suburban locations. They also tend to have older housing, with a quarter of the stock built before 1940 compared to 16 percent in the suburban and other tracts.

In Exhibit 7-4, we can see some differences that probably reflect the lower incomes of HOME-eligible buyers and the fact that, for many of them, this is a first-time purchase. Almost 40 percent of the city neighborhoods have homeownership rates more than five points above the PJ as a whole; in addition, almost 30 percent have rates about the same as the entire PJ. In contrast, the suburban and other neighborhoods are more likely to have homeownership rates five or more points below the PJ. That is, purchasers in central city PJs are buying homes in areas with more ownership (relative to the whole jurisdiction), but purchasers in suburban and rural areas are buying in locations with a greater proportion of renters. Homes purchased in suburban or rural areas are generally in neighborhoods with a more mixed housing stock (less than half of the stock is single-family detached dwellings), with greater shares of single-family attached units and manufactured housing units compared to homes purchased in central cities. In the city locations, almost two-thirds of the stock consists of single-family detached dwellings.

81 Because of the small proportion of non-metropolitan loans among the 788 in the sample (133, or 11.2 percent), we combined these cases with the suburban loans for the analysis.

82 The contrast is between city and suburban or rural places, as classified by the Census Bureau and the Office of Management and Budget. City locations are those in the central cities of Metropolitan Statistical Areas; all locations in the remainder of MSAs (as well as those in non-metropolitan areas) are included in the second column.

Exhibit 7-4

Characteristics of Neighborhood Housing in Post-Purchase Neighborhoods, by Type of Place

	Purchased in City Location[a]	**Purchased in Suburban or Other Location**
Housing vacancy rate (mean)	8.6%	5.6%
Homeownership rate (mean)	54.0%	60.0%
Value of owner-occupied units (median) [b]	$88,600	$133,950
Neighborhood homeownership rate compared to PJ as a whole		
Neighborhood's rate 5+ points higher	38.7%	36.0%
Neighborhood's rate about the same	28.4	20.6
Neighborhood's rate 5+ points lower	33.0	43.5
Type of housing in neighborhood		
Single-family, detached	63.1%	45.3%
Single-family, attached	5.6	16.4
Multi-family	30.0	34.7
Trailer, mobile home, or other	1.3	3.6
Year housing built		
1999-2000	1.2%	1.5%
1995-1998	3.4	4.6
1990-1994	3.5	5.4
1980-1989	9.3	12.1
1970-1979	13.4	16.8
1960-1969	14.8	15.4
1950-1959	18.1	18.7
1940-1949	12.7	9.8
1939 or earlier	25.6	15.7

Sample: All homeownership loans and grants with useable current and prior addresses (n=788).

[a] Central cities of MSAs, as defined by the Census Bureau of OMB. Suburban and other locations may include secondary cities in metropolitan areas.

[b] Median of the tract medians. Dollars are not adjusted for inflation.

Source: Data collected on non-random sample of HOME-assisted homebuyers in 33 PJs.

How do the city and suburban locations compare on other indicators? Exhibit 7-5 presents the characteristics of city and suburban locations using the Census indicators previously used to examine pre- and post-purchase locations (see Exhibit 7-3). Here, the same post-purchase locations are broken down by type of place, between central city and other locations.

The city neighborhoods chosen by HOME-assisted buyers have poverty rates of about 20 percent, and almost a third of households living in them are composed of female heads with their own children. But the populations of these areas are mixed rather than predominantly poor: fewer than 10 percent of the households receive public assistance, and the median family income in 2000 was almost $38,000. The median income of the city buyers themselves was $26,934, contributing to the mix.

As shown among the opportunity indicators, more than half the families in these neighborhoods have incomes twice the poverty level, and nearly 80 percent are receiving wage or salary income. A quarter of the neighborhoods had decreased in poverty rate by more than five percent between 1990 and 2000. On the other hand, these neighborhoods tended to have increasing minority populations and decreasing incomes relative to the AMI. Taken together, the indicators suggest that HOME-assisted purchasers in central cities chose locations with working, moderate-income neighbors.

The neighborhoods chosen by HOME-assisted buyers in suburban and rural areas have somewhat lower poverty rates and higher median family incomes than those in the central cities. While the buyers in the loan sample who chose suburban and rural locations had a median income of $30,000, the median income of other residents of their neighborhoods was more than half again as high at $47,438, a bigger differential than for the city locations. Incomes are also higher relative to the AMI. Two-thirds of the families in these areas have incomes more than double the poverty rate, compared to 56 percent in the central city neighborhoods. The other poverty and opportunity indicators are quite similar for both groups of locations.

Neighborhood trends over the decade from 1990 to 2000 were also fairly parallel between the city and other locations of the loan sample purchasers. Similar proportions of tracts had stable or increasing minority populations and stable or increasing tract income relative to the AMI. A greater proportion of the city neighborhoods showed decreases in poverty, but it is likely that the decade began with a greater share of poor tracts in the city locations, so there was more room for decrease.

Taken together, the indicators in Exhibits 7-4 and 7-5 suggest that there is some variation in neighborhood characteristics between city and suburban locations, in the areas of home prices and median income levels. But by and large, the neighborhoods are quite similar. In general, they have moderate-income populations, of notable racial and ethnic diversity, and are dominated by working adults. There is little welfare dependence, and the high school dropout rates are fairly low. Based on the available indicators, it appears that the HOME-assisted buyers have selected healthy working-class to lower middle-class neighborhoods for their new homes. These should be settings in which it is possible for lower-income families to increase their participation in the American dream of stability and prosperity from homeownership.

Exhibit 7-5

Socioeconomic Characteristics of Neighborhood Residents in Post-Purchase Neighborhoods, by Type of Place

	Purchased in City Location	Purchased in Suburban or Other Location
Poverty indicators		
Percent of persons in poverty, 2000	20.2%	14.1%
Percent of persons in poverty, 1990	21.6%	13.6%
Median family income, 2000[a]	$37,287	$47,438
Median family income, 1990[a]	$27,711	$36,611
Percent of HH with public assistance	6.5%	5.0%
Percent of families with no workers	13.5%	11.1%
Percent female-headed families, own children	32.2%	27.8%
Percent high school dropouts	15.4%	13.6%
Opportunity indicators		
2000 tract median income as % of AMI	74.4%	86.3%
1990 tract median income as % of AMI	78.0%	92.8%
Percent married-couple families	63.6%	68.1%
Percent of families with incomes 2 x poverty	56.4%	67.7%
Percent of HH with wage or salary income	77.7%	79.8%
Percent more than high school education	48.3%	49.9%
Percent college graduates	27.3%	30.1%
Percent youths in school	76.3%	79.8%
Racial and ethnic composition of population		
Percent black	30.1%	24.8%
Percent Hispanic	20.9%	18.7%
Percent minority	59.3%	51.4%
Neighborhood trends, 1990-2000		
Percent poverty in neighborhood:		
Decreasing	24.1%	15.2%
Stable[b]	52.5	63.0
Increasing	23.4	21.7
Percent minority in neighborhood:		
Decreasing	2.5%	0.4%
Stable[b]	35.5	33.4
Increasing	62.1	66.2
Tract income relative to AMI:		
Decreasing	50.4%	56.7%
Stable[b]	27.7	22.5
Increasing	22.0	20.8

Sample: All homeownership loans and grants with useable current and prior addresses (n=788).

[a] Median of the tract medians. Dollars are not adjusted for inflation.

[b] Stable is defined as a change of fewer than five percentage points in either direction.

Source: Data collected on non-random sample of HOME-assisted homebuyers in 33 PJs.

7.1.4. PJ Type, PJ Strategy, and Neighborhood Characteristics

We have seen that the homebuyers represented in the loan sample bought homes in neighborhoods that differed somewhat between city and suburban locations. This could be a result of the mix of PJs in the study sample or a result of the strategies the PJs are using in their homeownership assistance activities. In this section, we look at the neighborhood characteristics in relation to the type of jurisdiction and whether the jurisdiction uses neighborhood targeting in its homeownership assistance programs.

Exhibit 7-6 shows how the characteristics of the buyers' neighborhoods differ according to the type of HOME participating jurisdiction. Across a number of characteristics, the buyers assisted by urban counties and consortia purchased homes in neighborhoods with lower levels of poverty, more favorable levels on other poverty-related indicators, and stronger opportunity indicators than the buyers assisted by city and state PJs. Among the four PJ types, consortium-assisted buyers are living in neighborhoods with the highest median incomes, the highest percentages of college graduates, and the highest proportions of teenagers still in school.[83] According to the opportunity indicators, median incomes in the consortium buyers' post-purchase neighborhoods dropped only slightly from 1990 to 2000 relative to the AMI, while those of buyers in the other types of PJs fell behind the AMI somewhat more over that decade.

The last set of indicators in Exhibit 7-6 shows neighborhood trends from 1990 to 2000 by type of PJ. In all four types of jurisdictions, most of the neighborhoods chosen by these HOME-assisted buyers had stable or decreasing poverty rates and stable or increasing shares of minority population. Buyers in city PJs were the most likely to choose neighborhoods with increasing poverty rates (28 percent). And consortium buyers' neighborhoods were the most likely (29 percent) to show increases in tract income relative to the AMI over the decade of the 1990s.

[83] Relative average incomes of the buyers in this loan sample showed roughly the same pattern as the median family incomes in the four types of PJs. Buyers under state PJs had median annual gross incomes of $23,434 (65 percent on average of the median family incomes for the state PJs). Buyers under city PJs had median annual gross incomes of $27,888 (75 percent on average of the median family incomes for the city PJs). Buyers under urban county PJs had median annual gross incomes of $30,156 (59 percent on average of the median family incomes for those PJs). And buyers under consortium PJs had the highest median annual gross incomes at $31,332 (but this was just 45 percent on average of the median family incomes for the consortium PJs).

Exhibit 7-6

Socioeconomic Characteristics of Neighborhood Residents in Post-Purchase Neighborhoods, by Type of PJ

PJ Type	State	Urban County	City	Consortium
Poverty indicators				
Percent of persons in poverty, 2000	18.8%	12.3%	19.8%	8.6%
Percent of persons in poverty, 1990	20.2%	12.0%	20.3%	8.3%
Median family income, 2000[a]	$35,938	$48,060	$37,287	$69,454
Median family income, 1990[a]	$24,635	$36,189	$29,003	$47,981
Percent of HH with public assistance	5.8%	4.3%	6.9%	2.4%
Percent of families with no workers	14.6%	10.9%	13.0%	9.5%
Percent female-headed families, own children	29.9%	25.9%	34.5%	16.0%
Percent high school dropouts	16.8%	14.2%	16.3%	7.2%
Opportunity indicators				
2000 tract median income as % of AMI	87.5%	87.6%	70.3%	113.9%
1990 tract median income as % of AMI	96.6%	94.0%	76.8%	114.3%
Percent married-couple families	70.2%	69.3%	61.5%	79.6%
Percent of families with incomes 2 x poverty	56.6%	70.5%	56.8%	79.7%
Percent of HH with wage or salary income	75.4%	81.0%	77.7%	81.8%
Percent more than high school education	42.7%	46.9%	44.6%	68.8%
Percent college graduates	21.4%	24.7%	24.4%	50.9%
Percent youths in school	76.9%	78.2%	77.1%	84.3%
Racial and ethnic composition of population				
Percent black	34.2%	24.5%	33.8%	4.7%
Percent Hispanic	3.7%	16.9%	24.0%	9.9%
Percent minority	42.1%	47.3%	66.3%	24.1%
Neighborhood trends, 1990-2000				
Percent poverty in neighborhood:				
Decreasing	28.6%	11.2%	22.8%	10.7%
Stable[b]	66.7	74.5	48.7	75.7
Increasing	4.8	14.3	28.5	13.8
Percent minority in neighborhood:				
Decreasing	0.0%	0.0%	1.7%	0.7%
Stable[b]	33.3	33.5	32.4	40.7
Increasing	66.6	66.5	65.9	58.6
Tract income relative to AMI:				
Decreasing	61.9%	58.4%	56.4%	42.1%
Stable[b]	33.3	22.4	23.2	29.3
Increasing	4.8	19.3	20.4	28.6

Sample: All homeownership loans and grants with useable current and prior addresses (n=788); city PJs n=466; state PJs n=21; urban county PJs n=161; consortium PJs n=140.

[a] Median of the tract medians. Dollars are not adjusted for inflation.

[b] Stable is defined as a change of fewer than five percentage points in either direction.

Source: Data collected on non-random sample of HOME-assisted homebuyers in 33 PJs.

The primary sources of these patterns are probably the differences among the neighborhoods found in each type of jurisdiction. However, the differences may also reflect some local jurisdictions' strategies of targeting HOME assistance to particular neighborhoods. Only five of the 33 PJs with loans or grants in the sample carried out homeownership activities directed to specific neighborhoods, for the purpose of revitalizing these areas and improving their housing. Four of the five PJs targeting specific neighborhoods were cities (Pontiac, Port Arthur, Racine, and Seattle), and one was an urban county (Baltimore County). Of all the loans in this neighborhood analysis, 11 percent were targeted by the PJs to specific areas of their communities.[84]

Exhibit 7-7 shows how the locations where buyers purchased differed according to the targeting. In this exhibit, we have included only loans from city and urban county PJs, in order to make the data more comparable. Out of the 616 loans from city and urban county PJs, 14 percent were targeted to specific neighborhoods.[85]

From the indicators shown in Exhibit 7-7, it appears that targeted neighborhoods are very similar in poverty rates and median income levels, although they have greater proportions of residents who did not complete high school, smaller proportions of college graduates, and lower percentages of youths in school. At the same time, the locations in targeted neighborhoods were more likely to be marked by decreasing poverty from 1990 to 2000, and income levels in these tracts were more likely to have remained stable relative to the AMI.[86] These indicators suggest that the PJs' HOME targeting strategy—often coordinated with other public investments using CDBG and local funds—may be bearing fruit already, as the tract-level indicators suggest that these areas may have turned the corner from decline to revitalization.

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[84] Among these five PJs, only one (Pontiac) had loan data from both a targeted local program and a non-targeted one. There were 10 loans of each type from Pontiac in the sample. All loans from the other four PJs were made under local programs targeted to particular neighborhoods to stimulate revitalization of existing housing there.

[85] Full information on specific definitions of the targeted neighborhoods was not available, so we could not compare characteristics of the buyers' chosen locations with other tracts in the targeted areas.

[86] This is consistent with the opportunity indicators earlier in this table, which show only a three percentage point drop in median income relative to the AMI for the targeted tracts between 1990 and 2000, while the decrease for the non-targeted neighborhoods was almost seven percentage points. The underlying pattern was that a larger share of the targeted tracts had stable or decreasing relative income in that period, compared to the non-targeted tracts.

Exhibit 7-7

Socioeconomic Characteristics of Neighborhood Residents in Post-Purchase Neighborhoods, by PJ Strategy (Cities and Urban Counties Only)

	Neighborhood Targeting	No Neighborhood Targeting
Poverty indicators		
Percent of persons in poverty, 2000	19.1%	17.9%
Percent of persons in poverty, 1990	21.9%	17.8%
Median family income, 2000[a]	$39,095	$39,375
Median family income, 1990[a]	$28,179	$31,258
Percent of HH with public assistance	5.7%	6.5%
Percent of families with no workers	15.2%	12.0%
Percent female-headed families, own children	34.0%	32.4%
Percent high school dropouts	17.2%	15.7%
Opportunity indicators		
2000 tract median income as % of AMI	68.9%	75.4%
1990 tract median income as % of AMI	72.9	82.1
Percent married-couple families	61.9	63.4
Percent of families with incomes 2 x poverty	58.5	60.1
Percent of HH with wage or salary income	76.0	78.9
Percent more than high school education	39.9	45.9
Percent college graduates	20.4	24.9
Percent youths in school	72.8	78.0
Racial and ethnic composition of population		
Percent black	34.7%	31.3%
Percent Hispanic	14.1	23.8
Percent minority	62.3	62.1
Neighborhood trends, 1990-2000		
Percent poverty in neighborhood: Decreasing	37.1%	17.3%
Stable[b]	51.7	55.2
Increasing	11.2	27.5
Percent minority in neighborhood: Decreasing	2.3%	1.1%
Stable[b]	20.2	34.5
Increasing	77.5	64.3
Tract income relative to AMI: Decreasing	44.9%	58.4%
Stable[b]	36.0	20.9
Increasing	19.1	20.7

Sample: All homeownership loans and grants with useable current and prior addresses in cities and urban counties (n=616); PJs with neighborhood targeting n=89; PJs with no neighborhood targeting n=527.

[a] Median of the tract medians. Dollars are not adjusted for inflation.

[b] Stable is defined as a change of fewer than five percentage points in either direction.

Source: Data collected on non-random sample of HOME-assisted homebuyers in 33 PJs.

7.1.5. Summary of Geographic Mobility Outcomes

In this section, we examined the characteristics of the neighborhoods chosen by the HOME-assisted homebuyers from 33 of the sites visited in this study. Using data largely drawn from the 2000 Census, we analyzed the neighborhoods in terms of a variety of indicators, which were selected to show some characteristics associated with poor neighborhoods and other characteristics associated with opportunity (for self-sufficiency and upward economic mobility). For three key indicators, we also used 1990 Census data, in order to be able to describe trends for the neighborhoods and PJs over the decade from 1990 to 2000.

We can report four main findings from this analysis of post-purchase neighborhood characteristics for HOME-assisted buyers:

- The buyers moved to neighborhoods with higher home values, higher median incomes, and somewhat higher homeownership rates than the areas where they had lived before. In other dimensions (poverty rates, family composition, educational attainment) the pre- and post-purchase neighborhoods were largely similar.

- The buyers moved to neighborhoods where the median incomes of the other residents were substantially above their own incomes. These moves thus represented economic as well as geographic mobility.

- There were also some variations in neighborhood characteristics related to the type of place chosen (city versus suburban or rural neighborhood), the type of participating jurisdiction, and the PJ's strategy (whether it used neighborhood targeting in the program in which the buyer participated).

- In general, it appears that the HOME-assisted buyers selected healthy working-class to lower middle-class neighborhoods for their new homes.

7.2 Foreclosure Experience

An important concern of policy efforts that assist low-income households in making the transition to homeownership is ensuring that these households are able to sustain homeownership. Foreclosures not only produce the distress associated with being forced from one's home, but they also result in homeowners losing their financial stake in their homes and having more trouble obtaining credit in the future. Foreclosures can also have negative impacts on home values in the surrounding community. One of the goals of this study was to gather information on the foreclosure rate among HOME-assisted buyers to examine whether the program has been associated with a successful move to homeownership for most assisted buyers. While we are mostly concerned with foreclosure rates, we also gathered information on the incidence of home sales, as distressed buyers may be forced to sell their home to avoid foreclosure.

7.2.1. Foreclosure Rates Reported in the PJ Mail Survey

One source of information on foreclosure rates is the mail survey of PJs, which asked respondents to estimate the overall foreclosure rate among HOME-assisted buyers since they began offering homebuyer assistance. Of the 487 PJs with a homebuyer program, 254 (or 52 percent of respondents) reported an estimate of their overall foreclosure rate among HOME-assisted buyers. Across these PJs the median reported foreclosure rate was 1 percent, with an average rate of 2.1 percent.[87] Given the high degree of non-response, there could be significant selection bias in these data. In particular, it might be expected that PJs with high foreclosure rates would be reluctant to provide this information, which, if it were the case, would produce estimates that tend to be lower than the actual foreclosure rates. However, the high non-response rate may simply reflect the fact that PJs do not generally track foreclosures and so were unable to provide estimates. One indication that there may not have been a significant response bias is that there were a non-trivial number of cases with fairly substantial reported foreclosure rates—3 percent of respondents reported foreclosure rates between 6 and 9 percent and 4 percent reported rates of 10 percent or higher. Thus, while the high non-response rate does leave open the possibility of response bias, we have no evidence to suggest that there was a response bias.[88]

To put the reported foreclosure rates in perspective, these rates can be compared to claims rates on FHA mortgages. FHA serves a high share of first-time homebuyers and borrowers who are generally at high risk of default and so offers a good point of comparison for the types of buyers assisted through the HOME program. The average FHA claim rate corresponding to the period over which the HOME program has operated is 3.0 percent.[89] Based on these data, foreclosure rates in the HOME program appear to be lower than among FHA loans. Based on this comparison, overall the HOME program seems to be successful at helping households achieve and maintain homeownership.

The survey also gathered information on the rate of home sales among HOME-assisted buyers. As noted, a high sales rate might be another indication that buyers are not able to sustain homeownership. Of the 487 respondents with a homebuyer program, 248 PJs (51 percent) reported an estimated sales rate. Among these PJs, the average estimated sales rate was 5.4 percent, with a median of 2 percent. Given that about 7 percent of homeowners move in a typical year, an overall move rate over the life of the program of 2 to 5 percent is

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[87] The survey question included preforeclosure sales (also called "short" sales) and cases of deed-in-lieu of foreclosure as part of the overall foreclosure rate.

[88] A comparison of the characteristics of programs with high foreclosure rates to those with low foreclosure rates did not reveal any statistically significant differences.

[89] The FHA claim rates is based on cumulative claim rates by year of origination as reported in the Deloitte & Touche's Annual Actuarial Review of FHA's Mutual Mortgage Insurance Fund for Fiscal 2002. The 3.0 percent rate is a weighted average of the claims rates for loans originated between 1992 and 2002 with weights equal to the share of HOME homebuyer units committed by year during this period.

fairly low.[90] This low mobility rate is another indication that HOME-assisted buyers seem to be successfully maintaining homeownership. In addition, the low mobility among homebuyers is consistent with the goal of helping to create stability in low- and moderate-income neighborhoods.

7.2.2. Analysis of Foreclosure Incidence in Buyer-Level Data

The buyer-level data collection process attempted to gather information on a sample of foreclosures to support further analysis of the factors associated with greater risk of foreclosure. Of particular interest is the relationship between buyer education and counseling and the risk of foreclosure. In addition to identifying cases of foreclosures, we also identified cases in which buyers had sold their homes, since distressed buyers may avoid foreclosure by moving. That is, the incidence of home sales might be an indicator of financial distress experienced by buyers who manage to avoid foreclosure but are nonetheless unable to sustain homeownership.

In order to support an analysis of the factors associated with foreclosure, the buyer-level data must include both a clear indication of whether a foreclosure has occurred and measures of housing cost to income ratios and loan-to-value ratios, which are standard measures of foreclosure risk. Among the data obtained, 925 cases included a clear indication of the current status of the buyer and 633 cases included information on the ratio of housing costs to income. Taken together, 594 cases included both a clear indication of current status and measures of housing cost to income. Among these 594 observations there were 23 instances of foreclosure.[91]

In all, 30 of the 37 PJs from which data were collected are represented among these observations. Among these 30, nine have instances of foreclosure among the buyers sampled. The fact that only about one-third of the sampled PJs have any instances of these outcomes is not inconsistent with the findings from the mail survey. Since the median PJ is reported to have a foreclosure rate of one percent, it would not be surprising that a random sample of buyers might not include any foreclosures or sales.

One of the main concerns of the foreclosure analysis is to identify whether there is any indication that buyer education and counseling is effective at lowering the risk of foreclosure. This training might be expected to lower foreclosures both by better preparing buyers for the demands of ownership and by screening prospective buyers to identify those most capable of

[90] The U.S. Census Bureau estimates annual household mobility using the Current Population Survey. For the period from March 2000 to March 2001, 6.6 percent of all homeowner households were found to have moved. See U.S. Census Bureau, *Geographic Mobility: March 2000 to March 2001*, Table 17, Internet Release Date March 31, 2003 (http://www.census.gov/population/socdemo/migration/cps2001/tab17.pdf).

[91] The share of cases experiencing foreclosure or sale is higher than reported in the mail survey because we over sampled these cases in PJs where it was possible to identify buyers by outcome. This over sampling provides more opportunity for examining the factors associated with these outcomes.

becoming successful owners. In gathering buyer-level data, we attempted to identify both whether buyers received homebuyer education and counseling and whether the counseling consisted of just classroom training or also included individual counseling sessions. However, for a number of PJs the form of counseling had changed over time and it was not always possible to identify the type of counseling received. Exhibit 7-8 shows the incidence of different types of counseling among the sample of buyers for which outcome information was obtained. As shown, the vast majority of assisted buyers received some form of homebuyer education or counseling. Of the 594 buyers represented in the data, all but 63 (11 percent) received training of some type.

Exhibit 7-8

Incidence of Foreclosure by Type of Counseling Received

Type of Counseling	Total Buyers	Foreclosed	
		Number	Share
Classroom Only	121	13	11%
Classroom and Individual	304	7	2%
Unknown Type of Counseling	106	1	1%
No Counseling	63	2	3%
Total	594	23	4%

Source: Non-random sample of buyers from 30 PJs.

With counseling so prevalent, it can be difficult to identify an impact of this service on the outcomes. However, while there is little variation in whether buyers received counseling, there is somewhat more variation in the form of training given. One in five buyers in the sample received only classroom education, while about half received both classroom education and individual counseling—a more intensive level of service that might be expected to provide better screening and preparation for homeownership. In another 18 percent of cases, we were unable to determine the type of counseling given.

Exhibit 7-8 also indicates the share of buyers experiencing foreclosure by the type of counseling received. While these estimates do not control for differences in other risk measures, it is noteworthy that buyers with just classroom education have higher shares of foreclosures than buyers with other types of counseling. Also, buyers with an unknown type of counseling have the lowest rates of foreclosure. However, given the non-random nature of this sample, it may well be that these variations simply reflect the characteristics of the PJs where we were able to over sample buyers by outcome.

The buyer-level data can also be used to examine whether the frequency of foreclosure is related to the degree of affordability achieved through the use of HOME assistance. The data gathered provide several key measures of affordability, including the housing cost to income ratio and the ratio of repayable debt to the sales price.[92] In addition, the buyer's income provides a measure of his or her ability to withstand financial shocks. We also examined whether the amount of HOME assistance as a percentage of the sales price is associated with the risk of foreclosure. We estimated a statistical model that predicted the probability of foreclosure as a function of these risk measures and the type of counseling received.[93]

The results of these statistical models are presented in detail in Appendix D. The results indicate that the probability of foreclosure is lower in cases in which buyers have a lower ratio of repayable debt to sales price and in which the amount of HOME assistance as a percent of sales prices is higher (both of these relationships are significant at a 95-percent confidence level). These findings suggest that higher levels of HOME assistance, particularly those in the form of grants or forgivable loans, may help lower foreclosure rates. However, given the small sample size and the non-random nature of this sample, this finding should be viewed as highly tentative.

Another potential indication of the impact of the level of HOME assistance on foreclosure rates is through the ratio of housing costs to income. It might be expected that if HOME assistance significantly lowers the amount of income buyers spend on housing it may help sustain homeownership. However, the relationship between the share of income spent on housing and foreclosures is not statistically significant in the model (although there is a significant positive correlation between this measure and foreclosures before controlling for other risk measures). In part this may also reflect the fact that there is relatively little variation across the sampled buyers in this variable. As discussed in Chapter 5, most PJs defer to lender's standard underwriting to set the acceptable ratio of housing costs to income. PJs then provide an amount of assistance that is needed to help the buyer meet the lender's underwriting criteria. It may well be that greater levels of assistance would help reduce the risk of foreclosure, but there are not sufficient cases of these deep subsidies in our data to test this hypothesis.

Finally, none of the measures of the incidence or type of counseling were found to have a statistically significant relationship with foreclosure. As noted above, this may well reflect the fact that almost all buyers receive some form of counseling, so it is difficult to observe

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[92] We also considered the ratio of total financing to sales price, but found that there was a stronger simple correlation with the ratio of repayable finance to sales price. This later measure also has a stronger intuitive relationship to foreclosures as buyers ought to be motivated by the amount of equity they potentially have in the house if they are able to realize the benefits of grants and forgivable loans.

[93] One factor that we would have liked to control for in this analysis is the length of time over which the buyers were observed – that is, how much time passed from the date of purchase until either the data was obtained or foreclosure/sale occurred. Ideally, this information would be included to account for the fact that loans observed over a longer period of time would have more opportunity to experience foreclosure. Unfortunately, since we did not have consistent information for the sampled buyers both for when they purchased their homes and when foreclosure occurred, we could not include such a time measure in our analysis. For the same reason, we cannot comment on the average length of time from purchase to foreclosure for those cases ending in foreclosure.

the influence of counseling on the relatively rare incidence of foreclosure. In essence, most of the participants in the program benefit from counseling, so it is hard to tell whether the absence of counseling would increase foreclosure rates. The generally low level of foreclosures found by the mail survey may in part be attributable to the prevalence of counseling. There is a statistically significant correlation between the use of classroom and individual counseling and a lower incidence of foreclosure. However, when other risk measures are considered this relationship no longer holds. A much larger sample of data would be needed to more carefully assess the relationship between counseling and foreclosure rates. Ideally, the data would also include greater details on the nature of the counseling received, since the most important factors in preventing foreclosure may be associated with the type, timing, and extent of counseling.

We also estimated statistical models to predict the probability of home sales to examine whether these cases may represent instances in which buyers experienced financial distress and were forced to sell their homes to avoid foreclosures. Among the 30 PJs for which data were obtained, there were 39 cases of home sales identified. None of the variables included in these models were statistically significant, including the risk variables that were significant in the model predicting foreclosure. This result suggests that instances of home sales by HOME-assisted buyers are not related to financial distress.

7.2.3. Summary of Outcomes on Foreclosure

This section of the chapter examined the experiences of HOME-assisted homebuyers with foreclosure based primarily on a sample of buyer-level data from 30 of the PJs visited in this study. We began by analyzing foreclosure and sales rates as reported in the national mail survey. We then used the buyer-level data to investigate the relationship between the frequency of foreclosure and sale and (1) the provision of housing counseling and (2) the affordability of the purchase financing, as measured by the ratio of repayable debt to sales price and the ratio of housing costs to income. Given the small size and non-random nature of the buyer-level data sample, the findings of this analysis should be interpreted with extreme caution. The main findings are as follows:

- The modest rates of foreclosure (median of one percent) and home sales (median of two percent) reported in the national mail survey suggest that the HOME program has been fairly successful in helping buyers to purchase and remain in their homes as foreclosure rates are generally lower than among FHA loans and the sales rate is lower than for average homeowners. The low foreclosure and mobility rates are also an indication that the program has been successful at helping to create stability in low- and moderate-income communities.

- Based on the sample of buyers on which we obtained data on foreclosures, and not controlling for differences in other risk measures, buyers that received classroom counseling only had higher shares of foreclosure than buyers that received other types of counseling, including no counseling.

- Statistical analysis of the sample of buyers showed that the probability of foreclosure is lower in cases in which buyers have a lower ratio of repayable debt to sales price and in which the amount of HOME assistance as a percent of sales price is higher. These findings suggest that higher levels of HOME assistance, particularly in the form of grants or forgivable loans, may help lower foreclosure rates. However, the relationship between the share of income spent on housing and foreclosures was not found to be statistically significant after controlling for other risk measures.

- None of the measures of the incidence or type of counseling were found to have a statistically significant relationship with foreclosure. However, this lack of an association should not be taken to mean that counseling has no impact on foreclosures. Since relatively few buyers did *not* receive counseling and the incidence of foreclosure was fairly rare, absent a larger data set it would be difficult to find a statistically significant relationship even if one existed. The strongest association was found between those buyers that received both individual and classroom sessions, with this group tending to having lower foreclosure rates. While not statistically significant, this result is suggestive of an association that might be corroborated with better data.

- Finally, when we estimated statistical models to examine whether the cases of home sales in the sample represent instances where buyers experienced financial distress, we found that none of the variables included in these models were statistically significant, suggesting that instances of home sales by HOME-assisted buyers are not related to financial distress.

Chapter 8: Conclusion

The HOME program is one of the key funding sources supporting HUD's strategic goal of increasing homeownership among low-income and minority households. Since the program's inception in 1992, more than 600 HOME PJs have committed $3.1 billion for approximately 270,000 homeownership units. Although a slight majority of HOME funds are used to support rental housing, more PJs fund homebuyer programs than any other type of housing assistance, and homebuyer initiatives have commanded a growing share of program resources. As of 2002, 85 percent of HOME PJs committed funds to homebuyer activities, and homebuyer programs accounted for 31 percent of program commitments.

One of the hallmarks of the HOME program is the flexibility that it offers PJs to design homebuyer programs that are tailored to local needs and market conditions. The result is a highly localized program that creates homeownership opportunities in a variety of ways. Although IDIS allows HUD to track the broad uses of HOME funds, it provides little information on how homebuyer programs are operated at the local level. The goal of this study was to describe what motivates PJs to allocate HOME funds both to homebuyer versus other eligible activities, how and why they structure their homebuyer programs as they do, and what the outcomes have been for buyers in terms of geographic mobility and success in sustaining homeownership. An implicit question motivating the study was: how effective is HOME as a vehicle for increasing homeownership opportunities for low-income households?

The findings of this report suggest that HOME plays a critical role in local efforts to promote affordable homeownership. A very large share of PJs commit some level of HOME funding to homebuyer programs. Moreover, the in-depth interviews with PJ staff and analysis of buyer-level data suggest that for many PJs, HOME is the primary—if not the only—source of homebuyer assistance. For PJs that have access to other funding sources, particularly state homeownership programs, HOME is a flexible tool for increasing the affordability of homeownership and leveraging these other resources. It is also a way to serve a lower income group than is typically served through state programs, which often serve households with incomes up to 120 percent of AMI.

In addition to gathering information about how and why HOME is being is used to support homeownership, the study was also intended to identify possible improvements in the program. The remainder of this chapter summarizes our findings and conclusions on some of the key questions that motivated this study and are of interest to policy makers thinking about how to make the most effective use of the HOME program to support homeownership.

8.1 Program Regulations are Not a Significant Barrier to Greater Use of Homebuyer Programs

HOME program regulations do not appear to present a major obstacle to the use of HOME for homebuyer programs. Of the PJs interviewed that currently fund homebuyer programs with HOME, about one quarter described program regulations as a limiting factor on their use of HOME for this purpose. Staff from PJs that do not currently use HOME for homebuyer programs characterized regulations as barriers with more frequency. Across the two groups, the program regulations most often cited as barriers were housing quality standards (particularly standards relating to lead-based paint), resale and recapture provisions, purchase price and income limits, and Davis-Bacon wage restrictions. However, staff at several sites noted that problems with these regulations are not unique to homebuyer programs—Davis-Bacon is a problem for rental development, for example, and bringing a unit up to HUD's HQS can make owner-occupied rehabilitation prohibitively expensive as well.

8.2 Homebuyer Programs are Balanced Against Competing Housing Needs in PJ Communities

A much more important constraint than program regulations on the use of HOME to support homebuyer programs is competing demands for HOME funds. As shown in Chapter 3, the HOME program is used to meet the housing needs of a spectrum of income levels through different activity types. Tenant-based rental assistance serves the greatest share of very-low income households, followed by rental housing development and owner-occupied rehabilitation. Homebuyer programs serve the highest income group, with nearly half of the participants in these programs having income between 60 and 80 percent of area median income compared to less than a fifth of those assisted by rental development programs. Those served by homebuyer programs are more likely to have large households and are somewhat more likely to be minorities than those benefiting from other HOME-funded activities.

Although some PJs offer deeper subsidies in their homebuyer programs to reach households with incomes lower than 60 percent of AMI, many PJs have either found it difficult to find households at these levels that are ready to purchase or would be forced to serve fewer households as a result of offering deeper subsidies. Although homeownership is a priority in almost all jurisdictions, so is helping households with the highest housing cost burdens and the worst housing conditions, which generally means supporting affordable rental housing. In addition, an important concern of PJs is to make the most of their HOME allocation by using these funds to leverage other sources of funding. The availability of the Low Income Housing Tax Credit is another important incentive for using HOME for rental housing development. Most PJs interviewed felt that their current use of HOME funding struck an appropriate balance between competing needs in their community and so did not expect the share of HOME funds going to homebuyer activities to change much.

8.3 The Use of HOME for Homebuyer Programs also Depends on the Availability of Other Funding

The availability of other funding for homebuyer programs is clearly an important factor in PJ decisions about how to allocate HOME funds across the four eligible activity types. Among the 10 PJs interviewed that do not use HOME for homebuyer programs, seven have other funding for homebuyer assistance, mainly through state bond programs. These PJs could be expected to use HOME for homebuyer programs if the level of state funding declined, the market tightened such that buyers needed additional up-front assistance to make the purchase affordable, or the PJ decided to target a lower-income population for homeownership. However, the HOME director at one of the PJs said that the high cost of housing in the local market made it impractical to offer a homebuyer program. Given the size of the its HOME allocation and the lack of another local source of funding for homeownership, the PJ would be able to serve far fewer households as homebuyers compared to the numbers it currently served by funding rental development. Analysis of the mail survey provides additional evidence that PJs that do not have HOME-funded homebuyer programs are more likely to be in high cost markets. Of the 64 survey respondents without a homebuyer program, 30 were in the highest cost quintile. If there were no relationship between housing costs and homebuyer programs, the expected number would have been 13. Additional sources that can be leveraged by HOME funds may be needed in these markets for homebuyer programs to represent an efficient use of these PJs' HOME allocation.

8.4 Development Assistance is Considered Important, but can be Challenging

The mail survey of PJs found that 94 percent of PJs that use HOME for homebuyer activities offer programs that provide direct assistance to homebuyers to finance their home, while 73 percent offer programs that indirectly support low-income homeownership by subsidizing the development of affordable housing units (including programs that combine direct and development assistance for the same household). There are two factors associated with the greater prevalence of direct assistance programs. One is that direct assistance generally offers smaller amounts of assistance per homebuyer and thus allows PJs to serve a greater number of clients. In addition, direct assistance programs are easier and less risky to administer than development programs.

The development of affordable units is considered a vital component of homeownership programs in markets where there is little good quality housing available at prices affordable to low-income households with a direct HOME subsidy. Development programs also are used as a component of community revitalization efforts. While development efforts are an important part of many PJ strategies, they require a higher level of expertise and therefore are highly dependent on the availability of good local partners—mainly CHDOs.

Finding effective local partners is a challenge in some areas and a significant constraint on the number of units that can be developed. The requirement that PJs set aside 15 percent of their HOME allocations for CHDO activities is an important step toward increasing CHDO capacity. However, in some of the jurisdictions visited for this study, HOME is the primary or only source of CHDO funding and, as a consequence, the CHDOs have failed to reach the scale needed to carry out homebuyer development projects effectively. PJs would benefit from additional technical support related to CHDO capacity-building, particularly in areas where CHDO capacity is limited and the HOME set-aside alone is not sufficient to bring these organizations to scale.

8.5 The Amount of HOME Subsidy Provided to Homebuyers Reflects Program Type, Local Housing Costs, and Buyer Incomes

The amount of subsidy provided to buyers varies by homebuyer program type. The findings of the mail survey suggest a clear tendency for programs offering direct assistance to offer lower levels of assistance than programs subsidizing homebuyer development. The median amount of assistance among programs offering only direct assistance is $8,000, compared to $20,000 for programs offering both direct and development assistance, and $25,000 for programs offering only development assistance.

Linking the survey results to Census data, we also observed a relationship between subsidy types and amounts and housing market characteristics. Using data from the 2000 Census on median house values, we divided the survey respondents into five housing cost categories. We found that PJs with median house values in the top 20 percent of HOME PJs (the highest housing cost category) offer different kinds of homebuyer programs and a higher level of subsidy per buyer. PJs in the highest cost category are more likely to offer direct assistance only (56 percent) than PJs in most other cost categories (40 percent). In addition, the average subsidy per buyer in the highest-cost markets is $30,936 compared to $20,000 or less in the other categories.

The amount of HOME subsidy per buyer also appears to be closely related to buyers' income level. Using IDIS data, we found that the average homebuyer at or below 30 percent of AMI received $16,447 in HOME assistance, compared to $9,409 for buyers between 60 and 80 percent of AMI. The differences in average subsidy between each of the income categories, and the differences between the highest housing cost category and the other categories, are all statistically significant at the 95-percent confidence level.

8.6 HOME Programs Generally Adopt Lenders' Standards for Housing Affordability, but Provide Buyers with Substantial Equity Stake in their Homes

One approach that PJs can take in designing homeownership programs is to determine the level of assistance so that buyers face low post-purchase housing cost burdens. In fact, we found that most PJs defer to lenders to determine the level of affordability and set the amount of assistance to help buyers meet the lender's underwriting guidelines. The data gathered on a sample of assisted buyers found an average ratio of housing costs to income of 28 percent, which is the standard of affordability used by traditional mortgage underwriting. Since a majority of programs provide assistance in the form of grants or forgivable loans, HOME assistance also often gives buyers the potential to have a substantial equity stake in their properties. The buyer-level data found that the average ratio of repayable debt to sales prices was 84 percent.

PJs are increasingly concerned about buyers becoming victims of predatory lending. Because HOME assistance is backed by a lien on the property, PJs are notified when buyers are seeking to refinance their homes, giving the PJ a chance to stop predatory loans by refusing to subordinate their lien to the new first mortgage. But PJs generally cannot stop buyers from taking these predatory loans if the buyers repay the HOME assistance and satisfy the recapture requirement. However, the use of forgivable mortgages may provide buyers with greater incentive to keep their HOME assistance, and thus avoid predatory loans.

8.7 Counseling is Widely Used, but there is Little Indication of which Approaches are Most Effective

Homeownership counseling is widely used in HOME-funded homebuyer programs. More than three-quarters of the programs surveyed require some form of counseling. A majority of programs require at least six hours, most often pre-purchase counseling, through a combination of group and individual sessions. Relatively few programs have perfunctory counseling requirements, such as fewer than three hours of counseling (13 percent) or counseling via home study only (less than 1 percent). Moreover, a significant share (20 percent) of programs have post-purchase as well as pre-purchase counseling, although there is broad variation in the form and intensity of post-purchase counseling, which is often seen as difficult to impose on buyers.

The mail survey and interviews with PJ staff suggested that counseling is generally done by program partners and that few PJs play an active role in determining the form or content of counseling. Most PJ staff said they think counseling is effective in reducing the likelihood of loan default, although they offered few details on what kinds of counseling are most effective. Staff at a small number of PJs expressed skepticism about the effectiveness of counseling in helping first-time buyers stay in their homes. Overall, the feedback from PJ staff and counselors suggests that counseling may be most effective as a screening mechanism—identifying households who are most motivated to pursue homeownership. However, there is a clear need for more information about what approaches to counseling are most effective as PJs have little to guide them in making decisions about how to structure the counseling component of their homebuyer programs.

8.8 HOME-Assisted Buyers Generally Choose Healthy Neighborhoods

Neighborhood location is an important aspect of home purchase as the chosen neighborhood affects the buyer's quality of life, economic opportunities, educational opportunities, and prospects for growth in home values. An analysis of the neighborhoods to where HOME-assisted buyers moved found that in general they selected healthy working-class to lower middle-class neighborhoods for their new homes. In addition, buyers moved to neighborhoods with somewhat higher homeownership rates, higher home values, and higher median incomes than the areas where they had lived before. They also moved to neighborhoods where the median incomes of the other residents were substantially above their own incomes. Based on these neighborhood-level indicators, the HOME program seems to support economic as well as geographic mobility for homebuyers.

The neighborhood analysis conducted for this study also sheds light on the types of neighborhoods targeted by HOME homebuyer programs, primarily those subsidizing the development of homebuyer units. Of the 616 buyers sampled from city and urban county PJs, 14 percent were targeted to specific neighborhoods. Targeted neighborhoods appear to be somewhat poorer than neighborhoods chosen by buyers in untargeted programs. However, the targeted neighborhoods were also more likely to have experienced a decrease in poverty from 1990 to 2000. This suggests that PJs and their program partners may be targeting neighborhoods that are good candidates for revitalization and that their efforts, including the targeting of investment of HOME funds in these neighborhoods, may be bearing fruit already.

8.9 Available Information Suggests HOME-Assisted Buyers are Successful at Maintaining Homeownership

Nearly half of the PJs surveyed reported an estimate of the foreclosure rate experienced by homebuyers they have assisted. Among these PJs the average foreclosure rate was two percent—a full percentage point lower than the comparable foreclosure rate among FHA borrowers over the same period. In addition, the reported sales rate among HOME-assisted buyers is much lower than for the average homeowner. Both of these findings suggest that the HOME program has been successful at helping buyers maintain homeownership and in helping to create stable communities. This study also conducted an exploratory analysis of the factors associated with greater success at maintaining homeownership. These results, which are highly tentative given the non-random nature of the sample selected for analysis of loan-level data, indicate that higher levels of HOME assistance, particularly in the form of forgivable loans or grants, help to reduce the risk of foreclosure. No significant association was found between the use of counseling and reduced foreclosure risk, but the fact that very few buyers do not receive counseling made it especially difficult to detect an impact from counseling. Further study of the incidence of foreclosure and the factors associated with this risk would be valuable, but will require a large and carefully constructed data set on buyer experiences.

Appendix A:
IDIS Data

Exhibit A-1A
HOME Project Funding *Committed* for Eligible HOME Activities Over Time

Year	Homebuyer Activities		Owner-occupied Rehabilitation		Rental Housing Development		TBRA	
	$	%	$	%	$	%	$	%
1992	$5,450,503	7%	$19,999,988	25%	$32,169,291	40%	$23,505,265	29 %
1993	$75,206,579	12%	$156,052,264	26%	$362,157,674	60%	$12,869,094	2%
1994	$241,871,796	20%	$254,077,023	21%	$647,795,267	52%	$92,484,023	7%
1995	$236,876,073	25%	$186,550,262	19%	$523,080,633	54%	$15,721,204	2%
1996	$298,470,772	26%	$204,979,804	18%	$640,025,460	55%	$24,563,669	2%
1997	$328,890,812	26%	$234,709,401	19%	$663,033,154	53%	$27,623,032	2%
1998	$367,289,110	28%	$229,823,697	18%	$676,781,966	52%	$20,040,066	2%
1999	$321,869,094	26%	$233,749,366	19%	$661,671,341	53%	$29,828,567	2%
2000	$406,185,570	30%	$261,090,797	19%	$671,510,522	49%	$31,094,663	2%
2001	$415,910,264	29%	$241,861,814	17%	$733,428,592	52%	$24,329,451	2%
2002	$499,606,425	31%	$274,835,296	17%	$843,764,842	52%	$15,885,682	1%
Total	$3,197,626,998	24%	$2,297,729,712	20%	$6,455,418,742	52%	317,944,716	5%

Exhibit A-1B
HOME *Disbursed* Funds Used for Eligible HOME Activities Over Time

Year	Homebuyer Activities		Owner-occupied Rehabilitation		Rental Housing Development		TBRA	
	$	%	$	%	$	%	$	%
1992	$5,450,503	7%	$19,983,254	25%	$32,025,047	40%	$23,253,865	29%
1993	$74,581,875	12%	$155,530,051	26%	$361,217,366	60%	$12,809,022	2%
1994	$240,204,569	20%	$253,413,592	21%	$643,514,774	52%	$91,266,741	7%
1995	$235,482,830	25%	$186,039,397	20%	$515,118,672	54%	$14,450,057	2%
1996	$293,948,169	25%	$202,084,083	17%	$636,543,798	55%	$23,637,777	2%
1997	$321,728,594	26%	$232,174,338	19%	$648,665,807	53%	$26,726,070	2%
1998	$349,656,306	28%	$223,861,968	18%	$648,379,489	52%	$18,445,932	1%
1999	$305,426,464	26%	$227,141,728	19%	$622,756,530	53%	$24,881,987	2%
2000	$378,740,531	30%	$250,764,088	20%	$607,916,183	48%	$25,035,488	2%
2001	$346,931,009	32%	$218,146,395	20%	$516,132,081	47%	$13,323,861	1%
2002	$325,244,108	41%	$155,301,874	19%	$314,557,616	39%	$5,288,450	1%
Total	$2,877,394,958	27%	$2,124,440,768	20%	$5,546,827,363	51%	$279,119,250	3%

Exhibit A-2
Number and Percentage of HOME Units Developed Under Eligible HOME Activities Over Time

Year	Homebuyer Activities		Owner-occupied Rehabilitation		Rental Housing Development		TBRA	
	Units	%	Units	%	Units	%	Units	%
1992	291	3%	1,255	13%	2,071	22%	5,842	62%
1993	4,495	12%	10,566	29%	17,687	49%	3,279	9%
1994	16,032	18%	16,502	19%	30,038	34%	25,952	29%
1995	19,038	30%	12,734	20%	27,416	43%	4,560	7%
1996	28,802	36%	13,402	17%	29,095	37%	8,166	10%
1997	32,601	36%	15,079	17%	36,726	40%	6,433	7%
1998	34,142	40%	14,409	17%	31,256	36%	6,223	7%
1999	29,913	37%	13,626	17%	27,982	35%	8,428	11%
2000	35,570	39%	15,179	17%	31,141	34%	8,905	10%
2001	32,845	38%	13,898	16%	33,252	38%	6,908	8%
2002	36,730	39%	16,175	17%	39,518	42%	2,383	3%
Total	270,459	30%	142,825	18%	306,182	37%	87,079	15%

Exhibit A-3A
Number and Percentage of PJs *Committing* HOME Funds for Various Eligible Activities Over Time

Year	Homebuyer activities		Owner-occupied Rehabilitation		Rental Housing Development		TBRA	
	Number	%	Number	%	Number	%	Number	%
1992	34	6%	82	14%	78	13%	24	4%
1993	190	32%	257	43%	263	44%	28	5%
1994	320	53%	330	55%	375	62%	153	25%
1995	398	66%	349	58%	378	63%	54	9%
1996	460	77%	381	63%	414	69%	76	13%
1997	480	80%	414	69%	419	70%	94	16%
1998	465	77%	397	66%	414	69%	92	15%
1999	452	75%	375	62%	366	61%	85	14%
2000	496	83%	389	65%	395	66%	84	14%
2001	500	83%	392	65%	417	69%	79	13%
2002	511	85%	407	68%	414	69%	49	8%

Exhibit A-3B
Number and Percentage of PJs Using *Disbursed* HOME Funds for Various Eligible Activities Over Time

Year	Homebuyer activities		Owner-occupied Rehabilitation		Rental Housing Development		TBRA	
	Number	%	Number	%	Number	%	Number	%
1992	34	6%	82	14%	78	13%	24	4%
1993	190	32%	257	43%	263	44%	28	5%
1994	320	53%	330	55%	375	62%	153	25%
1995	397	66%	349	58%	377	63%	54	9%
1996	459	76%	380	63%	413	69%	76	13%
1997	478	80%	414	69%	417	69%	94	16%
1998	464	77%	396	66%	413	69%	92	15%
1999	450	75%	373	62%	366	61%	81	13%
2000	487	81%	385	64%	388	65%	79	13%
2001	494	82%	385	64%	398	66%	73	12%
2002	488	81%	385	64%	342	57%	38	6%

Exhibit A-4A
Percentage of PJs Using Various Shares of *Committed* HOME Funds for Homebuyer Activities Over Time

Year	0-25%	26-50%	51-75%	76-100%
1992	97%	1%	0%	2%
1993	85%	6%	3%	5%
1994	72%	13%	7%	8%
1995	63%	15%	10%	12%
1996	52%	22%	11%	14%
1997	50%	20%	14%	16%
1998	48%	25%	13%	14%
1999	50%	21%	11%	18%
2000	43%	25%	16%	16%
2001	45%	21%	15%	19%
2002	41%	24%	15%	21%

Exhibit A-4B
Percentage of PJs Using Various Shares of *Disbursed* HOME Funds for Homebuyer Activities Over Time

Year	0-25%	26-50%	51-75%	76-100%
1992	97%	1%	0%	2%
1993	85%	6%	3%	5%
1994	72%	13%	7%	8%
1995	63%	15%	10%	12%
1996	52%	22%	11%	14%
1997	51%	20%	14%	15%
1998	48%	24%	13%	14%
1999	50%	20%	11%	18%
2000	42%	25%	16%	17%
2001	44%	21%	15%	20%
2002	40%	20%	14%	26%

Exhibit A-5
Characteristics of Households Assisted by Various HOME-funded Activities

	Homebuyer Activities		Owner-Occupied Rehabilitation		Rental Housing Development		TBRA	
Characteristic	House holds	%	House holds	%	House holds	%	House holds	%
Income as a Percent of Median								
0 to 30%	11,931	7%	32,016	31%	55,385	42%	70,154	80%
31 to 50%	41,087	23%	38,705	38%	52,107	40%	14,505	17%
51 to 60%	41,709	23%	13,789	13%	19,547	15%	1,736	2%
61 to 80%	86,255	48%	18,035	18%	4,870	4%	774	1%
Race/ Ethnicity								
White	81,889	45%	62,077	61%	63,497	48%	47,758	55%
Black	47,290	26%	28,911	28%	47,526	36%	26,910	31%
Asian	4,063	2%	909	1%	2,837	2%	1,460	2%
Native American	1,374	1%	872	1%	1,425	1%	2,441	3%
Hispanic	46,317	26%	9,780	10%	16,588	13%	8,597	10%
Other	3	0%	0	0%	6	0%	1	0%
Household Size								
1 person	35,958	20%	39,857	39%	60,488	46%	24,611	28%
2 people	38,057	21%	26,666	26%	28,606	22%	21,665	25%
3-4 people	76,549	42%	24,571	24%	33,805	26%	30,859	35%
5-6 people	25,660	14%	9,346	9%	8,114	6%	8,583	10%
7 or more people	4,768	3%	2,107	2%	957	1%	1,465	2%

Exhibit A-6
Changes Over Time in Household Characteristics for Units Supported by Homebuyer Activities

Year	Percent Minority (nonwhite, non-Hispanic)	Percent Extremely Low Income (0-30% AMI)	Percent Very Low Income (0-50% AMI)	Percent 51-60% AMI	Percent 61-80% AMI	Average Household Size
1992	44%	6%	23%	22%	49%	2.8
1993	40%	7%	25%	25%	44%	2.8
1994	63%	9%	25%	22%	45%	2.9
1995	46%	14%	21%	22%	43%	2.7
1996	52%	9%	22%	23%	47%	2.8
1997	55%	5%	22%	24%	49%	2.8
1998	56%	4%	23%	24%	48%	2.8
1999	57%	4%	21%	23%	53%	2.8
2000	50%	4%	21%	24%	51%	2.6
2001	53%	5%	23%	23%	49%	2.6
2002	46%	5%	18%	22%	55%	2.4

Exhibit A-7
Characteristics of Households by Homebuyer Program Type

	Acquisition		Rehab		New Construction		All Program Types	
Characteristic	**House holds**	**%**	**House holds**	**%**	**House holds**	**%**	**House holds**	**%**
Income as a Percent of Median								
0 to 30%	8,301	6%	1,424	11%	2,206	11%	11,931	7%
31 to 50%	31,902	21%	4,019	31%	5,166	27%	41,087	23%
51 to 60%	34,636	23%	2,907	22%	4,166	21%	41,709	23%
61 to 80%	73,763	50%	4,613	36%	7,879	41%	86,255	48%
Race/ Ethnicity								
White	69,306	47%	6,177	48%	6,406	33%	81,889	45%
Black	36,960	25%	3,987	31%	6,343	33%	47,290	26%
Asian	3,339	2%	272	2%	452	2%	4,063	2%
Native American	1,066	1%	120	1%	188	1%	1,374	1%
Hispanic	37,877	25%	2,411	19%	6,029	31%	46,317	26%
Other	42	0%	15	0%	0	0%	57	0%
Household Size								
1 person	30,551	21%	2,669	21%	2,738	14%	35,958	20%
2 people	31,220	21%	2,839	22%	3,998	21%	38,057	21%
3-4 people	62,078	42%	5,292	41%	9,179	47%	76,549	42%
5-6 people	20,829	14%	1,828	14%	3,003	15%	25,660	14%
7 or more people	3,915	3%	354	3%	499	3%	4,768	3%

Exhibit A-8
Property Characteristics of Households by Homebuyer Program Type

Characteristic		Acquisition		Rehab		New Construction		All Program Types	
		Households	%	Households	%	Households	%	Households	%
Property Type	1-4 Unit	161,698	97%	16,619	94%	24,090	94%	202,407	97%
	Condo	2,886	2%	105	1%	363	1%	3,354	2%
	Coop	307	0%	137	1%	134	1%	578	0%
	Manufactured Home	1,076	1%	832	5%	914	4%	2,822	1%
Number of Bedrooms	0-1 Bedroom	3,365	2%	413	3%	412	2%	4,190	2%
	2 Bedrooms	39,598	26%	3,574	26%	2,467	12%	45,639	25%
	3 Bedrooms	95,346	63%	8,067	59%	15,660	76%	119,073	64%
	4 Bedrooms	11,509	8%	1,462	11%	1,920	9%	14,891	8%
	5 or more Bedrooms	1,223	1%	257	2%	116	1%	1,596	1%

Appendix B:
Results of Mail Survey

This appendix presents results of the mail survey in greater detail than is presented in the body of the report. The exhibits present the results for the 997 HOME-funded homebuyer programs administered by the 487 PJs that responded to the mail survey. Much of this information is discussed in the body of the report. The purpose of this appendix is to provide a comprehensive summary of the survey results in a single set of tables for ease of reference. The data are shown for each of the three program types as well as for all programs.

Exhibit B-1
HOME Homebuyer Program Characteristics: Percentage of Programs by Activity

Program Characteristic	Direct Assistance		Development Assistance		Joint Programs		Total	
	N	%	N	%	N	%	N	%
Total Programs	434	100%	210	100%	353	100%	997	100%
Maximum Subsidy Amount								
$0-$4,999	56	12.9%	1	0.5%	3	0.9%	60	6.0%
$5,000-$9,999	88	20.3%	3	1.4%	18	5.1%	109	10.9%
$10,000-$14,999	65	15.0%	4	1.9%	29	8.2%	98	9.8%
$15,000-$19,999	29	6.7%	6	2.9%	19	5.4%	54	5.4%
$20,000-$24,999	40	9.2%	11	5.2%	37	10.5%	88	8.8%
$25,000-$29,999	21	4.8%	7	3.3%	22	6.2%	50	5.0%
$30,000-$39,999	20	4.6%	15	7.1%	39	%	74	7.4%
$40,000-$49,999	16	3.7%	12	5.7%	14	4.0%	42	4.2%
$50,000-$59,999	5	1.2%	6	2.9%	15	4.3%	26	2.6%
$60,000 or more	22	5.1%	44	21.0%	46	13.0%	112	11.2%
Other	48	11.1%	49	23.3%	69	19.6%	166	16.7%
Forms of Ownership Allowed								
Fee simple	405	93.3%	190	90.5%	326	92.4%	921	92.4%
99-year leasehold	47	10.8%	27	12.9%	32	9.1%	106	10.6%
Lease-purchase	35	8.1%	47	22.4%	53	15.0%	135	13.5%
Condo	211	48.6%	43	20.5%	106	30.0%	360	36.1%
Coop	43	9.9%	27	12.9%	22	6.2%	92	9.2%
Land Trust	24	5.5%	18	8.6%	24	6.8%	66	6.6%
Property Type(s) Allowed								
SF detached	423	97.5%	197	93.8%	343	97.2%	963	96.6%
Attached row/townhouse	286	65.9%	83	39.5%	152	43.1%	521	52.3%
2-4 family	120	27.7%	53	25.2%	77	21.8%	250	25.1%
Multifamily (5+ units)	29	6.7%	37	17.6%	27	7.7%	93	9.3%
Manufactured	133	30.7%	48	22.9%	89	25.2%	270	27.1%
Affordability Periods								
Same as HOME	286	65.9%	139	66.2%	239	67.7%	664	66.6%
Longer than HOME	111	25.6%	44	20.1%	76	21.5%	231	23.2%
Varies	34	7.8%	23	11.0%	38	10.8%	95	9.5%

Exhibit B-1 (Cont.)
HOME Homebuyer Program Characteristics: Percentage of Programs by Activity

Program Characteristic	Direct Assistance		Development Assistance		Joint Programs		Total	
	N	%	N	%	N	%	N	%
Price/Value Limits								
203(b) limits	276	63.6%	131	62.4%	223	63.2%	630	63.2%
PJ's estimate of 95% AMPP	87	20.1%	39	18.6%	70	19.8%	196	19.7%
More restrictive limits	59	13.6%	23	11.0%	46	13.0%	128	12.8%
Maximum PITI Ratio								
28% or less	10	2.3%	15	7.1%	12	3.4%	37	3.7%
29-32%	89	20.5%	37	17.6%	125	35.4%	251	25.2%
33-38%	59	13.6%	16	7.6%	35	9.9%	110	11.0%
Over 38%	12	2.8%	2	1.0%	8	2.3%	22	2.2%
No max/lender decides	135	31.1%	77	36.7%	73	20.7%	285	28.6%
Lender & agency decide	127	29.3%	48	22.9%	93	26.4%	268	26.9%
Maximum Debt-Income Ratio								
33% or less	14	3.2%	9	4.3%	14	4.0%	37	3.7%
34-39%	41	9.5%	18	8.6%	49	13.9%	108	10.8%
40-45%	86	19.8%	32	15.2%	86	24.4%	204	20.5%
Over 45%	5	1.2%	3	1.4%	1	0.3%	9	0.9%
No max/lender decides	146	33.6%	84	40.0%	94	26.6%	324	32.5%
Lender & agency decide	140	32.3%	51	24.3%	101	28.6%	292	29.3%
Requirement for owner investment								
No requirement	160	36.9%	108	51.4%	133	37.7%	401	40.2%
Sweat equity/ volunteer labor	15	3.5%	45	21.4%	37	10.5%	97	9.7%
0-1% of home price	45	10.4%	4	1.9%	35	9.9%	84	8.4%
2-3% of home price	100	23.0%	17	8.1%	84	23.8%	201	20.2%
4-5% of home price	11	2.5%	4	1.9%	10	2.8%	25	2.5%
> 5% of home price	4	0.9%	3	1.4%	3	0.9%	10	1.0%
Fixed dollar amount	103	23.7%	19	9.1%	61	17.3%	183	18.4%
Recapture/Resale								
Always recapture	344	79.3%	92	43.8%	195	55.2%	631	63.3%
Always do resale	22	5.1%	65	31.0%	45	12.8%	132	13.2%
May use either	61	14.1%	46	21.9%	105	29.8%	212	21.3%

Missing data for variables in this table are: average subsidy amount (5.5%), maximum subsidy amount (11.8%), forms of ownership allowed (1.5%), property type allowed (0.1%), affordability period (0.7%), price/value limit (4.3%), maximum PITI ratio (2.4%), maximum debt-to-income ratio (2.3%), requirement of owner investment (3.4%), recapture/resale (2.2%).

Exhibit B-2
Counseling Characteristics: Percentage of Programs by Activity

Counseling Characteristic	Direct Assistance		Development Assistance		Joint Programs		Total	
Counseling Requirements								
Required, agency provides directly	70	16.1%	16	7.6%	61	17.3%	147	14.7%
Required, agency does not provide	296	68.2%	109	51.9%	218	61.8%	623	62.5%
Not required but generally provided	35	8.1%	53	25.2%	51	14.5%	139	13.9%
Not required and not generally provided	32	7.4%	27	12.9%	20	5.7%	79	7.9%
Counseling Timing								
Before approval	319	73.5%	155	73.8%	262	74.2%	736	73.8%
After approval but before purchase	179	41.2%	82	39.1%	157	44.5%	418	41.9%
Post-purchase	71	16.4%	49	23.3%	87	24.7%	207	20.8%
Counseling Form								
Workshop/Group	358	82.5%	138	65.7%	293	83.0%	789	79.1%
One-on-one	249	57.4%	124	59.1%	214	60.6%	587	58.9%
Home study	45	10.4%	9	4.3%	41	11.6%	95	9.5%
Counseling Funding								
HOME project funds	82	18.9%	23	11.0%	77	21.8%	182	18.3%
HOME admin funds	76	17.5%	17	8.1%	69	19.6%	162	16.3%
HUD Counseling funds	54	12.4%	14	6.7%	37	10.5%	105	10.5%
CDBG	94	21.7%	28	13.3%	107	30.3%	229	23.0%
General admin funds	34	7.8%	15	7.1%	34	9.6%	83	8.3%
Counselor's own funds	161	37.1%	98	46.7%	135	38.2%	394	39.5%
Other	89	20.5%	31	14.8%	67	19.0%	187	18.8%
Counseling Duration								
Less than 1 hour	10	2.3%	7	3.8%	5	1.4%	22	2.2%
1-2 hours	43	9.9%	22	10.5%	37	10.5%	102	10.2%
3-5 hours	108	24.9%	27	12.9%	70	19.8%	205	20.6%
6-8 hours	130	30.0%	55	26.7%	114	32.3%	299	30.0%
More than 8 hours	101	23.3%	65	31.0%	87	24.7%	253	25.4%

Missing data for variables in this table are: counseling requirements (0.9%), counseling timing (1.7%), counseling form (1.6%), counseling funding (3.1%), counseling duration (4.3%).

Exhibit B-3
Program Targeting, Marketing and Screening: Percentage of Programs by Activity

Program Characteristic	Direct Assistance		Development Assistance		Joint Programs		Total	
Targets First-Time Homebuyers								
Yes, it is requirement	258	59.5%	86	41.0%	154	43.6%	498	50.0%
Yes, but not requirement	147	33.9%	85	40.5%	158	44.8%	390	39.1%
No	26	6.0%	34	16.2%	39	11.1%	99	9.9%
Maximum Income Permitted								
80% AMI	401	92.4%	184	87.6%	325	92.1%	910	91.3%
60% AMI	19	4.4%	11	5.2%	11	3.1%	41	4.1%
50% AMI	5	1.2%	10	4.8%	8	2.3%	23	2.3%
Below 50% AMI	3	0.7%	4	1.9%	4	1.1%	11	1.1%
Other	6	1.4%	1	0.5%	5	1.4%	12	1.2%
Geographic Targeting								
Restricted to certain area	114	26.3%	63	30.0%	144	40.8%	321	32.2%
Targeted but not restricted	77	17.7%	62	29.5%	82	23.2%	221	22.2%
No geographic targeting/ restrictions	240	55.3%	81	38.6%	125	35.4%	446	44.7%
Marketing/outreach								
Newspapers	286	65.9%	137	65.2%	231	65.4%	654	65.6%
Mailings	199	45.9%	86	41.0%	159	45.0%	444	44.5%
Brochures	347	80.0%	127	60.5%	263	74.5%	737	73.9%
TV/Radio	134	30.9%	60	28.6%	117	33.1%	311	31.2%
Community groups/ meetings	343	79.0%	155	73.8%	283	80.2%	781	78.3%
Participant Screening beyond Income Eligibility								
Credit reviews	297	68.4%	159	75.7%	287	81.3%	743	74.5%
Buyer cash availability	258	59.5%	107	51.0%	205	58.1%	570	57.2%
Other	46	10.6%	19	9.1%	35	9.9%	100	10.0%
Use of Program Partners in Screening								
Subrecipients	150	34.6%	77	36.7%	114	32.3%	341	34.2%
CHDOs	87	20.1%	128	61.0%	182	51.6%	397	39.8%
Other developers	20	4.6%	26	12.4%	25	7.1%	71	7.1%
Other community groups	39	9.0%	12	5.7%	32	9.1%	83	8.3%
Lenders	227	52.3%	69	32.9%	171	48.4%	467	46.8%
Counselors	72	16.6%	30	14.3%	48	13.6%	150	15.1%
Realtors	75	17.3%	14	6.7%	65	18.4%	154	15.5%
Use of Program Partners in Marketing/Outreach								
Subrecipients	160	36.9%	81	38.6%	159	45.0%	400	40.1%
CHDOs	143	33.0%	143	68.1%	219	62.0%	505	50.7%
Other developers	69	15.9%	49	23.3%	80	22.7%	198	19.9%
Lenders	277	63.8%	48	22.9%	170	48.2%	495	49.7%
Counselors	141	32.5%	42	20.0%	94	26.6%	277	27.8%
Realtors	278	64.1%	58	27.6%	170	48.2%	506	50.8%

Missing data for variables in this table are: targets first-time homebuyers (1.0%), income targeting (1.3%), geographic targeting (0.9%), marketing/outreach (1.9%), participant screening (1.5%), use of program partners in screening (1.1%), use of program partners in marketing/ outreach (1.3%).

Exhibit B-4
Use of Program Partners: Percentage of Programs by Activity

Partners used for HOME-funded Program(s)	Direct Assistance		Development Assistance		Joint Programs		Total	
Lenders								
1-2 program lenders	43	9.9%	30	14.3%	52	14.7%	125	12.5%
3-5 program lenders	69	15.9%	34	16.2%	54	15.3%	157	15.8%
6-10 program lenders	49	11.3%	11	5.2%	28	7.9%	88	8.8%
More than 10 program lenders	72	16.7%	9	4.3%	27	7.7%	108	10.8%
Can use any lender	183	42.4%	80	38.1%	155	43.9%	418	41.9%
Do not use lender	16	3.7%	42	20.0%	129	8.2%	87	8.7%
Partnership with Lender								
Loan underwriting	329	75.8%	112	53.3%	273	77.3%	714	71.6%
Loan servicing	225	51.8%	90	42.9%	212	60.1%	527	532.9
Pre-commitments	233	53.7%	81	38.6%	186	52.7%	500	%
Fee/point reductions	127	29.3%	41	19.5%	101	28.6%	269	50.2%
Reduced loan rates	128	29.5%	53	25.2%	111	31.4%	292	27.0%
Waiver of PMI req.	50	11.5%	16	7.6%	62	17.6%	128	29.3%
Outreach	108	24.9%	28	13.3%	89	25.2%	225	12.8%
Screening	157	36.2%	46	21.9%	114	32.3%	317	22.6%
Counseling	84	19.4%	26	12.4%	69	19.6%	179	31.8%
								18.0%
Partnership with PHA								
Yes	57	13.1%	24	11.4%	47	13.3%	128	12.8%
No	370	85.3%	177	84.3%	300	85.0%	847	85.0%
Use of Program Partners for Program Administration								
Local Governments	60	13.8%	19	9.1%	43	12.2%	122	12.2%
Nonprofit Subrecipients	145	33.4%	104	49.5%	146	41.4%	395	39.6%
Nonprofits but not Subrecipients	63	14.5%	43	20.5%	89	25.2%	195	19.6%
For-Profit Contractors	49	11.3%	13	6.2%	51	14.5%	113	11.3%
Agency is local government	61	14.1%	85	40.5%	129	36.5%	275	27.6%
No Partners	113	26.0%	36	17.1%	66	18.7%	215	21.6%
Nonprofit Subrecipients								
Community-based	135	31.1%	91	43.3%	170	48.2%	396	39.7%
Faith-based	12	2.8%	27	12.9%	30	8.5%	69	6.9%
Other	24	5.5%	2	1.0%	16	4.5%	42	4.2%
No Subrecipients	230	53.0%	81	38.6%	141	39.9%	452	45.3%
Requirements set by Program Partners								
Income limits	71	16.4%	32	15.2%	70	19.8%	173	17.4%
Other eligibility factors	91	21.0%	49	23.3%	76	21.5%	216	21.7%
Property value limits	56	12.9%	31	14.8%	54	15.3%	141	14.1%
Property type/location	83	19.1%	61	29.1%	101	28.6%	245	24.6%
Underwriting standards	112	25.8%	60	28.6%	91	25.8%	263	26.4%
Counseling requirements	152	35.0%	74	35.2%	113	32.0%	339	34.0%
Resale/recapture terms	81	18.7%	36	17.1%	83	23.5%	200	20.1%
None of the above	88	20.3%	43	20.5%	92	26.1%	223	22.4%
Use of Other Program Partners for Non-Program Administration								
Community organizations	63	14.5%	43	20.5%	89	25.2%	195	19.6%
Faith-based organizations	21	4.8%	28	13.3%	37	10.5%	86	8.6%
Service providers	42	9.7%	24	11.4%	57	16.2%	123	12.3%
Government agencies	64	14.8%	34	16.2%	56	15.9%	154	15.5%
Other	14	3.3%	8	3.8%	20	5.7%	42	4.2%

Exhibit B-4 (Cont.)
Use of Program Partners: Percentage of Programs by Activity

Partners used for HOME-funded Program(s)	Direct Assistance		Development Assistance		Joint Programs		Total	
Underwriters								
PJ	170	39.2%	65	31.0%	143	40.5%	378	37.9%
Lender	296	68.2%	129	61.4%	247	70.0%	672	67.4%
Other partners	81	18.7%	63	30.0%	78	22.1%	222	22.3%
No underwriting	14	3.2%	17	8.1%	14	4.0%	45	4.5%

Missing data for variables in this table are: lenders (1.4%), partnership with lender (7.7%), partnership with PHA (2.2%), use of program partners for program administration (11.9%), nonprofit subrecipients (9.2%), requirements set by program partners (5.6%), use of other program partners for non-program administration (4.4%), underwriters (1.3%).

Exhibit B-5
Characteristics of Direct Assistance: Percentage of Programs by PJ Type

Program Characteristic	State		City		Consortium		Urban County		All PJ Types	
Subsidy Uses										
Down payment assistance	70	81.4%	324	74.8%	135	82.8%	85	81.0%	614	78.0%
Closing cost assistance	70	81.4%	298	68.8%	120	73.6%	75	71.4%	563	71.5%
IDA contributions	1	1.2%	5	1.2%	3	1.8%	0	0.0%	9	1.1%
First mortgage	6	7.0%	28	6.5%	9	5.5%	7	6.7%	50	6.4%
Second mortgage/gap financing	53	61.6%	203	46.9%	74	45.4%	43	41.0%	373	47.4%
Interest subsidy	5	5.8%	36	8.4%	12	7.4%	3	2.9%	56	7.1%
Loan guarantee	0	0.0%	12	2.8%	1	0.6%	0	0.0%	13	1.7%
Principal reduction	23	26.7%	82	18.9%	22	13.5%	10	9.5%	137	17.4%
Other	4	4.7%	13	3.0%	6	3.7%	1	1.0%	24	3.1%
Average Per-Unit Subsidy										
$0-$4,999	8	9.3%	71	16.4%	28	17.2%	25	23.8%	132	16.8%
$5,000-$9,999	17	19.8%	72	16.6%	43	26.4%	27	25.7%	159	20.2%
$10,000-$14,999	16	18.6%	56	12.9%	20	12.3%	15	14.3%	107	13.6%
$15,000-$19,999	14	16.3%	46	10.6%	19	11.7%	6	5.7%	85	10.8%
$20,000-$24,999	15	17.4%	41	9.5%	18	11.0%	7	6.7%	81	10.3%
$25,000-$29,999	4	4.7%	26	6.0%	7	4.3%	4	3.8%	41	5.2%
$30,000-$39,999	4	4.7%	42	9.7%	12	7.4%	8	7.6%	66	8.4%
$40,000-$49,999	2	2.3%	22	5.1%	3	1.8%	4	3.8%	31	3.9%
$50,000-$59,999	2	2.3%	17	3.9%	2	1.2%	3	2.9%	24	3.1%
$60,000 or more	2	2.3%	19	4.4%	5	3.1%	4	3.8%	30	3.8%
Form of Down payment/Closing Cost Assistance										
Loan	78	90.7%	401	92.6%	155	95.1%	99	94.3%	733	93.1%
Grant	23	26.7%	42	9.7%	15	9.2%	12	11.4%	92	11.7%
Other	2	2.3%	6	1.4%	1	0.6%	0	0.0%	9	1.1%
Loan Payment Terms										
Fully deferred	56	65.1%	291	67.2%	123	75.5%	73	69.5%	543	69.0%
Partially deferred	21	24.4%	40	9.2%	13	8.0%	14	13.3%	88	11.2%
Not deferred	20	23.3%	64	14.8%	17	10.4%	17	16.2%	118	15.0%
Loan Interest Rate										
Zero percent	59	68.6%	259	59.8%	113	69.3%	73	69.5%	504	64.0%
Below market	30	34.9%	84	19.4%	26	16.0%	16	15.2%	156	19.8%
Other	5	5.8%	35	8.1%	15	9.2%	8	7.6%	63	8.0%
Forgivable Loan										
Forgivable incrementally	46	53.5%	202	46.7%	53	32.5%	41	39.1%	342	43.5%
Forgivable at end of affordability period	16	18.6%	62	14.3%	29	17.8%	31	29.5%	138	17.5%
Not forgivable	39	45.4%	165	38.1%	81	49.7%	40	38.1%	325	41.3%
Recapture/Resale										
Recapture	60	69.8%	274	63.3%	125	78.1%	80	76.2%	539	68.5%
Resale	6	7.0%	49	11.3%	7	4.4%	5	4.8%	67	8.5%
Both	20	23.3%	98	22.6%	28	17.5%	20	19.1%	166	21.1%
Unit selection										
Participant finds own unit	61	70.9%	273	63.1%	125	76.7%	76	72.4%	535	68.0%
Program administrator provides	29	33.7%	157	36.3%	44	27.0%	32	30.5%	262	33.3%

Exhibit B-5 (Cont.)
Characteristics of Direct Assistance: Percentage of Programs by PJ Type

Program Characteristic	State		City		Consortium		Urban County		All PJ Types	
Type of unit allowed										
Unit can need rehab	37	43.0%	131	30.3%	42	25.8%	39	37.1%	249	31.6%
Unit must pass property standards as is	41	47.7%	262	60.5%	104	63.8%	57	54.3%	464	59.0%
Recapture choices										
Owner recoups investment first	11	12.8%	27	6.2%	9	5.5%	16	15.2%	63	8.0%
Proportional sharing of net proceeds	8	9.3%	35	8.1%	15	9.2%	4	3.8%	62	7.9%
Declining balance	27	31.4%	145	33.5%	45	27.6%	34	32.4%	251	31.9%
Full recapture	17	19.8%	132	30.5%	64	39.3%	41	39.1%	254	32.3%
Varies	19	22.1%	41	9.5%	17	10.4%	4	4.03.8 %	81	10.3%
Other Assistance used										
CDBG	27	31.4%	72	16.6%	22	13.5%	12	11.4%	133	16.9%
Local funds	39	45.4%	66	15.2%	22	13.5%	10	9.5%	137	17.4%
State funds	30	34.9%	112	25.9%	38	23.3%	23	21.9%	203	25.8%

Missing data for variables in this table are: subsidy uses (0.3%), per-unit subsidy amount (3.9%), form of down payment/closing cost assistance (0.6%), loan payment terms (2.3%), loan interest rate (2.5%), forgivable loan (0.6%), recapture/resale (1.9%), unit selection (1.7%), type of unit allowed (9.4%), recapture choices (5.7%), other assistance used (45.1%).

Exhibit B-6
Characteristics of Development Activities: Percentage of Programs by PJ Type

Program Characteristic	State		City		Consortium		Urban County		All PJ Types	
Subsidy Uses										
Acquisition/rehab	35	57.4%	184	56.8%	46	41.1%	36	54.6%	301	53.5%
Acquisition without rehab	17	27.9%	59	18.2%	29	25.9%	9	13.6%	114	20.3%
New construction	55	83.6%	253	78.1%	86	76.8%	51	77.3%	441	78.3%
Average Per-Unit Subsidy										
$0-$4,999	0	0.0%	16	4.9%	4	3.6%	7	10.6%	27	4.8%
$5,000-$9,999	5	8.2%	31	9.6%	13	11.6%	10	15.2%	59	10.5%
$10,000-$14,999	10	16.4%	35	10.8%	13	11.6%	7	10.6%	65	11.6%
$15,000-$19,999	11	18.0%	38	11.7%	16	14.3%	3	4.6%	68	12.1%
$20,000-$24,999	9	14.8%	34	10.5%	12	10.7%	7	10.6%	62	11.0%
$25,000-$29,999	5	8.2%	26	8.0%	10	8.9%	6	9.1%	47	8.4%
$30,000-$39,999	3	4.9%	44	13.6%	17	15.2%	6	9.1%	70	12.4%
$40,000-$49,999	5	8.2%	18	5.6%	4	3.6%	4	6.1%	31	5.5%
$50,000-$59,999	6	9.8%	22	6.8%	4	3.6%	3	4.6%	35	6.2%
$60,000 or more	2	3.3%	30	9.3%	12	10.7%	10	15.2%	54	9.6%
Forms of Assistance										
Construction advance/loan to developer	34	55.7%	195	60.2%	58	51.8%	40	60.6%	327	58.1%
Reduce sales price below market	37	60.7%	186	57.4%	66	58.9%	34	51.5%	323	57.4%
Close gap between development cost and market value	33	54.1%	182	56.2%	53	47.3%	26	39.4%	294	52.2%
Other assistance used										
CDBG	23	37.7%	99	30.6%	40	35.7%	15	22.7%	177	31.4%
Local funds	38	62.3%	86	26.5%	36	32.1%	13	19.7%	173	30.7%
State funds	23	37.7%	107	33.0%	41	36.6%	21	31.8%	192	34.1%
Tax abatement	11	18.0%	56	17.3%	5	4.5%	5	7.6%	77	13.7%
Land	20	32.8%	108	33.3%	26	23.2%	16	24.2%	170	30.2%
Infrastructure	18	29.5%	59	18.2%	21	18.8%	11	16.7%	109	19.4%
Other	7	11.5%	26	8.0%	16	14.3%	5	7.6%	54	9.6%
Partnerships with Developers										
CHDOs	42	68.9%	235	72.5%	75	67.0%	47	71.2%	399	70.9%
Other nonprofit	32	52.5%	105	32.4%	52	46.4%	17	25.8%	206	36.6%
For-profit	26	42.6%	105	32.4%	29	25.9%	14	21.2%	174	30.9%
PHA/HOPE VI	11	18.0%	16	4.9%	7	6.3%	1	1.5%	35	6.2%
Other public	18	29.5%	8	2.5%	3	2.7%	4	6.1%	33	5.9%
Do not use developers	5	8.2%	28	8.6%	7	6.3%	8	12.1%	48	8.5%
Developer Return Limits										
Developer fee or cost limits	49	80.3%	157	48.5%	62	55.4%	36	54.6%	304	54.0%
Retention of net sales proceeds	13	21.3%	70	21.6%	15	13.4%	7	10.6%	105	18.7%
CHDO Options										
CHDOs can keep net sales proceeds	21	34.4%	147	45.4%	45	40.2%	25	37.9%	238	42.3%
CHDOs can keep loan repayments	10	16.4%	56	17.3%	20	17.9%	15	22.7%	101	17.9%
All proceeds returned to PJ	27	44.3%	83	25.6%	39	34.8%	22	33.3%	171	30.4%
Recapture/Resale										
Recapture	29	47.5%	152	46.9%	68	60.7%	38	57.6%	287	51.0%
Resale	19	31.2%	65	20.1%	15	13.4%	11	16.7%	110	19.5%
Both	13	21.3%	96	29.6%	27	24.1%	15	22.7%	151	26.8%

Missing data for variables in this table are: subsidy uses (0.5%), per-unit subsidy amount (8.0%), forms of assistance (3.9%), other assistance used (26.3%), partnerships with developers (1.1%), developer return limits (32.0%), CHDO options (7.5%), recapture/resale (2.7%).

Appendix C:
Data Collection Instruments

C.1. Mail Survey Instrument

I. Please list the name of each HOME-funded homebuyer program (direct assistance or development of units for homeownership) *currently* funded by your agency.

For example, "First-Time Homebuyer Program" or "CHDO Single Family Program", etc. If your agency has HOME-funded homebuyer activities or projects that are not considered part of a program, please list them as a program anyway so that they are included in the survey. If your agency uses HOME funds for a number of similar homebuyer projects that have the same requirements, these can be considered a single program. After **Program Name**, please describe the primary activity or activities funded by the program (for example, down payment assistance, new construction of homebuyer units, etc.). If your agency has no HOME-funded homebuyer programs, please write *none*.

a) Program Name: ______________________________ **Activity(ies):**______________________________
b) Program Name: ______________________________ **Activity(ies):**______________________________
c) Program Name: ______________________________ **Activity(ies):**______________________________
d) Program Name: ______________________________ **Activity(ies):**______________________________
e) Program Name: ______________________________ **Activity(ies):**______________________________

II. For each program listed above in Section I, please answer the following questions:

	Program a	Program b	Program c	Program d	Program e
A. GENERAL					
1. Does the program provide direct assistance to homebuyers, assistance for development of homebuyer units, or both (check all that apply)?					
Direct homebuyer assistance	❑	❑	❑	❑	❑
Development of homebuyer units	❑	❑	❑	❑	❑
2. What is the *approximate* average subsidy amount per owner-occupied unit from your HOME funds?	$________	$________	$________	$________	$________
3. What is the maximum subsidy amount per owner-occupied unit using your HOME funds permitted by your program rules? (Indicate dollar amount or percentage of price or loan)	________	________	________	________	________
4. What forms of ownership are allowed? (check all that apply)					
Fee simple	❑	❑	❑	❑	❑
99-year leasehold	❑	❑	❑	❑	❑
Lease-purchase	❑	❑	❑	❑	❑
Condo	❑	❑	❑	❑	❑
Coop	❑	❑	❑	❑	❑
Land Trust	❑	❑	❑	❑	❑
Other (specify)	❑ ______	❑ ______	❑ ______	❑ ______	❑ ______

	Program a	Program b	Program c	Program d	Program e
5. What property type(s) are allowed? (check all that apply)					
Single family detached	❑	❑	❑	❑	❑
Attached rowhouse/townhouse	❑	❑	❑	❑	❑
2-4 family	❑	❑	❑	❑	❑
Multifamily (5+ units)	❑	❑	❑	❑	❑
Manufactured	❑	❑	❑	❑	❑
Other (specify)	❑ ______	❑ ______	❑ ______	❑ ______	❑ ______
6. Is the affordability period longer than HOME requires?					
Yes	❑	❑	❑	❑	❑
No	❑	❑	❑	❑	❑
Varies	❑	❑	❑	❑	❑
7. If the property is sold/transferred during the affordability period, does the program generally recapture HOME funds or resell the property to another qualified buyer?					
Recapture	❑	❑	❑	❑	❑
Resale	❑	❑	❑	❑	❑
Both are commonly used	❑	❑	❑	❑	❑
B. PROGRAM ELIGIBILITY REQUIREMENTS AND TARGETING					
1. What is the maximum income level generally permitted under your program?					
80% of area median income	❑	❑	❑	❑	❑
60% of area median income	❑	❑	❑	❑	❑
50% of area median income	❑	❑	❑	❑	❑
Below 50% of area median income	❑	❑	❑	❑	❑
Other (specify)	❑ ______	❑ ______	❑ ______	❑ ______	❑ ______
2. What is the minimum income level generally permitted under your program?					
60% of area median income	❑	❑	❑	❑	❑
50% of area median income	❑	❑	❑	❑	❑
30% of area median income	❑	❑	❑	❑	❑
Other (specify)	❑ ______	❑ ______	❑ ______	❑ ______	❑ ______
Minimum determined by underwriting standards	❑	❑	❑	❑	❑
3. Does your program target first-time homebuyers?					
Yes, it is a requirement	❑	❑	❑	❑	❑
Yes, but it is not a requirement	❑	❑	❑	❑	❑
No	❑	❑	❑	❑	❑
4. Does the program target a certain geographic area?					
Yes, restricted to certain area(s) within jurisdiction	❑	❑	❑	❑	❑
Yes, targeted but not restricted	❑	❑	❑	❑	❑
No geographic targeting or restrictions	❑	❑	❑	❑	❑
5. Does your program target any other group?					
Yes (specify)	❑ ______	❑ ______	❑ ______	❑ ______	❑ ______
No	❑	❑	❑	❑	❑

	Program a	Program b	Program c	Program d	Program e
C. HOMEBUYER MORTGAGE UNDERWRITING					
1. What initial price or value limit does your agency generally use?					
203(b) limits	❑	❑	❑	❑	❑
95% of median area purchase price as determined by local study	❑	❑	❑	❑	❑
More restrictive limits (specify)	❑ _______	❑ _______	❑ _______	❑ _______	❑ ______
2. What is the maximum ratio of housing costs (PITI) to income for participants?					
28% or less	❑	❑	❑	❑	❑
29-32%	❑	❑	❑	❑	❑
33-38%	❑	❑	❑	❑	❑
Over 38%	❑	❑	❑	❑	❑
No maximum/lender determines	❑	❑	❑	❑	❑
Lender determines but agency reviews	❑	❑	❑	❑	❑
3. What is the maximum ratio of total debt to income for participants?					
33% or less	❑	❑	❑	❑	❑
34-39%	❑	❑	❑	❑	❑
40-45%	❑	❑	❑	❑	❑
Over 45%	❑	❑	❑	❑	❑
No maximum/lender determined	❑	❑	❑	❑	❑
Lender determines but agency reviews	❑	❑	❑	❑	❑
4. What is the requirement for owner investment (excluding grant/subsidy)?					
No requirement/lender determined	❑	❑	❑	❑	❑
Sweat equity/volunteer labor	❑	❑	❑	❑	❑
Up to 1% of home price	❑	❑	❑	❑	❑
2-3% of home price	❑	❑	❑	❑	❑
4-5% of home price	❑	❑	❑	❑	❑
6-8% of home price	❑	❑	❑	❑	❑
9% or more of home price	❑	❑	❑	❑	❑
Fixed dollar amount (specify)	❑ $_______	❑ $_______	❑ $_______	❑ $_______	❑ $_______
5. Does your agency do its own underwriting for the program or do lenders or other partners do it? (check all that apply)					
Agency	❑	❑	❑	❑	❑
Lender(s)	❑	❑	❑	❑	❑
Other partner(s)	❑	❑	❑	❑	❑
No underwriting done in program	❑	❑	❑	❑	❑
D. USE OF LOCAL GOVERNMENTS, NONPROFITS, AND CONTRACTORS FOR PROGRAM ADMINISTRATION					
1. Does your agency use local government agencies, nonprofit organizations or for-profit contractors (including lenders) for all or part of its program administration?					
Yes, local governments	❑	❑	❑	❑	❑
Yes, nonprofit subrecipient(s)	❑	❑	❑	❑	❑
Yes, nonprofits but not subrecipients	❑	❑	❑	❑	❑
Yes, for-profit contractor(s)	❑	❑	❑	❑	❑
No	❑	❑	❑	❑	❑

	Program a	Program b	Program c	Program d	Program e
2. If the program uses nonprofit subrecipient(s) for all or part of its program administration, what type of organization(s) is/are the subrecipient(s)? (check all that apply)					
Community-based organization(s)	❑	❑	❑	❑	❑
Faith-based organization(s)	❑	❑	❑	❑	❑
Other (specify)	❑ ______	❑ ______	❑ ______	❑ ______	❑ ______
Not applicable	❑	❑	❑	❑	❑
3. If the program uses local governments, nonprofits, or contractors for all or part of its program administration, do you allow those organizations to define or set any of the following program requirements?					
Income limits	❑	❑	❑	❑	❑
Other household eligibility factors	❑	❑	❑	❑	❑
Property value limits	❑	❑	❑	❑	❑
Property type/location	❑	❑	❑	❑	❑
Underwriting standards	❑	❑	❑	❑	❑
Counseling requirements	❑	❑	❑	❑	❑
Resale/recapture terms	❑	❑	❑	❑	❑
None of the above	❑	❑	❑	❑	❑
Not applicable	❑	❑	❑	❑	❑
E. COUNSELING					
1. How would you describe the program's counseling requirements (whether funded by HOME or not)?					
Required, your agency provides directly	❑	❑	❑	❑	❑
Required, provided by entity other than your agency	❑	❑	❑	❑	❑
Not required but generally provided	❑	❑	❑	❑	❑
Not required and not generally provided	❑	❑	❑	❑	❑
2. When is counseling offered? (check all that apply)					
Before approval of assistance to determine if participant is ready to buy a home	❑	❑	❑	❑	❑
After approval but before purchase	❑	❑	❑	❑	❑
Post-purchase	❑	❑	❑	❑	❑
No counseling	❑	❑	❑	❑	❑
3. In what form is counseling provided? (check all that apply)					
Workshop/Group	❑	❑	❑	❑	❑
One-on-one	❑	❑	❑	❑	❑
Home study	❑	❑	❑	❑	❑
Other (specify)	❑ ______	❑ ______	❑ ______	❑ ______	❑ ______
No counseling	❑	❑	❑	❑	❑

	Program a	Program b	Program c	Program d	Program e
4. On average, approximately how many hours of homebuyer counseling do clients receive under the program?					
Not applicable (no counseling provided)	❑	❑	❑	❑	❑
Some provided, but less than 1 hour	❑	❑	❑	❑	❑
1-2	❑	❑	❑	❑	❑
3-5	❑	❑	❑	❑	❑
6-8	❑	❑	❑	❑	❑
More than 8 hours	❑	❑	❑	❑	❑
5. What is the source of counseling funding? (check all that apply)					
HOME project funds	❑	❑	❑	❑	❑
HOME administration funds	❑	❑	❑	❑	❑
HUD Counseling funds	❑	❑	❑	❑	❑
CDBG	❑	❑	❑	❑	❑
General administrative funds	❑	❑	❑	❑	❑
Counseling provider's own funding	❑	❑	❑	❑	❑
Other (specify)	❑ _______	❑ _______	❑ _______	❑ _______	❑ _______
No counseling	❑	❑	❑	❑	❑
F. MARKETING/OUTREACH/SCREENING					
1. In general, who recruits potential homebuyers? That is, who brings potential homebuyers to the program? (check all that apply)					
Your Agency	❑	❑	❑	❑	❑
Subrecipient(s)	❑	❑	❑	❑	❑
CHDO(s)	❑	❑	❑	❑	❑
Other developer(s)	❑	❑	❑	❑	❑
Lender(s)	❑	❑	❑	❑	❑
Counselor(s)	❑	❑	❑	❑	❑
Realtor(s)	❑	❑	❑	❑	❑
Other entity (specify)	❑ _______	❑ _______	❑ _______	❑ _______	❑ _______
2. How is marketing/outreach done? (check all that apply)					
Newspapers	❑	❑	❑	❑	❑
Mailings	❑	❑	❑	❑	❑
Brochures	❑	❑	❑	❑	❑
TV/radio	❑	❑	❑	❑	❑
Community groups/meetings	❑	❑	❑	❑	❑
Other (specify)	❑ _______	❑ _______	❑ _______	❑ _______	❑ _______
3. What type of participant screening is done? (check all that apply)					
Income eligibility only	❑	❑	❑	❑	❑
Credit reviews	❑	❑	❑	❑	❑
Buyer cash availability	❑	❑	❑	❑	❑
Other (specify)	❑ _______	❑ _______	❑ _______	❑ _______	❑ _______
4. Who does participant screening? (check all that apply)					
Your Agency	❑	❑	❑	❑	❑
Subrecipient(s)	❑	❑	❑	❑	❑
CHDO(s)	❑	❑	❑	❑	❑
Other developer(s)	❑	❑	❑	❑	❑
Other community organization(s)	❑	❑	❑	❑	❑
Lender(s)	❑	❑	❑	❑	❑
Counselor(s)	❑	❑	❑	❑	❑
Realtor/broker(s)	❑	❑	❑	❑	❑
Other entity (specify)	❑ _______	❑ _______	❑ _______	❑ _______	❑ _______

	Program a	Program b	Program c	Program d	Program e
G. PROGRAM PARTNERS					
1. Does the program generally work with specific lenders?					
Yes, 1-2 specific lenders	❑	❑	❑	❑	❑
Yes, 3-5 specific lenders	❑	❑	❑	❑	❑
Yes, 6-10 specific lenders	❑	❑	❑	❑	❑
Yes, more than 10 specific lenders	❑	❑	❑	❑	❑
No, can use any lender	❑	❑	❑	❑	❑
No, agency does not work with any lenders	❑	❑	❑	❑	❑
2. What do participating lenders generally provide to the program? (check all that apply)					
Loan underwriting	❑	❑	❑	❑	❑
Loan servicing	❑	❑	❑	❑	❑
Pre-commitments	❑	❑	❑	❑	❑
Fee/point reductions	❑	❑	❑	❑	❑
Reduced loan rates	❑	❑	❑	❑	❑
Waiver of mortgage insurance requirements	❑	❑	❑	❑	❑
Outreach	❑	❑	❑	❑	❑
Screening	❑	❑	❑	❑	❑
Counseling	❑	❑	❑	❑	❑
Other benefits (specify)	❑ _______	❑ _______	❑ _______	❑ _______	❑ _______
3. Does the program involve any special participation by PHAs or PHA residents?					
Yes (specify)	❑ _______	❑ _______	❑ _______	❑ _______	❑ _______
No	❑	❑	❑	❑	❑
4. Does the program partner with other organizations for non-program administration functions (those not covered in Section D)? (check all that apply)					
Community organizations	❑	❑	❑	❑	❑
Faith-based organizations	❑	❑	❑	❑	❑
Service providers	❑	❑	❑	❑	❑
Other government agencies	❑	❑	❑	❑	❑
Other (specify)	❑ _______	❑ _______	❑ _______	❑ _______	❑ _______
No	❑	❑	❑	❑	❑

III. For each program listed in Section I that uses HOME funds to provide *direct assistance to the homebuyer*, please answer the following questions. *For each program that does not provide direct assistance, please skip to Section IV. In other words, if you did not check "Direct Homebuyer Assistance" or "Both" in Section II, Question A1, for the program, please do not complete this section for that program.*

	Program a	Program b	Program c	Program d	Program e
1. What type of direct assistance does the program provide using HOME? (check all that apply)					
Down payment assistance	❑	❑	❑	❑	❑
Closing cost assistance	❑	❑	❑	❑	❑
First mortgage	❑	❑	❑	❑	❑
Second mortgage/gap financing	❑	❑	❑	❑	❑
Interest subsidy	❑	❑	❑	❑	❑
Loan guarantee	❑	❑	❑	❑	❑
Principal reduction	❑	❑	❑	❑	❑
IDA contributions	❑	❑	❑	❑	❑
Other (specify)	❑ ______	❑ ______	❑ ______	❑ ______	❑ ______
2. What form is the assistance provided in?					
Grant	❑	❑	❑	❑	❑
Loan, forgivable incrementally over affordability period	❑	❑	❑	❑	❑
Loan, forgivable only at end of affordability period	❑	❑	❑	❑	❑
Loan, not forgivable	❑	❑	❑	❑	❑
Other (specify)	❑ ______	❑ ______	❑ ______	❑ ______	❑ ______
3. If a loan, is it deferred payment?					
Yes, fully deferred payment	❑	❑	❑	❑	❑
Yes, partially deferred payment	❑	❑	❑	❑	❑
No, not deferred payment	❑	❑	❑	❑	❑
Not provided in form of loan	❑	❑	❑	❑	❑
4. If a loan, is the interest rate:					
Zero percent	❑	❑	❑	❑	❑
Below market (specify)	❑	❑	❑	❑	❑
Other (specify)	❑ ______	❑ ______	❑ ______	❑ ______	❑ ______
Not provided in form of loan	❑	❑	❑	❑	❑
5. Does the participant find the unit or does the program provide it? (check all that apply)					
Participant finds own unit	❑	❑	❑	❑	❑
Program administrator provides	❑	❑	❑	❑	❑
Other (specify)	❑ ______	❑ ______	❑ ______	❑ ______	❑ ______
6. Can the participant select a unit in need of rehab or is he or she limited to units that can pass property standards as is?					
Unit can need rehab	❑	❑	❑	❑	❑
Unit must pass property standards as is	❑	❑	❑	❑	❑

	Program a	Program b	Program c	Program d	Program e
7. If the program uses the recapture option, how are sales proceeds allocated?					
Owner recoups investment first	❑	❑	❑	❑	❑
Proportional sharing of net proceeds	❑	❑	❑	❑	❑
Declining balance (PJ forgives part of subsidy over time and recaptures only what is still owed)	❑	❑	❑	❑	❑
PJ recaptures entire subsidy first	❑	❑	❑	❑	❑
Varies (specify)	❑ ______	❑ ______	❑ ______	❑ ______	❑ ______
Elects resale	❑	❑	❑	❑	❑
8. Is other public assistance used in combination with the HOME funds for direct assistance to the homebuyer? (check all that apply)					
CDBG	❑	❑	❑	❑	❑
Local funds	❑	❑	❑	❑	❑
State funds	❑	❑	❑	❑	❑
Other (specify)	❑ ______	❑ ______	❑ ______	❑ ______	❑ ______

IV. For each program listed in Section I that uses HOME funds to provide assistance for the *development of homebuyer units* (rehab or new construction), please answer the following questions. *For each program that does not provide development assistance, please skip to Section V. In other words, if you did not check "Development of Homebuyer Units" or "Both" in Section II, Question A1, for the program, please do not complete this section for that program.*

	Program a	Program b	Program c	Program d	Program e
1. Which type of development are the HOME funds used for? (check all that apply)					
Acquisition/rehab	❑	❑	❑	❑	❑
Acquisition without need for rehab	❑	❑	❑	❑	❑
New construction	❑	❑	❑	❑	❑
Other (specify)	❑ ______	❑ ______	❑ ______	❑ ______	❑ ______
2. Is the assistance used to: (check all that apply)					
Provide construction financing?	❑	❑	❑	❑	❑
Reduce the sales price below market value to enhance affordability?	❑	❑	❑	❑	❑
Close the gap between development cost and market value of unit?	❑	❑	❑	❑	❑
3. Is other public assistance used in combination with the HOME funds for development? (check all that apply)					
CDBG	❑	❑	❑	❑	❑
Local funds	❑	❑	❑	❑	❑
State funds	❑	❑	❑	❑	❑
Tax abatement	❑	❑	❑	❑	❑
Land	❑	❑	❑	❑	❑
Infrastructure	❑	❑	❑	❑	❑
Other (specify)	❑ ______	❑ ______	❑ ______	❑ ______	❑ ______
4. What type of developers does the program use? (check all that apply)					
CHDOs	❑	❑	❑	❑	❑
Other nonprofit developers	❑	❑	❑	❑	❑
For-profit developers	❑	❑	❑	❑	❑
PHA/HOPE VI	❑	❑	❑	❑	❑
Other public entities	❑	❑	❑	❑	❑
Does not use developers	❑	❑	❑	❑	❑
5. Does the program limit the return to the developer by any of the following means? (check all that apply)					
Developer fee or cost limits	❑	❑	❑	❑	❑
Retention of net sale proceeds	❑	❑	❑	❑	❑
Other (specify)	❑ ______	❑ ______	❑ ______	❑ ______	❑ ______
6. If CHDOs are used, are they allowed to keep sales proceeds or loan repayments? (check all that apply)					
CHDOs can keep net sales proceeds	❑	❑	❑	❑	❑
CHDOs can keep loan repayments	❑	❑	❑	❑	❑
All net proceeds and loan repayments must be returned to the PJ	❑	❑	❑	❑	❑

V. The purpose of the following questions is to better understand the types of data your agency maintains. Please answer the following questions about the types of data your agency maintains for all of the programs listed in Section I.

	Program a	Program b	Program c	Program d	Program e
1. Do you keep information on the ratio of total housing costs to income for program participants?					
Yes, in electronic form	❑	❑	❑	❑	❑
Yes, in paper files	❑	❑	❑	❑	❑
Not maintained in our files	❑	❑	❑	❑	❑
2. Do you know the average PITI to income ratio of your homebuyers?					
Yes (specify percent)	❑ ______	❑ ______	❑ ______	❑ ______	❑ ______
No	❑	❑	❑	❑	❑
3. If your agency does not maintain this type of information, do you work primarily or exclusively with one or two "preferred" or "program" lenders that account for the majority of loans and that may be willing to provide us with access to this information?	☐ Yes ☐ No	☐ Yes ☐ No	☐ Yes ☐ No	☐ Yes ☐ No	☐ Yes ☐ No
4. Does your agency maintain loan-level data for default on the primary loan, foreclosure, or property sales? (check all that apply)					
Electronic default data	❑	❑	❑	❑	❑
Paper default data	❑	❑	❑	❑	❑
Electronic foreclosure data	❑	❑	❑	❑	❑
Paper foreclosure data	❑	❑	❑	❑	❑
Electronic property sales data	❑	❑	❑	❑	❑
Paper property sales data	❑	❑	❑	❑	❑
None of above data available in our files	❑	❑	❑	❑	❑
5. If default information is available, what is your estimate of the percent of buyers that have experienced default since the program began?	_______%	_______%	_______%	_______%	_______%
Please specify default definition used (Number of days delinquent)	_____ days	_____ days	_____ days	_____ days	_____ days
6. If foreclosure information is available, what is your estimate of the percent of buyers that have experienced foreclosure, preforeclosure sale, short sale, or deed in lieu of foreclosure since the program began?	_______%	_______%	_______%	_______%	_______%
7. If property sales information is available, what is your estimate of the percent of buyers that have sold within the affordability period since program inception?	_______%	_______%	_______%	_______%	_______%
8. If your agency does not maintain default information, does the program work with one or two "preferred" or "program" lenders that account for the majority of loans and that may be willing to provide us with access to this information?	☐ Yes ☐ No	☐ Yes ☐ No	☐ Yes ☐ No	☐ Yes ☐ No	☐ Yes ☐ No

C.2 Discussion Guide for PJs with Homebuyer Programs

Part 1: Overview of Agency's Homebuyer Strategy and How HOME Funds are Used for Homebuyer Activities

Note to interviewer: in this section, the focus should be on the agency's overall homeownership strategy, how HOME fits into this strategy, and how the agency uses HOME funds for homebuyer programs (direct assistance to homebuyers versus subsidy of development of homebuyer units).

1. Describe agency's broad homeownership strategy. How does the HOME program fit into the broad strategy? How does the local housing market affect the choice of strategy?

2. Are the agency's homeownership programs targeted to a specific segment of low-income households? How did the agency decide to target this group for homeownership? Does the agency target the same segment for its rental programs, or a different segment? Why?

3. Do the goals of the HOME-funded program(s) include neighborhood revitalization, fostering economic or racial integration of neighborhoods, or more generally targeting the type of neighborhood homebuyers move to? If so, describe these goals. Are they being achieved?

4. Describe how and why the agency divides HOME homeownership funds between different kinds of homebuyer activities (direct assistance vs. development assistance). Confirm from IDIS the dollar amount and production in units/households for different homebuyer activities.

5. Does the PJ see the HOME rules as presenting any barriers to the jurisdiction's homebuyer programs? If so, what are the barriers? How could the barriers be eased or overcome?

6. How does the agency staff its HOME homebuyer programs?

    - What is the total number of staff (in FTEs) working on HOME-funded programs? How many staff work on the homebuyer programs funded through HOME?

    - How are they distributed across different programs/functions? Are staff shared between HOME and other programs administered by the agency?

    - Does the agency think the number of staff working on HOME is adequate, or are their functions/areas where the agency is particularly short-staffed?

7. What is the background of the key staff working on the HOME homebuyer programs? How many years have they been with the agency? Have they received any specific training or education for this work?

8. Do staff-related issues, such as the number of staff available to work on the HOME programs or the specific background or training of those staff, play any role in agency decisions about how to use its HOME funds or what kind of services (such as counseling) to offer? Are there any areas where the skills or training of agency staff are a particular asset to the administration of the HOME homebuyer programs?

How HOME Program Funds Are Used for Four Eligible Activity Types

Note to interviewer: in this section, the focus should be on how homebuyer activities fit into the overall use of HOME funds for the four eligible activity types (homebuyer, rental housing development, owner-occupied rehab, and tenant-based rental assistance).

1. Describe (from IDIS printout) the general patterns of the agency's HOME funding for each of the four activity types – homebuyer activities, rental housing development, rehab of owner-occupied units, and tenant-based rental assistance (TBRA). Why did the agency choose to allocate its HOME funds across the four activity types in this way? Probe as appropriate for specific reasons, e.g.:

    - Local need for rental versus homebuyer assistance
    - Demand for particular type of program by area residents
    - Neighborhood revitalization goals
    - Availability of other financing options for one or more of the activity types
    - Specific HOME program requirements (specify which requirement(s))
    - Influence of elected officials in determining policy goals
    - HUD priorities (e.g., homeownership by current administration, or field office priorities)
    - Agency's capacity to develop/manage different types of programs
    - Capacity of local CHDOs or other developers
    - Cost per unit of different program activities.

2. (Review the pattern of the allocation of HOME funds since program inception, based on IDIS.) Why has the share of HOME funds used for each of the four program areas changed since the start of the program?

3. Does the agency plan to make any significant changes in how its HOME funds will be used in the future? If so, what changes will be made and why?

Part 2: Direct Homebuyer Assistance

Note to interviewer: this section focuses on the use of HOME for direct homebuyer assistance to the homebuyer (e.g., down payment assistance, assistance with closing costs, subsidized second mortgage, etc.). If the agency has more than one direct assistance program, document the breadth of how these issues are dealt with across programs. It is not necessary to answer each question separately for each program.

1. Confirm from mail survey whether agency uses HOME funds for direct homebuyer assistance.

If agency DOES NOT use HOME funds for direct homebuyer assistance:

2. Why does the agency choose not to use HOME funds for direct homebuyer assistance? Probe as appropriate for specific reasons, e.g.:

   - Local needs place higher priority on other types of activities?
   - Particular HOME regulations considered too difficult, burdensome, or restrictive?
   - Other sources of funding were available so agency chose to use HOME funds for other eligible activities?
   - The cost was too high compared to other eligible HOME activities?
   - Lack of interest by lenders? Etc.

3. Has the agency *ever* used HOME funds for direct homebuyer assistance? If so, what was the nature of the program (e.g., down payment or closing cost assistance, mortgage subsidies, etc.)? When did the agency stop using HOME funds for direct homebuyer assistance? Why?

SKIP TO SECTION ON HOMEBUYER DEVELOPMENT ACTIVITIES.

If agency DOES use HOME funds for direct homebuyer assistance:

4. Describe the direct homebuyer assistance program(s) and how it/they work(s). Confirm information from mail survey. Probe for specifics:

   - Population served, any eligibility requirements (income, etc.), any targeting of specific populations or geographic areas or neighborhoods, and why.
   - General counseling structure and financial assistance structure.
   - How/why this/these program(s) changed since the HOME program began.

5. If the agency funds more than one type of HOME-funded direct homebuyer assistance program: What are the differences between the programs? How do the programs interact?

6. If the agency uses HOME funding for rehab and/or new construction of homeownership units: Is direct assistance used in conjunction with the development (rehab/new construction) program? How do the programs interact?

7. What factors were most important in the agency's decision to fund this/these type(s) of direct assistance program with HOME funds? Probe as appropriate for specific reasons, e.g.:

   - Local need for rental versus homebuyer assistance
   - Demand for particular type of program by area residents
   - Neighborhood revitalization goals
   - Availability of other financing options for one or more of the activity types
   - Lender interest in participating in direct homebuyer assistance program
   - Specific HOME program requirements (specify which)
   - Influence of elected officials in determining policy goals
   - HUD priorities (focus on homeownership by HUD headquarters, or field office priorities)
   - Agency's capacity to develop/manage different types of programs
   - Capacity of local CHDOs or other developers
   - Cost per unit of different program activities.

8. How does the agency market its HOME-funded direct homebuyer assistance program(s) and conduct outreach? Probe for specifics: passive marketing/outreach, such as word of mouth or walk-ins; or more proactive (methods used); whether done by agency or by lender or local nonprofit. Does the agency use realtors or other organizations (community-based, faith based, other) for marketing or outreach? If so, what is their role? How does marketing relate to demand for the program?

Program Partners

9. Does the agency pass through HOME funds to other agencies or organizations that administer direct homebuyer assistance activities locally? If so, what are these organizations and what is their role? [Try to identify whether the entity(ies) is/are state recipients or subrecipient(s)]. How are they selected? Why does the agency pass through HOME funds to these organizations? Roughly what portion of HOME funds are passed through to these entities?
10. Does the agency use for-profit contractors to administer any portion of the HOME-funded direct assistance homebuyer program? If so, why? What is the structure/nature of this relationship?

11. What procedures are in place to oversee/monitor these agencies, organizations or contractors for direct assistance homebuyer program(s)? (If possible, get copies of written agreements.)

12. For states and consortia, if PJ passes HOME funds through to local agencies or state recipients:

    - Details of how the pass-through of funds works, how funds are allocated between local sites, and how management decisions are made.
    - Extent to which the agency sets program guidelines for the local agencies that administer the direct assistance homebuyer program(s). Amount of local control/tailoring of local programs.

13. Describe the role of lenders in the direct assistance program(s).

    - How many lenders does the program work with (are there "preferred lenders")?
    - Do the lenders conduct marketing and outreach to participants? To what extent?
    - Do the lenders process loan applications?
    - Who services the loans?
    - What procedures are in place to oversee the lenders?
    - Any policies or procedures in place to combat predatory lending?

14. Who decides which households will be accepted into the program? For example, who sets guidelines such as income eligibility, underwriting criteria, program target area, and other eligibility criteria? Are these guidelines set by the agency, by another agency to which funds are passed, by a subrecipient, lender, or another program partner? (Be sure to differentiate by specific program element.)

15. Who decides the basic elements of the form of direct assistance, such as whether the assistance is in the form of a grant or loan, the subsidy amount, whether to use recapture or resale restrictions, etc. Are these elements set by the agency, by another agency to which funds are passed, by a subrecipient, lender, or other program partner? (Be sure to differentiate by specific program element.)

Counseling

16. Describe the overall counseling strategy as it relates to HOME homeownership activities.

17. Using the mail survey as a starting point, confirm:

    - Who does the counseling (agency, or someone else)
    - What is the minimum counseling required

- What form does the counseling take (group or individual sessions; one day workshops or multiple sessions; length of sessions, etc.)
- What is the timing of the counseling (when in the process do clients receive counseling)
- How the counseling is funded for direct assistance program(s)
- Whether post-purchase counseling is offered, and why or why not

18. Describe the topics covered by the counseling, such as the homebuyer's credit, financial literacy counseling, ownership responsibilities, property maintenance, post purchase counseling, foreclosure prevention, etc.

19. If counseling is required/provided: How long has the counseling been required or offered for homebuyers receiving direct assistance? Has there been any significant change in the agency's approach to counseling for these buyers? How effective is the counseling?

20. If counseling *is not* required/provided: Has counseling ever been required or offered for recipients of direct assistance? If so, why did the agency stop requiring/providing counseling?

21. If counseling is provided by an organization(s) other than respondent agency:

    - What type of organization(s) provide(s) the counseling for recipients of direct assistance?
    - How many organizations provide it?
    - To what extent has the agency set guidelines and requirements for these counseling providers to follow?
    - How much variation is there among different organizations in terms of the form and timing of counseling and in terms of quality?
    - To what extent are the counseling provider(s) involved in recruiting potential homebuyers for the HOME program?

22. How important is the counseling for helping buyers to stay in their new homes? Is there a particular *form* or *type* of counseling that is most important in preventing default?

Funding/Costs

23. What is the average amount of HOME direct assistance that homebuyers receive? If both up-front assistance (e.g., down payment assistance, closing cost assistance) and mortgage subsidies are available through HOME at agency, note the average amount provided to the homebuyer through each program.

24. What other types of funding (other than HOME) does the agency have available for direct homebuyer assistance? What is the average amount of other public (non-HOME) subsidy a homebuyer receives when participating in the HOME-funded direct assistance homebuyer program? Does the availability of other sources of funding affect the income targeting for the direct assistance program?

25. Confirm from mail survey whether agency requires recapture, resale, or both upon the transfer of a home purchased with HOME-funded direct homebuyer assistance. Why does the agency use this option? If the agency uses both: under which circumstances does the agency use each option and why? What are the advantages and disadvantages of each option?

26. Does the program have a goal or target for the level of "payment burden" that homebuyers will face after purchasing their home? (Payment burden is defined as housing expense as a portion of income.) What is the goal? To what extent does this goal drive other aspects of the program, such as the subsidy amount?

Post-Purchase Activities

27. Does your agency have ongoing contact with buyers after purchase?

28. Does the program have any procedures or interventions designed to detect and respond to loan defaults? If so, what are they? How effective have these procedures or interventions been?

29. Does the program have any policies or procedures in place to prevent predatory lending in the refinancing market? Describe.

Part 3: Homebuyer Development Activities (Acquisition/Rehab and/or New Construction)

Note to interviewer: if agency has more than one development program (e.g., acquisition/rehab and new construction, etc.), document the breadth of how these issues are dealt with across programs. It is not necessary to answer each question separately for each program.

1. Verify whether agency uses HOME for acquisition and rehab or new construction for homeownership units.

If agency DOES NOT use HOME funds for development of homeownership units:

2. Why does the agency choose not to use HOME funds for development of homeownership units? Probe as appropriate for specific reasons, e.g.:

- Local needs place higher priority on direct homebuyer assistance programs?
- Particular HOME regulations considered too difficult, burdensome, or restrictive?
- Other sources of funding were available so agency chose to use HOME funds for other eligible activities?
- Cost too high compared to other eligible HOME activities?
- PJ does not have adequate capacity to manage development?
- Lack of lender interest? Etc.

3. Has the agency *ever* used HOME funds for development of homeownership units? If so, what was the nature of the program (e.g., acquisition and rehab versus new construction, infill program, large development, etc)? When did the agency stop using HOME funds for development of homeownership units? Why?

SKIP TO END

If agency DOES use HOME funds for development of homeownership units:

4. Describe the development program(s) and how it/they work(s). Get complete description of each program if more than one. Confirm information from mail survey. Probe for specifics:
    - Why new construction versus rehab; why in-fill versus subdivision.
    - Whether HOME is used for acquisition-only but other funding sources are used to rehab these properties or do new construction on these sites, and why.
    - How are sites/parcels selected and why?
    - Population served, any eligibility requirements (income, first time homebuyer status, etc.), any targeting of specific populations or geographic areas or neighborhoods, and why.
    - General counseling structure and financial assistance structure.
    - How/why this/these program(s) changed since the HOME program began.

5. If the agency funds more than one type of HOME-funded homebuyer development program: What are the differences between the programs? How do the programs interact?

6. What is the main goal of the agency's homebuyer development program(s)? Is it a tool to expand homeownership, a redevelopment tool, or both?

7. What factors were most important in the agency's decision to fund this/these type(s) of development program with HOME funds? Probe as appropriate for specific reasons, e.g.:

- Local need for rental versus homebuyer assistance
- Demand for particular type of program by area residents
- Neighborhood revitalization goals
- Availability of other financing options for one or more of the activity types
- Specific HOME program requirements (specify which)
- Influence of elected officials in determining policy goals
- HUD priorities (focus on homeownership by HUD headquarters, or field office priorities)
- Agency’s capacity to develop/manage different types of programs
- Capacity of local CHDOs or other developers
- Cost per unit of different program activities.

8. Who makes decisions about where homebuyer properties will be built or acquired for rehab? What is the process for making these decisions?

9. How does the agency market its HOME-funded development program(s) and conduct outreach? Probe for specifics: passive marketing/outreach, such as word of mouth or walk-ins; or more proactive (methods used); whether done by agency or by lender or local nonprofit. Does the agency use realtors or other organizations (community-based, faith based, other) for marketing or outreach? If so, what is their role?

Program Partners

10. Does the agency pass through HOME funds to other agencies or organizations that administer development activities locally? If so, what are these organizations and what is their role? [Try to identify whether the entity(ies) is/are state recipients or subrecipient(s)]. How are they selected? Why does the agency pass through HOME funds to these organizations? Roughly what portion of HOME funds are passed through to these entities?

11. Does the agency use for-profit contractors to administer any portion of the HOME-funded homebuyer development program? If so, why? What is the structure/nature of this relationship?

12. What procedures are in place to oversee/monitor these agencies, organizations, or contractors for HOME homebuyer development activities? (If possible, get copies of written agreements.)

13. For states and consortia, if PJ passes HOME funds through to local agencies or state recipients:

- Details of how pass-through of funds works, how funds are allocated between local sites, how management decisions are made.
- Extent to which agency sets program guidelines for the local agencies that administer the homebuyer development programs. Amount of local control/tailoring of local programs.

14. What type of developers perform the rehab and/or new construction (e.g., CHDOs, other nonprofits, private developers, PHAs, other public entities, other)?

    - What is the role of these developers? Do one particular type of developer predominate?
    - How many developers of each type does the program work with?
    - How are the developers selected?
    - Has the agency had difficulty finding enough qualified CHDOs to do development work?
    - What procedures are in place to oversee developers?

15. Describe the role of lenders in the development program(s).

    - How many lenders does the program work with (are there "preferred lenders")?
    - Do the lenders conduct marketing and outreach to participants? To what extent?
    - Do the lenders process loan applications?
    - Who services the loans?
    - What procedures are in place to oversee the lenders?
    - Any policies or procedures in place to combat predatory lending?

16. Who decides which households will be accepted into the program? For example, who sets guidelines such as income eligibility, underwriting criteria, program target area, and other eligibility criteria? Are these guidelines set by the agency, by another agency to which funds are passed, by a subrecipient, lender, or another program partner? (Be sure to differentiate by specific program element.)

Counseling

17. *Note to interviewer: if you already covered counseling in the discussion of HOME-funded direct assistance program:* Is there any difference in the agency's approach to and methods used for homebuyer counseling for HOME-funded development programs compared to its HOME-funded direct assistance program? (If not, note this and skip to Funding/Costs section below. If so, note the differences below.)

18. Describe the overall counseling strategy as it relates to HOME-funded development activities.

19. Using the mail survey as a starting point, confirm:

- Who does the counseling (agency, or someone else)
- What is the minimum counseling required
- What form does the counseling take (group or individual sessions; one day workshops or multiple sessions; length of sessions, etc.)
- What is the timing of the counseling (when in the process do clients receive counseling)
- How the counseling is funded for development program(s)
- Whether post-purchase counseling is offered, and why or why not

20. Describe the topics covered by the counseling, such as the homebuyer's credit, financial literacy counseling, ownership responsibilities, property maintenance, post purchase counseling, foreclosure prevention, etc.

21. If counseling is required/provided: How long has counseling been required or offered for homebuyers purchasing acquisition/rehab or new construction units developed with HOME funding? Has there been any significant change in the agency's approach to counseling for these buyers? How effective is the counseling?

22. If counseling is not required/provided: Has counseling *ever* been required or offered for acquisition/rehab or new construction? If so, why did the agency stop requiring/providing counseling?

23. If counseling is provided by an organization(s) other than respondent agency:

- What type of organization(s) provide(s) the counseling for buyers of rehab or new construction units?
- How many organizations provide it?
- To what extent does the agency set guidelines and requirements for the counselors to follow?
- How much variation is there among different organizations in terms of the form and timing of counseling, and in terms of quality?
- To what extent do the counseling provider(s) conduct outreach to homebuyers participating in the HOME program?

24. How important is counseling for helping buyers to stay in their new homes? Is there a particular *form* or *type* of counseling is most important in preventing default?

Funding/Costs

25. What is the average amount of HOME funding per unit used for development of homebuyer units? If both rehab and new construction are done using HOME, note any differences in HOME funding per unit.

26. What other types of funding (other than HOME) does the agency have available for rehab or new construction of homebuyer units? What is the average amount of other public (non-HOME) subsidy per units that are also subsidized by HOME? Does the availability of other sources of funding affect the income targeting?

27. Confirm from mail survey whether the agency requires recapture, resale, or both upon the transfer of a rehab or new construction homeownership unit funded with HOME. Why does the agency use this option? If the agency uses both: under which circumstances does the agency use each option and why? What are the advantages and disadvantages of each option?

28. Does the program have a goal or target for the level of "payment burden" that homebuyers will face after purchasing their home? (Payment burden is defined as housing expense as a portion of income.) What is the goal? To what extent does this goal drive other aspects of the program, such as the subsidy amount?

Post-Purchase Activities

29. Does your agency have ongoing contact with buyers after purchase?

30. Does the program have any procedures or interventions designed to detect and respond to loan defaults? If so, what are they? How effective have these procedures or interventions been?

31. Does the program have any policies or procedures in place to prevent predatory lending in the refinancing market? Describe.

C.3 Discussion Guide for PJs Without Homebuyer Programs

Part 1: How HOME Program Funds Are Used for Four Eligible Activity Types

Note to interviewer: in this section, the focus should be on how homebuyer activities fit into the overall use of HOME funds for the four eligible activity types (homebuyer, rental housing development, owner-occupied rehab, and tenant-based rental assistance).

1. How does the agency allocate its HOME funding for each of the four activity types – homebuyer activities, rental housing development, rehab of owner-occupied units, and tenant-based rental assistance (TBRA)? Why did the agency choose to allocate its HOME funds across the four activity types in this way? Probe as appropriate for specific reasons, e.g.:

- Local need for rental versus homebuyer assistance
- Demand for particular type of program by area residents
- Neighborhood revitalization goals
- Availability of other financing options for one or more of the activity types
- Specific HOME program requirements (specify which requirement(s))
- Influence of elected officials in determining policy goals
- HUD priorities (e.g., homeownership by current administration, or field office priorities)
- Agency's capacity to develop/manage different types of programs
- Capacity of local CHDOs or other developers
- Cost per unit of different program activities.

2. How and why has the share of HOME funds used for each of the four program areas changed since the start of the program?

3. Does the agency plan to make any significant changes in how its HOME funds will be used in the future? If so, what changes will be made and why?

Part 2: Direct Homebuyer Assistance

4. Confirm that the agency does not use HOME funds for funding direct homebuyer assistance programs or activities.

5. Why does the agency choose not to use HOME funds for direct homebuyer assistance? Probe as appropriate for specific reasons, e.g.:

   - Local needs place higher priority on other types of activities?
   - Particular HOME regulations considered too difficult, burdensome, or restrictive?
   - Other sources of funding were available so agency chose to use HOME funds for other eligible activities?
   - The cost was too high compared to other eligible HOME activities?
   - Lack of interest by lenders? Etc.

6. Has the agency *ever* used HOME funds for direct homebuyer assistance? If so, what was the nature of the program (e.g., down payment or closing cost assistance, mortgage subsidies, etc.)? When did the agency stop using HOME funds for direct homebuyer assistance? Why?

Part 3: Homebuyer Development Activities (Acquisition/Rehab and/or New Construction)

7. Confirm that the agency does not use HOME funds for development of homebuyer units.

8. Why does the agency choose not to use HOME funds for development of homeownership units? Probe as appropriate for specific reasons, e.g.:

   - Local needs place higher priority on direct homebuyer assistance programs?
   - Particular HOME regulations considered too difficult, burdensome, or restrictive?
   - Other sources of funding were available so agency chose to use HOME funds for other eligible activities?
   - Cost too high compared to other eligible HOME activities?
   - PJ does not have adequate capacity to manage development?
   - Lack of lender interest? Etc.

9. Has the agency ever used HOME funds for development of homeownership units? If so, what was the nature of the program (e.g., acquisition and rehab versus new construction, infill program, large development, etc)? When did the agency stop using HOME funds for development of homeownership units? Why?

Appendix D:
Logit Models of Probability of Foreclosure and Property Sale

This appendix presents the results of efforts to estimate regression models to evaluate the factors associated with the probability of foreclosure and the probability of property sale. Logit models were estimated because the dependent variable in both of these models is a dichotomous variable, with a 1 indicating that a foreclosure or sale occurred and a 0 indicating that these events did not happen. Exhibit D-1 presents summary statistics on the variables included in this model. The explanatory variables were limited to the information that was available for a large share of buyers for which data were collected.

Exhibit D-2 summarizes the modeling results. The first three columns present results for the probability of foreclosure while the last three columns present results for the probability of transfer. The standard errors of the coefficients are robust standard errors that account for the clustering of observations by PJ.[94] The model predicting the probability of foreclosure provides a reasonable fit of the data as indicated by the pseudo R-squared measure of 0.18.[95] As described in Chapter 7, the variables *ltv_repay* and *mgrinc* are significant at the 95-percent confidence level, while the variable *homepricerat* is significant at the 90-percent confidence level. (No other variables other than the constant are significant.) The number of observations used in the model is slightly less than all available observations as the variable for individual counseling only perfectly predicted the outcome and so the three observations with this type of counseling were dropped by the model.

In contrast, the model predicting the probability of property sale fit the data very poorly. The pseudo R-squared value of 0.003 indicates that very little of the variation in the dependent variable was explained by the model. In fact, this model is not statistically significantly different from a model that includes only a constant as an explanatory variable. None of the coefficients on the individual variables is significant. This model includes only 461 observations as both the variables indicating individual counseling only and no details on counseling were perfect predictors of home sales and so were dropped by the model.

Both models were also estimated using a single variable to indicate whether counseling was provided or not. The counseling variable was not significant in either of these models and the overall fit was worse than the models shown.

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94 See Stata Reference Manual, Release 7, Volume 3, page 73 for a discussion of the estimation of robust standard errors.

95 The pseudo R-squared is defined as 1 minus the ratio of the log likelihood for the estimated model divided by the log likelihood of a model using only a constant term. It is conceptually equivalent to an R-square in a linear regression model, which indicates the share of variance in the dependent variable explained by the model.

Exhibit D-1

Summary Statistics for Variables Included in Logit Models

Variable	**Description**	**Mean**	**Standard Deviation**
Foreclosed	Indicates buyer foreclosed	0.039	0.193
Sale	Indicates buyer Sold home	0.066	0.248
Ltv_repay	Ratio of Repayable Debt to Sales Price	84.6	19.1
Homepricerat	Ratio of HOME Assistance to Sales Price	19.7	25.9
Pitiratio	Ratio of Housing Costs to Income	28.5	8.1
Mgrinc	Monthly gross income	2,448	813
Classindiv	Received both individual and classroom counseling	0.507	0.500
Classonly	Received only classroom counseling	0.204	0.404
Nocounsel	No counseling received	0.106	0.308
Nodetails	No details on counseling received	0.178	0.383

Notes: There are a total of 594 observations in the data set.

Source: Non-random sample of buyers from 30 HOME grantees.

Exhibit D-2

Logit Results

	Probability of Foreclosure			Probability of Sale		
Independent Variable	Coefficient	Robust Standard Error	Prob. |Coef|=0	Coefficient	Robust Standard Error	Prob. |Coef|=0
Ltv_repay	0.070	0.030	0.018	-0.008	0.021	0.703
Homepricerat	-0.353	0.020	0.078	0.00008	0.009	0.993
Pitiratio	0.018	0.019	0.329	-0.007	0.028	0.804
Mgrinc	-0.0008	0.0004	0.041	-0.0003	0.0003	0.298
Nocounsel	-1.165	0.993	0.241	-1.508	1.128	0.181
Classindiv	-0.750	0.507	0.139	-0.682	0.842	0.418
Nodetail	-0.640	1.170	0.585	NA	NA	NA
Constant	-7.336	2.437	0.003	-0.248	1.919	0.897
Pseudo R-squared	0.183			0.034		
Log Likelihood	-79.37			-129.14		
Number of Observations	591			461		

Note: "Prob. |Coef|=0" indicates the probability that the estimated coefficient is actually 0. Probabilities less than 0.05 are significant at a 95-percent confidence level, while those less than 0.10 are significant at a 90-percent confidence level. The variable "no detail" perfectly predicted the probability of transfer, so these observations were dropped from the model.

Source: Non-random sample of buyers from 30 grantees.