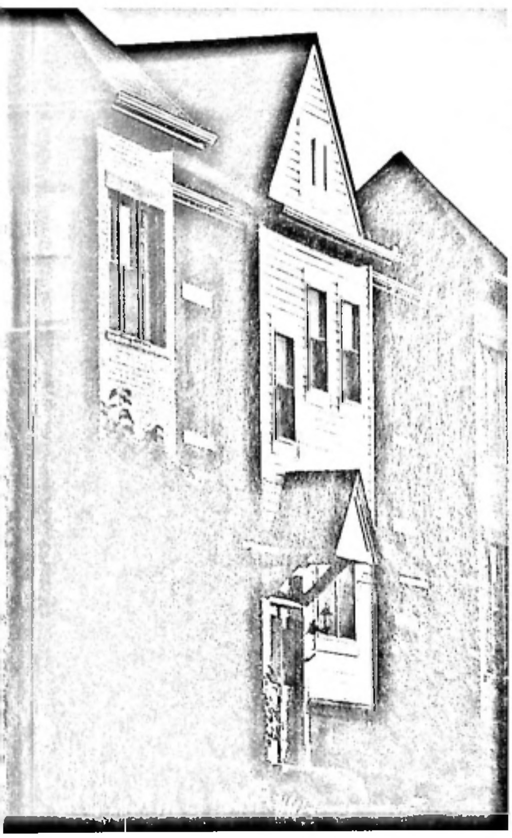
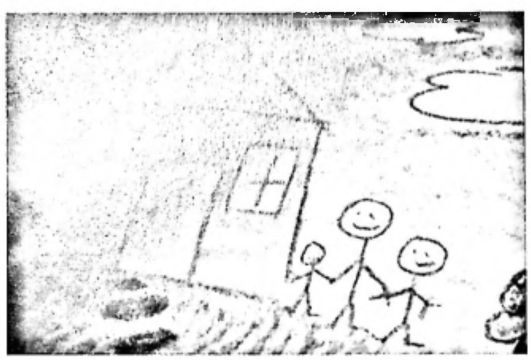
VOUCHER HOMEOWNERSHIP STUDY

Volume II Case Studies





U.S. Department of Housing and Urban Development
Office of Policy Development and Research

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Within Abt Associates, several individuals made important contributions to this effort. The principal site visitors and report authors were Gretchen Locke, Naomi Michlin, Winnie Tsen, Hong Ly, and Michelle Abbenante. Jennifer Turnham made contributions to the report, providing thoughtful guidance for the case study chapters. Chris Herbert provided technical guidance and helped write the chapter on the relationship between program and market factors and purchase rates. Jill Khadduri provided technical review on the analysis and report. Gabriella Chiarenza, Betsaida Garcia, and Liana LoConte assisted with assembling and analyzing survey and market data. Gabriella Chiarenza, Lonn Drucker, Julia Foodman, Betsaida Garcia, Josh Hyman, and Hong Ly conducted the survey data collection. Missy Robinson provided production support.

Finally, the authors would like to thank the voucher homeownership program administrators, partners, and participants who so generously shared information and ideas with us.

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Introduction to the Case Studies

This report is the second volume in a two-volume study of the voucher homeownership (VHO) programs prepared for the U.S. Department of Housing and Urban Development (HUD) by Abt Associates Inc. under subcontract to Newport Partners LLC. The primary objective of the study is to provide a broad, statistically accurate picture of the VHO program nationwide, based on a survey of PHAs that have reported at least one VHO purchase. The survey is supplemented by in-depth case study assessments based on site visits to selected sites operating particularly active or noteworthy programs. Volume One of the report presents the study's overall findings. Volume Two presents the case study assessments.

The key research issues for the VHO study overall are:

- What roles are PHAs playing in implementing the program?
- What kinds of partnerships are PHAs forming to implement the program and what are the roles of program partners?
- What targeting criteria (if any) are PHAs using to recruit prospective VHO participants?
- What funding sources are PHAs and their partners using to support program services and to assist purchasers?
- What is the format and content of the pre-purchase counseling provided to program participants? What (if any) post-purchase support is offered?
- How is the voucher assistance used to support mortgages? What other sources of financing help purchasers?
- What factors seem to contribute to program success, including PHA characteristics, program components, and housing market characteristics?

The purpose of the site visits was to collect in-depth information on a small number of VHO programs that had been particularly successful in assisting families to purchase homes. The information collected has been used to describe the implementation experience in each community and to assess the organizational characteristics of the PHA and their partners that seem to contribute to program success.

HUD's Request for Qualifications (RFQ) for the study suggested that the sites selected for intensive study should include some sites that were included in the 2003 HUD study of the VHO program as well as some that had not been previously studied.[1] Based on the RFQ and HUD input at the project orientation meeting, the following guidelines were identified to inform the case study site selection:

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[1] Jennifer Turnham et al, "*Voucher Homeownership Program Assessment (Volumes 1 and 2)*," US Department of Housing and Urban Development, July 2003.

- **Number of home purchases completed to date.** We selected case study sites that have had success in helping voucher recipients become homeowners and not sites where there have been few purchases or where implementation has been problematic.

- **Limited attention to sites associated with NeighborWorks America's voucher homeownership initiative.** In 2001 and 2003, NeighborWorks America (formerly Neighborhood Reinvestment Corporation) provided capital and operating grants to about 21 NWA affiliates and their PHA partners to support voucher homeownership programs. These sites had access to technical assistance as well as funds that were not provided to all PHAs as part of HUD's voucher homeownership program. In addition, the roughly 39 partner PHAs participating in NWA's initiative were already being studied under an NWA-sponsored research contract.[2]

- **Diversity in location and program design.** Other factors considered in site selection included program design, geographic location, housing market characteristics, and PHA and program characteristics. The goal was to select 10 sites that capture a range of approaches to the program's main features, including targeting and recruiting participants, providing pre-purchase counseling, and assisting purchasers with financing.

Notwithstanding these attempts to capture a range of program types, PHA characteristics, and local market conditions, the 10 study sites are not intended to be representative of any broader pool of voucher homeownership programs, housing markets, or PHAs. Instead, the sites were chosen to reflect examples of programs that have achieved success in moving voucher program participants to homeownership in a diverse range of settings.

To identify potential sites to be included in the study, we drew on information from an on-line survey conducted by the Office of Public and Indian Housing (PIH) in 2004. We also obtained recommendations for candidate sites from PIH staff who are familiar with local programs. Finally, we considered which of the 39 PHAs involved in NWA's study of voucher homeownership might be good candidates for the HUD study (knowing that only one or two NWA sites would be selected for further study.)

We identified 31 potential sites and, in fall 2004, conducted brief telephone interviews to collect additional information on each program and determine PHA staff willingness to participate in the study. One site had discontinued the program. Of the remaining 30 PHAs, 10 were part of NWA's voucher homeownership initiative and eight had participated in the 2003 HUD study.

Based on the reconnaissance calls and in consultation with HUD, the list was narrowed to the following 10 sites:

Bernalillo County Housing Department, Bernalillo County, New Mexico
CHAC Inc., Chicago, Illinois
Housing Authority of Fulton County, Fulton County, Georgia
Indianapolis Housing Authority, Indianapolis, Indiana
Lorain Metropolitan Housing Authority, Lorain County, Ohio

2 Some of the 21 NWA affiliates had multiple PHA partners.

Housing Authority of the City of Los Angeles, Los Angeles, California
Montgomery County Housing Authority, Montgomery County, Pennsylvania
New Hampshire Housing Finance Agency, State of New Hampshire
Pinellas County Housing Authority, Pinellas County, Florida
Waco Housing Authority, Waco, Texas

Among the selected sites, two were included in the 2003 HUD study (Montgomery County and Bernalillo County) and one was part of NWA's voucher homeownership initiative (CHAC in Chicago.)

Project staff conducted the site visits between May and October 2005. On-site activities included:

- interviews with PHA and partner organization staff to discuss program features and implementation successes and challenges;
- focus groups with program purchasers to learn more about purchasers' experiences with the program;
- file reviews of samples of 10 program purchases to collect information on financing details;[3] and
- windshield surveys to view a selection of purchaser homes and neighborhoods.

In addition to the information collected on-site, we also compiled Census data on the housing markets in each of the site visit communities. Each case study presents available Census data on the availability of homes within certain prices ranges for the years 2000 and 2004, a period during which the national median house price increased by 35 percent.[4] This information helps illustrate the relative availability of homes affordable to lower-income buyers in each community and the change in the share of lower-priced homes in recent years. A summary chart showing demographic and housing market characteristics for all 10 sites, ordered by median house value in 2004, is attached in Appendix A.

The case studies provide descriptive information on the local context and organizational structure of each program and its program policies and procedures. Each case study covers the following topics:

- Housing market conditions;
- Program development;
- Program management, staffing and partnerships;
- Program design;
- Program outcomes; and
- Lessons learned

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3 The analysis of purchase transactions is presented in Volume One of this report.

4 2000 data are from the 2000 Decennial Census; 2004 data are from the American Community Survey (also conducted by the Census Bureau).

Bernalillo County, New Mexico

Voucher Homeownership Program at a Glance: Bernalillo, New Mexico

Total Size of PHA Housing Choice Voucher Program[a]	1,840
Number of Active VHO Participants (Not including those who have closed)	100
Total Number of Home Purchases	114
Average VHO Participant Income[a]	$15,261
Average HCV Household Income[a]	$9,275
Number of Foreclosures	0
Current Number of Delinquent Payments or Mortgages in Default	0
Other Sources of Assistance for Purchasers	HOME, Payment Saver Program, Smart Choice, Helping Hand, FHLB[c]
Market Characteristics	
Range of Purchased House Prices	$41,000 to $168,574
Area Median House Value[b]	$136,168

Unless otherwise indicated, the information for this table was collected during the site visit.

[a]Source: HUD Resident Characteristics Report.

[b]Source: 2004 American Community Survey.

[c]See Financing Model section in this case study for descriptions of these programs.

Introduction

The Bernalillo County Housing Department (BCHD) administers approximately 2,000 housing choice vouchers in unincorporated areas of Bernalillo County. Bernalillo County is the most populous county in New Mexico and includes the city of Albuquerque. Albuquerque Housing Services (AHS) administers the voucher program in the city.[5]

BCHD started its Housing Choice Voucher Homeownership program in July 2001. The program depends on key partnerships with several organizations. Two local non-profit organizations provide homeownership counseling. One of the two agencies exclusively serves purchasers with disabilities

[5] AHS administers approximately 3,900 vouchers. BCHD has a memorandum of understanding with AHS that allows voucher participants from BCHD's jurisdiction to *relocate* to AHS's jurisdiction and vice versa without actually *porting* into the other jurisdiction. Note that BCHD had previously allowed AHS voucher holders to *port* into its voucher homeownership program, but this is no longer allowed. Please see the "Targeting and Outreach" section for further discussion.

and provides intensive support to these purchasers. The New Mexico Mortgage Finance Authority provides downpayment and closing cost assistance to many purchasers, using HOME funds.[6] A local, family-owned lender that specializes in low-income clients had provided 70 percent of loans to program purchasers as of August 2005.

With 114 purchases as of August 2005, the program has the second highest number of purchases (after Chicago) of any voucher homeownership program in the country. Homeowners currently comprise roughly five percent of BCHD's voucher population, the highest percentage of the sites visited. There have been no defaults or foreclosures thus far, and staff remain enthusiastic about and committed to the program. Based on the results of the focus group, purchaser satisfaction is high.

The success of BCHD's program appears to result from a combination of factors. First, the BCHD Homeownership Coordinator is very skilled and maintains close relationships with program partners as well as purchasers. In addition, the especially strong counseling and support available to purchasers with disabilities has had a significant impact on the size of the program. Key programmatic functions are divided among program partners, allowing several small organizations to serve a large number of clients. Finally, an ample amount of reasonably priced housing units, coupled with large downpayment subsidies, puts homeownership within reach of many voucher program participants.

Bernalillo County was one of 12 sites visited in 2002 for the previous HUD study of the voucher homeownership program.[7] This site was included in the current study because it has the second highest number of purchases of any program in the country and because it has had particular success serving purchasers with disabilities. There have been no major changes to the program's structure since the previous site visit in March of 2002. However, the amount of staff time devoted to the program since then has tripled and has affected the program in positive ways, providing consistent support to program participants and partner organizations. BCHD staff reported that they are pleased that they can now devote one full-time position to the program (the Homeownership Coordinator), compared to approximately one-third of a full-time position in March 2002.

Housing Market Conditions

Program purchasers are able to buy homes in all parts of Bernalillo County and Sandoval County. Beyond BCHD's jurisdiction of the unincorporated areas of Bernalillo County, memoranda of understanding allow BCHD purchasers to buy homes in the city of Albuquerque (i.e., the

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

[7] Jennifer Turnham, et al., "*Voucher Homeownership Program Assessment: Final Report,*" was produced by Abt Associates Inc. for the U.S. Department of Housing and Urban Development (HUD) under contract #C-OPC-21759, Task Order CHI-T0001. HUD published this report in July 2003. Both volumes of this report are available online through HUD USER at <http://www.huduser.org/publications/hsgfin/msd_vol1_vol2.html>.

incorporated areas of Bernalillo County), as well as in the town of Bernalillo (which is in Sandoval County) without porting into these jurisdictions.[8]

Bernalillo County and Sandoval County cover vast, adjacent areas encompassing 1,200 and 3,700 square miles. Bernalillo County is dominated by the city of Albuquerque, which is geographically diffuse and has few densely populated areas. The county includes suburban and rural areas, and has a large amount of undeveloped land.

Among the 10 study sites, Bernalillo County has the third cheapest housing market (only Waco and Indianapolis have lower median house values). According to the 2000 Census, the median house value in Bernalillo County was $123,200, approximately 10 percent higher than the national median. By 2004, the median house value increased by 10 percent to $136,168, but now was 10 percent lower than the 2004 national median of $151,366.[9]

According to program staff, homeownership is relatively affordable for voucher holders with steady employment and vouchers that provide a subsidy for a housing unit with three or more bedrooms. As of September 2005, the average price of homes purchased by program participants was $98,191, with home prices ranging from $41,000 to $168,574.

The chart below presents data from the 2000 Census and the 2004 American Community Survey on the number and value of owner-occupied housing units in Bernalillo County. In 2004, almost 62 percent of the units in the county were valued between $50,000 and $150,000, within the price range of BCHD participants. These data support the view that there is a good amount of stock available to program purchasers.

Home Values in Bernalillo County, NM	2000		2004	
Less than $50k	10,930	7.8%	7,037	4.4%
$50k to $99k	34,064	24.2%	26,771	16.6%
$100k to $149k	51,074	36.3%	66,075	40.9%
$150k to $199k	23,355	16.6%	33,240	20.6%
$200k to 299k	14,194	10.1%	14,904	9.2%
300k and above	6,988	5.0%	13,349	8.3%
Total	**140,605**	**100.0%**	**161,376**	**100.0%**

Sources: 2000 data are from the 2000 Census; 2004 data are from the American Community Survey

8 Without these memoranda of understanding, the areas in which participants could purchase homes would be limited because the housing authorities in the city of Albuquerque and the town of Bernalillo do not operate voucher homeownership programs. Without these special agreements, HUD program rules would not permit purchasers to port into a jurisdiction that does not operate a voucher homeownership program.

9 Data are from the 2004 American Community Survey.

Program Development

A central part of BCHD's mission is to empower voucher clients to better their economic situations. Therefore, BCHD's Executive Director and Homeownership Coordinator determined that the voucher homeownership program was a good fit for the agency, providing an additional asset development tool that complemented the agency's existing Family Self Sufficiency (FSS) program.

Because BCHD did not have the staff or the funding to run this program themselves, they focused on building partnerships from the beginning. All of the local organizations and institutions with the ability to support such a program had previously partnered with the BCHD and were very interested in voucher homeownership.

Despite active interest among local partners, planning, designing, and implementing the program was time consuming. When reflecting on the program's development phase, BCHD staff reported that the biggest challenge was working with lenders. While their main lender, Suburban Mortgage, was on board early, it took several years of negotiation with other lenders before those banks would agree to make a single loan.

The planning and design effort was led by BCHD's Executive Director and by BCHD's Homeownership Coordinator (who was previously the FSS Coordinator). They researched the operation of the voucher homeownership pilot programs and looked particularly closely at the program operated by Colorado's Department of Human Services, Supportive Housing and Homeless Programs Division (SHHP). BCHD was particularly attracted to SHHP's focus on persons with disabilities because HOME-New Mexico (HNM), a local counseling agency serving people with disabilities, had expressed interest in making the voucher homeownership option work for this population. HNM's Executive Director was actively involved in the program's design phase. During design and early implementation, she would call HUD directly to clarify program rules and to advocate for changes to benefit purchasers with disabilities.

When developing its voucher homeownership program, BCHD drew on its previous experience operating a downpayment assistance program in the early 1990s for the New Mexico Mortgage Finance Agency (MFA). MFA provided BCHD with HOME program funds for up to $15,000 in downpayment assistance for households with incomes below 80 percent of the area median. As a result, BCHD staff were familiar with the homeownership process and with resources available for providing subsidies to low-income purchasers. In early 2001, BCHD approached MFA about accessing downpayment assistance funds for voucher homeownership participants. After reviewing HUD's program regulations, MFA suggested that, in addition to downpayment assistance, MFA could adapt one of its existing mortgage products for low-income borrowers for use in the program, which it did.

BCHD defines its program goals in terms of purchases, but does not limit the number of vouchers that can be used for homeownership. BCHD's Executive Director said he hopes that homeowners will eventually use 10 percent of BCHD's vouchers. He noted, however, that such a goal has serious budget implications given that the housing assistance payment calculation for homeowners includes the maximum utility allowance and an allowance for home maintenance, resulting in higher subsidies than are provided in the rental program.[10]

Program Management, Staffing, and Partnerships

BCHD is the lead organization among the partners running the voucher homeownership program. It is responsible for recruitment, screening, voucher administration, conducting Housing Quality Standards (HQS) inspections, reviewing mortgage terms and inspection reports, and overall program coordination. Partner organizations provide specific, key program services. BCHD staff report that they depend on each partner to "do what they do best."

BCHD funds its program through a grant for the Homeownership Coordinator and through voucher and voucher homeownership program administrative fees that it receives from HUD. Prior to the receipt of the current grant in 2004, BCHD funded the Homeownership Coordinator's position through the FSS Coordinator grant. BCHD receives approximately $590 per year for each voucher participant to cover administrative fees. PHAs administering a voucher homeownership program also receive a one-time payment of $5,000 plus $1,000 for every program purchaser. The BCHD executive director is concerned that voucher and voucher homeownership program administrative fees alone will not be sufficient to cover the Homeownership Coordinator's salary over time.

BCHD works with two counseling agencies: Neighborhood Housing Services (NHS) of Albuquerque and HOME-New Mexico (HNM). HNM exclusively serves clients who have disabilities, and NHS works with clients without disabilities.[11] Program functions provided by the counseling agencies include pre-purchase counseling, credit repair, and assistance with mortgage pre-qualification. Post-purchase counseling also is provided on an as-needed basis. Both counseling agencies also serve clients who are not part of the voucher homeownership program.

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[10] The amount of the housing assistance payment (HAP) in the housing choice voucher program's rental and homeownership components is determined by formula. While the formulas are slightly different for the rental and homeownership programs, they have identical limits in terms of the maximum amount that can be paid via the HAP, according to the number of bedrooms on a client's voucher. In the voucher rental program, the HAP equals *gross rent* (rent plus a utility allowance, as applicable) minus the *total tenant payment* (TTP, which equals thirty percent of adjusted monthly income). If the gross rent is higher than the *payment standard* established by the PHA based on the number of bedrooms on the client's voucher, then the HAP equals the payment standard minus the TTP. In the voucher homeownership program, the HAP equals *gross homeownership expenses* minus the TTP. Gross homeownership expenses include PITI (principal and interest on the mortgage, real estate taxes, home insurance and private mortgage insurance, as applicable), a utility allowance, a maintenance allowance, a repair/replacement allowance, co-op or condominium fees, and principal and interest on debt for any home repairs. While this long list of expenses can add up to a considerable sum, if the gross homeownership expenses exceed the payment standard based on the number of bedrooms on the client's voucher, then the HAP equals the payment standard minus the TTP, just like in the rental program.

[11] NHS of Albuquerque has counseled all program participants who preferred learning in Spanish, regardless of their disability status. As of August 2005, HNM did not provide counseling in Spanish, but the organization had just hired a Spanish-speaking housing counselor who was scheduled to begin work in the fall of 2005.

The local chapter of the Association of Community Organizations for Reform Now (ACORN) approached BCHD a couple of years ago with an interest in becoming a program partner. ACORN had funding available to provide intensive credit counseling and credit repair as well as more general homeownership counseling services to program participants. BCHD staff initially agreed to refer clients in need of credit repair to ACORN. Several months later, BCHD staff perceived that ACORN was referring voucher holders to other homeownership programs that BCHD did not think were appropriate for their clients and as a result stopped making the referrals.

Suburban Mortgage is the main lender for the program. While purchasers can use any HUD-approved lender willing to make them a loan, the vast majority of purchasers have used Suburban Mortgage. All purchasers who borrow from Suburban Mortgage work with the same loan officer, who has become very familiar with the voucher homeownership program as well as various downpayment and closing cost assistance programs. The most commonly used downpayment assistance programs are administered by the MFA and funded through the HOME program.

BCHD generally does not pay its program partners for the services they provide to voucher homeownership participants. While BCHD recently awarded HNM a one-time grant of $20,000 for the provision of counseling services, this was an exception.[12] BCHD's Executive Director noted that although both NHS and HNM are short on funds, BCHD cannot provide ongoing funding to the counseling agencies with its current budget.

In March 2002, approximately one-third of a full-time position was devoted to this program. At that time, it was already clear that more staff time would benefit the program. BCHD management had supported devoting more staff time to the program for several years, but had been constrained by limited resources. BCHD was able to hire a new FSS coordinator in May 2005, allowing the Homeownership Coordinator to focus exclusively on the voucher homeownership program. The Homeownership Coordinator now handles the day-to-day management of the program and has the most contact with program partners and participants.

Both counseling agencies are relatively small operations. HNM has three full-time equivalent staff. All HNM staff provide counseling to voucher homeownership clients. The organization hired another counselor slated to begin work in the late fall of 2005. NHS has six full-time equivalent staff, most of whom work with voucher homeownership clients.

Program Design

Targeting and Outreach

BCHD follows HUD's income and employment guidelines on program eligibility and intentionally has not added more stringent requirements. The Homeownership Coordinator explained that BCHD wants to make the program as accessible and flexible as possible. In addition to the HUD income and employment guidelines, candidates must be in good standing with their current lease, have no outstanding debt to BCHD, and have no recent, family-caused HQS violations.

[12] The funds for the $20,000 grant to HNM came from $84,000 in accumulated administrative fees, based on $1,000 for each voucher homeownership purchaser, plus a one-time payment of $5,000 to each housing authority running a voucher homeownership program. At that time BCHD had 79 purchasers.

Current voucher holders and those on the voucher waiting list are eligible to participate in the homeownership program. While candidates may enter the program directly from the waiting list, the Homeownership Coordinator strongly encourages those who have not previously held a voucher to rent for several months, so they do not run up against the BCHD's two-month time limit for "leasing up" a new voucher when searching for a home and run the risk of losing their voucher.[13] To date, most homeownership applicants have been existing voucher program participants. Only six participants have purchased homes as new voucher program participants who came directly off of the waiting list into the voucher homeownership program.[14]

Until September 2002, BCHD allowed qualified families holding vouchers from the larger, city voucher program administered by AHS to purchase through BCHD's voucher homeownership program. While AHS has chosen not to create a voucher homeownership program, a number of their voucher families heard about BCHD's program and became interested in it. Even though BCHD had positive experiences with the 16 AHS clients who purchased homes through its program, the BCHD staff ultimately decided that these clients were taking away resources from needy families on the BCHD waiting list. The Homeownership Coordinator explained that the AHS clients caused BCHD families in need of rental assistance to remain on the waiting list longer, and this did not seem appropriate.[15]

Currently BCHD does not recruit homeownership program participants aggressively, given the number of clients in the program's pipeline. However, staff presented the program at orientations for new voucher participants and discussed it with qualified candidates at annual voucher recertifications. Information about the program also spreads among voucher families by word of mouth. Both counseling agencies reported that their counselors mention the program to clients other than BCHD program participations. BCHD staff have not set a limit on the number of households who may pursue homeownership through this program.

Current voucher holders and those on the voucher waiting list who are interested in the homeownership option must contact BCHD's Homeownership Coordinator and be pre-screened for eligibility. Program candidates are required to sign a letter that releases their credit report to BCHD and confirms that they have read through the program eligibility criteria. Clients then need to call the Homeownership Coordinator to discuss program details and to review their income, employment, and credit information. These conversations usually happen over the phone, but the homeownership coordinator meets in person with families who are more comfortable meeting face-to-face. At the end of this conversation, the Homeownership Coordinator refers interested clients to the appropriate

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13 According to BCHD regulations, clients have 60 days after the voucher is issued to "lease up" by either signing a rental lease or signing a purchase agreement on a home. Extensions of 30 days are granted at the BCHD's discretion. While BCHD staff reported during the May 2002 site visit that they were concerned that "lease up" delays in the voucher homeownership program would adversely affect their voucher utilization rate, no such problems have materialized as of the August 2005 visit.

14 BCHD's waiting list has been closed since May 2002 with 300 families on the list. The list was reopened in October 2005.

15 BCHD staff explained that they have repeatedly encouraged AHS staff to start their own voucher homeownership program and have offered AHS a "ready-made program" if AHS wants to use the forms, processes, and lending products used by BCHD. BCHD's Homeownership Coordinator estimated that among AHS's 3,900 voucher holders, 200 are "ripe" for homeownership given their incomes, employment, and credit histories.

counseling agency, based on whether or not they have disabilities. According to both BCHD's Homeownership Coordinator and HNM's Executive Director, only a handful of qualified referrals fail to follow up with the housing counseling agencies.

Once the applicants have completed pre-purchase counseling and have been pre-approved for a mortgage, they meet in person with the Homeownership Coordinator. At that point clients submit all necessary documentation to reconfirm their eligibility for the voucher homeownership program, and the Homeownership Coordinator recalculates the amount of the housing assistance payment (HAP). For program participants coming directly off of the waiting list, this is the point when BCHD issues them a voucher.

Homeownership Counseling

BCHD partners with two nonprofit agencies to provide pre-purchase homeownership counseling. Neighborhood Housing Services (NHS) of Albuquerque provides counseling to non-disabled program participants, and HOME-New Mexico (HNM) provides counseling to participants with disabilities.

HNM was incorporated in 1995 with the goal of helping people with disabilities purchase homes and become stable homeowners. The HNM Executive Director explained that her organization is committed to putting in whatever time it takes to prepare purchasers for homeownership, even if that means hundreds of hours of help. She stays in close touch with BCHD's Homeownership Coordinator and with Suburban Mortgage, and she keeps abreast of program policy changes. At the time of the site visit in August 2005, HNM provided counseling services in English only. The organization had just hired a new counselor who would be able to provide training in both English and Spanish. HNM's Executive Director reported that the organization struggles with funding even though it has diverse resources, including funds from the City of Albuquerque, HUD counseling grants, a one-time grant from BCHD, corporate donors, and foundations.

NHS of Albuquerque is a larger operation that was incorporated in 1975 with the goal of providing housing counseling and development services to the local community. Until recently, NHS was affiliated with NeighborWorks America (formerly Neighborhood Reinvestment Corporation), the national parent organization of NeighborWorks organizations. NHS provides pre- and post-purchase counseling, assistance with credit repair, emergency rehabilitation assistance, and other services. NHS provides both group and individual counseling in both English and Spanish. Given the number of Spanish speaking residents in the Bernalillo County, the bilingual ability of the majority of NHS staff is one of their key assets.

NHS and HNM have similar curricula for homeownership training. Both agencies provide a total of six to eight hours of group homeownership counseling sessions. In these sessions, voucher homeownership participants are mixed with non-voucher participants. The topics covered in the group sessions include the benefits of homeownership, budgeting, home mortgages, homeowners insurance, home search, credit repair, home maintenance, and predatory lending. HNM, which works exclusively with purchasers with disabilities, does a great deal of one-on-one counseling before and after group sessions. NHS also provides one-on-one counseling, on an as-needed basis.

Representatives from NHS report that voucher program participants they counsel have more severe credit issues and require more counseling than the other first-time homebuyers with whom they typically work. Staff from both agencies work individually with clients, guiding them through the credit repair process as needed, which can sometimes take more than a year.

Focus group purchasers were very positive about the support they received from their homeownership counselors, but many thought that too much material was covered in one-day group sessions at both NHS and HNM. These purchasers suggested that the group sessions be broken up into at least two days and that more time be made available for questions.

Home Search and Inspections

As in most other voucher homeownership programs, BCHD participants do not receive any formal assistance from program staff during the home search process. The housing authority provides participants with a list of real estate agents who have attended a BCHD-sponsored training session on the voucher homeownership program. NHS of Albuquerque staff report they do not recommend any individual real estate agents because they do not want to be seen as "steering" clients to a particular agent or agency.

Half of focus group purchasers said they had negative experiences with real estate agents and felt unprepared to deal with this situation. Some agents demanded that purchasers sign an exclusivity contract. Other purchasers said that they wasted time fighting to get their real estate agent to focus on the homes and neighborhoods they wanted and that they should have found a new agent sooner. A number of purchasers said the real estate agents were condescending and acted as though they were doing low-income purchasers a favor. Program staff seemed aware of the difficulty of finding appropriate agents for families using vouchers to subsidize home purchases. The Homeownership Coordinator suggests that HUD might create a certification process for real estate agents (as there is for lenders) that could both educate the agents and weed out those not interested in serving low-income buyers.

Because BCHD has memoranda of understanding with AHS and the Bernalillo Town Housing Authority (BTHA) that allow BCHD voucher homeownership participants to buy homes in all areas of Bernalillo County and Sandoval County without formally porting into these jurisdictions,[16] purchasers have a variety of settings, neighborhoods, and homes from which to choose, ranging from urban areas to very rural areas in the mountains close to Albuquerque. Most focus group participants were able to find homes in a matter of weeks and reported that it was not hard to find what they wanted once they knew where to look

After program participants find a home they want to purchase, they must arrange for an independent inspection, which is conducted prior to the HQS inspection in the Bernalillo County program. BCHD's Homeownership Coordinator advises program purchasers to negotiate with sellers to get the sellers to pay for the independent inspections. She explained that in the New Mexico real estate market, it is not uncommon for sellers to pay for independent inspections as an incentive to buyers. While BCHD could not provide data on how many program purchasers actually paid for an independent inspection, purchaser feedback from the focus group indicated that only a small proportion of purchasers paid for the inspections themselves. For newly constructed units, the

[16] The jurisdictions of the housing authorities are as follows: BCHD administers vouchers in *unincorporated* parts of Bernalillo County; AHS administers vouchers in *incorporated* parts of Bernalillo County (i.e., the city of Albuquerque); and BTHA administers vouchers across Sandoval County.

program requires a current Certificate of Occupancy and a Builder's Warranty instead of an independent inspection.

After the independent inspections are conducted, the BCHD's principal inspector conducts the HQS inspection with the program participant present. The BCHD's principal inspector is also an independent contractor who manages the Owner Rehab program for BCHD. The Homeownership Coordinator explained that, beyond conducting the HQS inspection, the principal inspector often gives program participants advice about the home and home repairs. He will also check any repairs made after the independent inspection.

Program purchasers often take advantage of downpayment assistance programs administered by the MFA, and the MFA requires that the home receive a separate, MFA-certified inspection. The Homeownership Coordinator explained that the MFA inspection is similar to the HQS inspection and includes testing for lead-based paint in older homes. BCHD's principal home inspector is certified to conduct the MFA inspections. He typically conducts the MFA inspection at the same time he conducts the HQS inspection.[17]

The Homeownership Coordinator noted that she advises purchasers to avoid houses that have had foreclosed mortgages (including HUD foreclosures), because the homes are often in bad shape and create procedural problems for the voucher homeownership program. For example, the utilities are often turned off in foreclosed homes, meaning that plumbing, air conditioning, heating, and electric systems cannot be properly inspected. HQS rules prevent such a unit from passing if those systems cannot be tested. Several program purchasers have bought HUD foreclosures, however. One such purchaser reported in the focus group that she discovered a drainage system problem after purchase that all inspectors had missed.[18]

Another focus group purchaser raised the issue of the inspector's inability to examine the heating system during summertime or the air conditioning during wintertime, because these systems are turned off. In her case, the fact that the air conditioning did not work was missed during the wintertime inspection of the 15-year-old house that she purchased, necessitating an expensive repair during her first summer as a homeowner.

Lenders

Based on BCHD program rules, purchasers may use any HUD-approved lender that agrees to the program rules and to service the loan in-house. Program purchasers using MFA's first mortgage or downpayment assistance products are required to use an MFA-approved lender. While a total of 14 lenders have made loans to program purchasers, the majority of purchasers thus far have received loans from Suburban Mortgage, BCHD's main lending partner. Before the voucher homeownership program began, Suburban Mortgage worked for years with purchasers referred to them by both HNM and NHS of Albuquerque. Although there does not appear to be overt steering to Suburban Mortgage, one of the counseling partners was unaware that purchasers were allowed to use other lenders, indicating some level of miscommunication on this topic.

[17] MFA pays the inspector $75 for each inspection. This payment is released to the inspector during the financing process.

[18] The site visitor had an opportunity to walk though this home with the participant during the windshield survey. This home is in very good shape and in a good neighborhood.

Lenders are using a mix of Fannie Mae, Freddie Mac, FHA, MFA and other conventional loan products for the first mortgages, as discussed below. Almost all purchasers with disabilities are using Fannie Mae's Home Choice product through Suburban Mortgage. While Fannie Mae now allows other banks and lending institutions to use the Home Choice product, no local bank besides Suburban Mortgage had made it available to borrowers as of August 2005. HNM's Executive Director has tried to recruit other banks to be program lenders and to encourage them to use the Home Choice product. She thinks that more lending options would benefit program purchasers.

Several focus group purchasers raised difficulties with the process of finding a lender. One purchaser noted that she did not really understand how to choose a lender that would be most beneficial to her. Another purchaser said that she did not feel she had much of a choice, because the Suburban Mortgage loan officer was the only person who really understood the program. A third purchaser who bought a new home from a local development company had difficulty educating the development company's partner loan officer about the voucher homeownership program.

Overall, focus group participants agreed that the program would benefit from greater competition among lenders, a view echoed by the Executive Director of one of the counseling agencies, who suggested that HUD should market the program more aggressively to lenders.

Financing Model

Sample Purchase Transaction: Bernalillo County, NM

Buyer's Annual Income:	$9,540 (as of 1/12/2005)
Purchase Date:	5/23/2003
Costs to Buyer:	
– Purchase Price:	$115,000
– Closing Costs:	$3,468
Sources of Financing:	
– 1st Mortgage:	$111,020 (5.3%, 30 yrs)
– Deferred Loans:	$6,000 (0%, deferred 30 yrs/ until resale)
– Buyer Cash Down:	$1,115
Monthly Mortgage Payments:	
– Total PITI:	$859
– HAP to offset PITI:	$800
– Buyer's PITI portion:	$59
– Buyer's share of PITI as a percent of gross monthly income:	7%

Most BCHD program purchasers have used the HAP as offset model, but some purchasers have used the HAP as income model. Like many other voucher homeownership programs, BCHD leaves the choice of the financing model to the lender and permits it to vary depending on the loan product used. Staff from both BCHD and Suburban Mortgage noted that they prefer using the HAP as offset model because of the buying power it offers program purchasers. Suburban Mortgage does make HAP as income loans to program purchasers, however, when the lending product requires it. Until a recent change in FHA policy, mortgages insured by FHA had to apply the HAP as income.[19] Most of the BCHD purchasers that have HAP as income mortgages have FHA-insured mortgages. Program staff and lenders are curious if this change in policy will increase the use of FHA products in the voucher homeownership program locally and nationally. They see the change as creating more options for program purchasers.

[19] The change in FHA underwriting policy permitting use of the HAP as offset model was announced on July 29, 2005 in mortgagee letter 2005-32.

Although BCHD's Homeownership Coordinator was familiar with the difference in buying power and the variation in risk associated with the various financing models, interviews with both counseling agencies indicated that the counselors were not aware of the important differences between financing models and that the lending product chosen could determine purchasers' buying power. Feedback from the focus group indicated that purchasers also were not familiar with the alternative financing models.

BCHD most often sends the HAP directly to the purchaser, and the monthly mortgage payment usually is deducted automatically from the purchaser's bank account each month. BCHD's Homeownership Coordinator has no qualms about sending payments directly to purchasers and believes that if such a level of trust has not been built up by the time of purchase, there is something wrong with the program. If a lender prefers that the HAP be sent directly to the lender or to a separate account at another institution, BCHD will do so. Suburban Mortgage staff noted that if any payments are more than five days late, they call the Homeownership Coordinator.[20]

Almost all purchasers who have disabilities or who have family members with disabilities are using Fannie Mae's Home Choice mortgage product. This 30-year product offers below-market, fixed interest rates and permits some flexibility with respect to loan-to-value ratios, sources of funds for the downpayment, and documentation of credit history. For the Home Choice product, the HAP is used to directly offset PITI payments (i.e., payments covering the principal and interest of the loan, property taxes, home insurance, and private mortgage insurance, as applicable). Suburban Mortgage and Fannie Mae have been pleased with the timely mortgage payments made by program purchasers using Home Choice loans.

A number of program purchasers have used MFA products. The MFA provides 30-year loans with slightly below market rates to first-time homebuyers throughout New Mexico. For homeownership voucher purchases made with MFA loans, the HAP is considered an addition to the participant's monthly income and is sent either to the lender or to the household, depending on the preference of the particular MFA-approved lender originating the loan.

In addition to first mortgage loans, MFA provides significant downpayment assistance via the Payment Saver and Smart Choice programs, which are supported by HOME funds. Purchasers can use at most one of these two forms of downpayment assistance. The Payment Saver program provides interest-free deferred loans of up to $8,000 (or eight percent of the purchase price) that are due upon refinance or resale. Payment Saver loans are available to income-qualified first-time purchasers across New Mexico. The Smart Choice program, a variation of Payment Saver, provides interest-free deferred loans of up to $15,000 for purchasers who buy in unincorporated areas of Bernalillo County. Smart Choice loans are also due upon refinance or resale, but are available only to voucher homeownership purchasers. However, the Payment Saver and Smart Choice loans cannot be used for purchases in incorporated areas of the county (i.e., the City of Albuquerque).

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20 Other lenders associated with the program did not seem to have formal procedures for reporting late payments.

This is the case because the City of Albuquerque has its own allocation of HOME funds and has decided not to allow other HOME funds to be used for downpayment assistance programs within its boundaries.[21] BCHD's Homeownership Coordinator noted that this decision by the city of Albuquerque has had a significant impact on where program participants chose to purchase.

The MFA uses other sources of funding to provide interest-free deferred loans of up to $5,000 that are due upon refinance or resale for purchasers in the city of Albuquerque. Lastly, HOME funds are also used to support $15,000 forgivable loans. If the property is refinanced or sold within five years, the full amount is due. Between years 6 and 10, 20 percent of the loan value is forgiven each year. Qualifying purchasers can use only one form of assistance using HOME funds, meaning they could use Payment Saver or Smart Choice or a forgivable loan from the MFA.

HOME-funded assistance can be combined, however, with several kinds of interest-free deferred loans for purchasers with disabilities. MFA's Helping Hand product provides up to $8,000, the State of New Mexico's Land Title Trust Fund provides up to $5,000, and the Federal Home Loan Bank (FHLB) of Dallas provides up to $5,000. Participants are permitted to combine Helping Hand assistance with either the Land Title Trust loan or the FHLB loan (but not both), so the largest amount of downpayment assistance that can be pooled among these resources exclusively for purchasers with disabilities is $13,000. (This is in addition to up to $15,000 in HOME funds, as described above.)

BCHD follows HUD guidelines requiring that program participants pay at least three percent of the sales price as a downpayment and that at least one percent of the purchase price (and no less than $500) come from the purchaser's own resources. BCHD staff review and approve each financing package prior to purchase. BCHD does not permit balloon payments or adjustable rate mortgages. Because program participants are encouraged to work with MFA-approved lenders, it is unlikely that they will be offered unaffordable financing.

The BCHD Homeownership Coordinator reviews any requests for refinancing. To insure that its staff are aware of refinancing deals, BCHD requires a rider on purchasers' mortgages stipulating that BCHD is notified before a loan is sold to another lender. This requirement also enables BCHD to make sure purchasers are aware that they have to send their payments to a new institution if and when their mortgages are sold to another bank.

Post-Purchase Activities

BCHD does not have any formal post-purchase requirements for purchasers who make timely mortgage payments. Purchasers who make late payments are required to return to their counseling agency for post-purchase counseling. Both HNM and NHS provide individual post-purchase counseling as needed; however, neither organization has a set post-purchase curriculum. Suburban

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21 In prior years, the City of Albuquerque had a downpayment assistance program for use within its boundaries that was funded by its allocation of HOME funds. The MFA was under contract with the City to administer this program. Staff from the MFA reported that this downpayment assistance program had restrictive recapture and equity-sharing requirements, making it a less attractive option for purchasers. After no loans were made under this program for two years, the City did not renew its contract with the MFA. As far as MFA staff are aware, the City is not currently running a downpayment assistance program with its HOME funds, but it still does not allow downpayment assistance using non-City HOME funds for purchases within its boundaries.

Mortgage, BCHD, and HNM staff all monitor the mortgage payments of program purchasers so that they can address any late payments quickly. Suburban Mortgage sends BCHD and HNM a monthly mortgage report on all voucher homeownership purchasers with loans at their institution. There is no such reporting on loans made from other banks. As of August 2005, BCHD does not require any post-purchase HQS inspections, but staff are considering adding such a requirement to maintain contact with purchasers.

The Executive Directors of both HNM and NHS think that requiring post-purchase counseling would be a good idea. This represents a shift in attitude from the May 2002 site visit. At that point, BCHD staff reported that they were working on creating a post-purchase component of the program. However, the BCHD Homeownership Coordinator explained that, if a homeowner is doing well, she did not think that formal post-purchase counseling is necessary.

Based on feedback from focus group purchasers, if the counseling agencies are describing post-purchase resources to their clients, the clients are not retaining this information. Several purchasers had been proactive about this and researched such post-purchase resources as rehabilitation loans, weatherization assistance, and tax abatement programs on their own. Most focus group participants were not aware of these resources, however. The purchasers expressed particular interest in home maintenance and repair classes and in assistance with their taxes.

Program Outcomes

As of August 2005, 114 program participants had purchased homes. The rate of purchases has recently been relatively steady at two or three per month. Another nine clients were ready to purchase in August 2005 but had not yet found a home or had contracts pending. At that time, the average price of homes purchased by program participants was $98,191, ranging from $41,000 to $168,574. Less than 10 percent of these homes cost less than $70,000, and less than 10 percent cost more than $121,000. Purchasers' average income as of August 2005 was $13,821, ranging from $6,253 to $39,238. This range does not include purchasers whose incomes had increased to a point at which they were no longer receiving a voucher subsidy. One hundred program participants are currently in counseling, waiting for lender pre-approval, or looking for a home.

There have been no defaults or foreclosures. There have been a couple of resales, described below. No program purchasers have refinanced thus far. While there have been a handful of late payments, these situations were dealt with quickly by the Homeownership Coordinator.[22] Suburban Mortgage says that purchasers have better payment histories than other low-income borrowers. In addition, the BCHD Homeownership Coordinator reports that the purchasers have made an impact on the general voucher population. She sees attitudes changing as voucher renters see their peers purchasing homes. She said this motivates voucher renters to find stable employment and to work on their credit.

Among the 114 purchasers, 10 are no longer receiving voucher homeownership assistance due to income increases, program terminations, resales, and death. Since purchasing, five purchasers'

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22 The Homeownership Coordinator described several situations in which late payments occurred. In one case a purchaser was behind on her bills, paid some of them off, and as a result did not have enough funds available to make the mortgage payment. In two other cases, the children of purchasers had withdrawn money from their parent's account or used the parent's credit card to buy something without their parent's approval.

incomes have increased enough such that they no longer qualify for the voucher program. In addition, two purchasers were terminated from the voucher program for not showing up at their voucher recertification appointments. The Homeownership Coordinator assumes that these two purchasers also had income increases, but does not know for sure. One purchaser was overwhelmed by the responsibilities of homeownership and worked with the Homeownership Coordinator to sell the home and became a voucher renter again. Two purchasers have died. In one case the home went to the disabled child of the purchaser, along with the voucher. In the other case, the home was sold.

BCHD program staff report that most voucher homeownership participants have been able to find suitable homes without difficulty. However, the Homeownership Coordinator noted that the relative scarcity of smaller houses in Bernalillo County makes it harder for persons holding one- or two-bedroom vouchers to find a home. As a result, downpayment assistance has been especially important for purchasers on fixed incomes and purchasers with one- or two-bedroom vouchers, both of whom have more limited purchasing power. BCHD staff are pleased with the quality of the homes purchased. Due to a high volume of new construction over the past decade, most program purchasers are buying newer homes that do not have significant repair needs.

The Homeownership Coordinator indicated that the majority of homes purchased through the program pass the initial HQS inspection. When the first HQS inspection fails, it is usually due to minor issues, such as replacement of electric outlets, adding smoke detectors, and tightening loose light fixtures. In all cases, the sellers have made the necessary repairs. The tour conducted during the site visit revealed that homes purchased by program participants were well maintained. Of the eight homes visited, only one was not in excellent condition. Purchased homes are generally located in safe, desirable neighborhoods and are taken care of by their owners.

Most focus group participants were pleased with the program. Several purchasers said they wanted to become homeowners so that they could leave an inheritance for their children. A number of focus group participants said that they had received much support from the Homeownership Coordinator and appreciated all of the attention and time she devoted to the program. Several purchasers added that it would have been helpful if BCHD or one of the counseling agencies had facilitated a peer group so that purchasers could exchange information and support each other during different parts of the process.

Several focus group participants commented on how homeownership had changed their lives. One said, "I just love the house. The rent was about the same as the mortgage, except now I do not have to deal with a nasty landlord." Another purchaser said the following about the homeownership process: "It was not that easy. It was not a breeze at all. I had a disability to deal with, and I had to try and attend to everything else. But I did not give up…this (homeownership) is a blessing, more than anything I could have been given. It is beyond measure for me personally…it makes living a little bit easier."

Lessons Learned

BCHD staff are enthusiastic about the voucher homeownership program. Based on their success, BCHD staff said they thought the voucher homeownership program should be required of all housing agencies of a certain size. They believe that it provides a critical opportunity to empower clients and to help them to build wealth by becoming homeowners. BCHD's program is built on partnerships and depends on the strength of these partnerships to fulfill key programmatic functions. The Homeownership Coordinator is very skilled at her job and maintains close relationships with clients as well as program partners. Communication among partners is frequent, informal, and necessary to keep BCHD's voucher homeownership program running smoothly.

BCHD and its partners have successfully navigated the transition from serving higher-income clients with solid credit to developing a pipeline of clients with less stable incomes and poorer credit. However, working with clients that are less ready to purchase requires greater resources from the counseling agencies, which operate with very limited funding. BCHD's Executive Director noted that the lack of counseling funding available in New Mexico is currently the program's biggest challenge.

Chicago, Illinois

Voucher Homeownership Program at a Glance: Chicago, Illinois

Total Size of PHA Housing Choice Voucher Program[a]	36,000
Number of Active VHO Participants (Not including those who have closed)	339
Total Number of Home Purchases	129
Average VHO Participant Income[a]	$22,815
Average HCV Household Income[a]	$11,056
Number of Foreclosures	0
Current Number of Delinquent Payments or Mortgages in Default	0
Other Sources of Assistance for Purchasers	HOME, ADDI, City of Chicago, Home Options, Access Living[c]
Market Characteristics	
Range of Purchased House Prices	$81,500 to $232,000
Area Median House Value[b]	$235,313

Unless otherwise indicated, the information for this table was collected during the site visit.

[a]Source: HUD Resident Characteristics Report.

[b]Source: 2004 American Community Survey.

[c]See Financing Model section in this case study for descriptions of these programs.

Introduction

The Chicago Housing Choice Voucher Program is administered by CHAC Inc. under a performance-based contract with the Chicago Housing Authority (CHA). CHAC is a private, for-profit company that is a subsidiary of Quadel Consulting Corporation and is the only for-profit entity included in this study of the voucher homeownership program. CHAC administers approximately 36,000 vouchers in Chicago, which has the third largest voucher program in the nation after New York City and Los Angeles.

CHAC started its voucher homeownership program – called Choose to Own – in 2002. The Choose to Own program incorporates a large number of partner organizations including four counseling agencies, a separate agency for clients who need intensive credit repair, several key lenders, a group providing volunteer legal services for all purchasers, and two agencies that provide supports for purchasers with disabilities. With 129 purchases as of mid-September 2005, the Choose to Own program has the highest number of purchases of any voucher homeownership program in the country. Choose to Own has had no defaults or foreclosures thus far, and staff remain enthusiastic about and committed to the program. Purchaser feedback from the focus group was positive.

The success of the Choose to Own program appears to result from a combination of factors. CHAC's Homeownership Coordinator is very skilled and keeps the program running smoothly. In addition, the significant up-front investment in program design created clear policies, procedures, and management structures. The Choose to Own program also benefits from a variety of strong program partners. Finally, there is housing stock available within the purchasers' price range, albeit not necessarily in the neighborhoods purchasers prefer.

Housing Market Conditions

CHAC administers vouchers across the City of Chicago, a large urban area covering about 186 square miles within Cook County, IL. Chicago currently has the third most expensive housing market among the 10 sites in the study. According to the 2000 Census, the median house value in Chicago was $161,700, approximately 45 percent higher than the national median. By 2004, the median house value for Chicago had increased to $235,313, up 40 percent from 2000. In comparison, the national median value increased to $151,366 in 2004, up 35 percent from 2000.[23]

Program staff report that as of September 2005, the average price of homes purchased by program participants was $135,928, with a range of $81,500 to $232,000. As shown in the chart below, in 2000, 73 percent of housing units were valued at less than $200,000. In 2004, according to the American Community Survey, 43 percent of owner-occupied housing units in Chicago were valued at less than $200,000, within the price range of voucher program participants. This data confirms the view of program staff that affordable housing is becoming scarce in Chicago.

Home Values in Chicago, IL	2000		2004	
Less than $50k	15,117	3.3%	6,437	1.3%
$50k to $99k	111,144	23.9%	45,473	9.3%
$100k to $149k	120,030	25.8%	72,075	14.7%
$150k to $199k	92,061	19.8%	87,411	17.9%
$200k to 299k	71,250	15.3%	109,636	22.4%
300k and above	55,310	11.9%	168,379	34.4%
Total	**464,912**	**100.0%**	**489,411**	**100.0%**

Sources: 2000 data are from the 2000 Census; 2004 data are from the American Community Survey

Program staff suggest that this decrease in the supply of affordable units has largely occurred in the neighborhoods to the north and northwest of downtown. For example, voucher holders renting on the north side of Chicago often want to purchase there but simply cannot afford it. The areas southwest and south of downtown are generally the most affordable, but also contain pockets of concentrated poverty. Even in the more affordable areas, however, it can be difficult for persons holding one- and two-bedroom vouchers to find a high-quality house in their price range.

23 Data from the 2000 Census and 2004 American Community Survey.

Program Development

Even before joining CHAC when it was created in 1995, the agency's current management staff had been interested in low-income homeownership and carefully followed the HUD regulations that allowed for the creation of the pilot voucher homeownership program. CHAC was interested in developing a homeownership program because it seemed to be the missing step after the Family Self Sufficiency (FSS) program. Having developed a strong FSS program and having a jurisdiction with a relatively affordable housing market, CHAC staff felt that they were well positioned to start a voucher homeownership program. However, staff in the organization did not have substantive homeownership program experience.

CHAC began developing its program by investing in an extensive design phase. CHAC management staff noted that they knew the program regulations and had a lot of ideas about what they wanted, but they simply did not have the time to put together a program by themselves. They retained two consultants to design their program based on feedback from local constituents, available resources, and the management and financing models that had been working well at the pilot program sites. These consultants played a key role in setting the vision for the Choose to Own program. Once the program design was completed, it took four months for it to be approved by CHA's Board of Directors and the City of Chicago.

CHAC defines its program goals in terms of purchases and has not set any limits on the number of vouchers that can be used for homeownership. The agency hopes to reach 50 purchases per year, a high volume among voucher homeownership programs. However, given that CHAC administers a total of 36,000 housing choice vouchers, even at 50 purchases a year the homeownership component will remain a very small part (less than 1 percent annually) of CHAC's overall voucher program.

Program Management, Staffing, and Partnerships

CHAC is the lead organization running the Choose to Own program. It is responsible for recruitment, screening, voucher administration, conducting Housing Quality Standards (HQS) inspections, reviewing mortgage terms and inspection reports, and overall program coordination. A large number of program partners also contribute to operating the Choose to Own program. CHAC describes its approach as one that relies on its partners to be fully committed to the program and to do their jobs well. The CHA funds all Choose to Own program costs – including CHAC staff salaries, homebuyer counseling, and other routine operating costs – using voucher and voucher homeownership program administrative fees as well as funds it has available because it is a Moving to Work (MTW) demonstration site. MTW allows participating PHAs added flexibility in using funds to support homeownership and other special programs.[24]

[24] Moving to Work (MTW) is a national demonstration program that allows PHAs to design and test ways to: provide incentives and support to families with parent(s) who are seeking work, participating in a training program, or working; to achieve programmatic efficiency and reduce costs; and to increase housing choice for low-income households. MTW was authorized by federal law in 1996 and allows the 32 participating PHAs exemptions from certain public housing and tenant-based Housing Choice Voucher program rules. It permits PHAs to combine operating, capital, and tenant-based assistance funds into a single agency-wide funding source, as approved by HUD.

CHAC works with four counseling agencies, selected through a Request for Qualifications (RFQ) process: Neighborhood Housing Services (NHS) of Chicago, Spanish Coalition for Housing (SCH), Latin United Community Housing Association (LUCHA), and Rogers Park Community Development Corporation (RPCDC). Program functions provided by the counseling agencies include the provision of pre- and post-purchase homeownership counseling, support with credit repair, assistance with mortgage pre-qualification, and post-purchase visits to homeowners.

CHAC's contracts with the counseling agencies clearly specify the services to be provided by the agencies. CHAC pays each agency at specific milestones: $480 when the client has completed all necessary group and one-on-one counseling and receives a certificate of completion; $480 when the agency completes a prequalification calculation for the client; $240 when the bank approves the lending terms for the house; and $600 when post-purchase counseling is complete, for a total of $1,800 for a successful purchaser. These amounts are substantially more than any of the other PHAs we visited paid for counseling services.

Both NHS and SCH staff noted that the funds provided by CHAC for Choose to Own participants represent relatively small portions of their annual budgets. NHS receives funding from a variety of sources: general funding from NeighborWorks America, corporate donations from banks/lending partners, City of Chicago counseling grants, fees for workshops NHS provides to workers of local employers, Fannie Mae grants, MacArthur Foundation grants, and HUD counseling grants. SCH also has funding from several sources, including City of Chicago counseling grants, corporate donations from banks/lending partners, funding from the Illinois Housing Development Agency (IHDA), and HUD counseling grants.

Beyond having formal contracts with its four providers of homeownership counseling, CHAC has informal agreements with an organization that provides credit counseling services and a group that provides volunteer legal services. In the summer of 2004, the Association of Community Organizations for Reform Now (ACORN) approached CHAC with an interest in becoming a program partner. ACORN had federal funding available to provide intensive credit counseling and repair services, as well as homeownership counseling services to program participants. CHAC agreed to refer Choose to Own clients in need of serious credit repair assistance to ACORN, but required that clients receive the pre-purchase homeownership counseling from one of the other four counseling partners. ACORN has a variety of funding sources, including the national organization's annual campaign, corporate donations from banks/lending partners, United Way donations, Catholic Charities donations, and foundation grants.

The Choose to Own program also benefits from legal services for its clients at minimal cost. The Community Economic Development Law Project (CEDLP) is a non-profit organization that coordinates and facilitates pro-bono and low-cost legal work in the realm of community development. In 2002 the CEDLP director approached CHAC with an interest in becoming a program partner. CEDLP volunteer attorneys are available to review purchase agreements, meet with the clients, negotiate with sellers, and provide advice on insurance or other matters as requested by the purchasers. Purchasers who choose to use CEDLP's services pay a $125 administrative fee.[25] In addition, CEDLP receives funding from the Eleanor Foundation, corporate donations from law firms, and private donations.

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[25] Using CEDLP's services is recommended, but not required.

The Choose to Own program has several lending partners, including Harris Bank, Marquette Bank, Countrywide Home Loans, and Citibank. Harris Bank and Citibank were the original two lending partners, although as of the site visit in September 2005, Citibank had not made any loans for program purchasers for more than a year. Bank One was also an early lending partner but dropped the voucher homeownership program after a merger with JP Morgan Chase.

Developing lender partnerships took considerable time and effort. Harris Bank had prior experience working with CHAC and a number of the counseling agency partners and was involved in the program start-up phase. The Illinois Partnership Office of Fannie Mae (located in Chicago) helped to recruit Citibank and Bank One and approached them on behalf of CHAC. Marquette Bank approached CHAC directly in 2004 indicating its interest in the program. Lender feedback from Harris Bank and Marquette Bank indicated that, although the program required that they make some modifications to the underwriting and servicing process, these changes were not onerous. In general, lender support for the program has grown over time because of the strong performance of program loans and the preparedness of program purchasers as a result of pre-purchase counseling.

Although Citibank started out as a strong program lender, it developed problems servicing separate payments from CHAC and the purchasers. For unclear reasons, Citibank did not implement a proposed solution in which the bank would automatically withdraw the monthly mortgage payment from one account. In addition, Citibank developed problems with purchase transactions that included a particular downpayment assistance grant administered by two of the counseling agencies. Several Citibank loans almost fell through just before purchase. Another lending partner made those loans at CHAC's request. CHAC noted that communication with Citibank was difficult and slow because their underwriter is in St. Louis. Citibank has been working with Fannie Mae to solve the servicing problems and has indicated an interest in rejoining the Choose to Own program, but needs to rebuild trust with the other program partners.

At CHAC, two full-time staff run the program: the Homeownership Coordinator and a Homeownership Specialist, who is also a certified HQS inspector. The two main counseling agencies have also devoted considerable staff to the program. SCH has six homeownership counselors who work with Choose to Own participants, and those six counselors share three support staff. NHS has five homeownership counselors who work with the program. NHS has been challenged by staff turnover both among homeownership counselors and among organizational managers. The position of Homeownership Director went unfilled for a long time, which slowed down the administrative exchange of information between NHS and CHAC. The current Homeownership Director at NHS was hired in June 2005. A couple of very experienced NHS counselors familiar with the Choose to Own program were able to continue their work, and as a result the management problems did not appear to have had a detrimental effect on program participants.

Focus group participants had positive impressions of the management of the voucher homeownership program. Several purchasers noted how much they liked both their housing counselors and CHAC's Homeownership Director.

Program Design

Targeting and Outreach

Voucher program participants who meet HUD's income and employment guidelines as well as CHAC's minimum credit and savings requirements are eligible for the Choose to Own program. It is possible to enter the program directly from the voucher program waiting list, but this is fairly rare.[26] One participant came directly from public housing and purchased without first using a rental voucher, and there are a handful of other such public housing clients in the pipeline. Most of the public housing residents participating in the Choose to Own program have relocation vouchers available to them because they live in public housing targeted for redevelopment under the CHA's Plan for Transformation.[27]

Participation in the FSS program was once a prerequisite for enrollment. CHAC staff eliminated this requirement because they wanted to ensure that the education, job training, life skills training, and escrowed savings provided by FSS went to voucher holders who most needed these services. Voucher participants with a strong educational background, steady employment, and relatively high-income typically do not enroll in FSS. However, CHAC reserves the right to require FSS enrollment for Choose to Own participants who need the kinds of supports offered by FSS. A significant number of program purchasers have indeed come from the pool of long-term participants in the FSS program.

In addition to HUD's eligibility guidelines, CHAC requires that applicants have: established good credit (scores of 600 or better), paid off all collections, resolved any bankruptcies at least two years ago, saved at least $2,500, and opened checking and savings accounts. The homeownership coordinator describes the program as appropriate for disciplined, hard-working people.

For participants with disabilities who are on fixed incomes, CHAC is flexible about the minimum savings requirement. The homeownership coordinator noted, however, that for single individuals with disabilities, the combination of an income below $10,300, a one-bedroom voucher, and limited savings makes it almost impossible to find a good quality home to purchase. The program has had no purchasers with annual incomes below $11,000.

Information about the Choose to Own program is presented at FSS program meetings, during annual recertifications, via direct mail letters to voucher holders with incomes over $10,000, in flyers at CHAC and the counseling agencies, and at homeownership events held in various communities. The Homeownership Coordinator noted that staff focus their recruitment efforts on voucher program participants because only current voucher holders and families already on the waiting list can participate, and in Chicago's low-income communities there is a lot of frustration with the inability to get onto the voucher waiting list, let alone to actually get a rental voucher. CHAC also markets the

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[26] The Chicago voucher program waiting list has been closed for years and contains more than 9,000 people.

[27] The Plan for Transformation is the name of the Chicago Housing Authority's large-scale transformation of high-density public housing into mixed income rental and purchase communities funded by the HOPE VI program. The residents of public housing targeted for redevelopment receive relocation vouchers that allow them to rent private units. CHAC's Homeownership Director sees this as a key opportunity for public housing relocatees to take advantage of both the FSS and Choose to Own programs. CHAC staff expect that most Choose to Own participants with relocation vouchers will take advantage of the newly developed mixed-income housing with homeownership options on or near the public housing sites they left.

Choose to Own program to public housing tenants who are eligible for relocation vouchers through the CHA's Plan for Transformation. CHAC's Homeownership Coordinator runs separate introductory workshops for this group, as they are often not very familiar with the voucher program in general.

People interested in the Choose to Own program call CHAC to sign up for an orientation session, held twice monthly at CHAC and conducted by the Homeownership Coordinator. One orientation per month is also conducted in Spanish. Interested parties then sign an authorization to release a credit report to CHAC and submit an intake application that includes family composition, rental, employment, income, savings and debt information. After the homeownership coordinator has received the completed application, she meets with the family in-person to review the application and to go over program rules. At this meeting she provides the family with a packet of program information including a list of all counseling agencies and a certificate of eligibility. It is then up to the participant to call one of the counseling agencies to arrange for pre-purchase homeownership counseling.

CHAC does not limit program enrollment and continues to make the program available to new participants who meet the program's requirements. The Homeownership Coordinator has more than 1,000 files of people who have completed enrollment applications but have not followed up with a counseling agency.

Homeownership Counseling

CHAC contracts with four different counseling agencies to provide homeownership counseling: Neighborhood Housing Services (NHS) of Chicago, Spanish Coalition for Housing (SCH), Latin United Community Housing Association (LUCHA), and Rogers Park Community Development Corporation (RPCDC).[28] All four of the Choose to Own counseling agencies are HUD-approved, community-based non-profit organizations that provide pre-purchase counseling among other housing services. Three of the four counseling partners (the exception being SCH) also develop affordable housing.

NHS and SCH serve the largest numbers of voucher homeownership clients; each organization has about 50 program purchasers. SCH was founded in 1966 and was the first HUD-approved counseling agency in Chicago. NHS was founded in 1975 and is a charter member of the national NeighborWorks America network. In addition, NHS is the only organization among the four that offers significant lending services, usually in the form of second mortgages. Both SCH and NHS serve program participants in multiple locations—three for SCH and four for NHS.

LUCHA and RPCDC have more of a local focus. LUCHA, a Puerto Rican community housing group, was started in 1982 to advocate for the residents of the West Town, Humboldt Park, and Logan Square neighborhoods. LUCHA has counseled 28 purchasers. RPCDC was incorporated in 1997 as a subsidiary of the Rogers Park Community Council to create local affordable housing opportunities. RPCDC has counseled five purchasers.

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[28] Management staff and homeownership counselors from both Neighborhood Housing Services (NHS) and Spanish Coalition for Housing (SCH) were interviewed as part of the site visit. Due to time constraints and the relatively small numbers of Choose to Own clients that they have served, LUCHA and RPCDC staff were not interviewed.

Program participants choose which partner agency to contact for homeownership counseling. CHAC's Homeownership Director noted that most clients choose the most conveniently located counseling agency. Because of agency locations, histories, client perceptions, and the extensive services in Spanish available at SCH, NHS serves most African-American purchasers, and most Latino purchasers are served by SCH. However, all four partner counseling agencies provide workshops and one-on-one counseling in Spanish.

ACORN – a national non-profit with locally based affiliates that provides credit counseling, housing counseling and support services – is also a partner in the Choose to Own program. CHAC refers clients needing more than a year of credit repair work to ACORN. The four homeownership counseling agencies provide credit counseling for Choose to Own clients who need less than a year of credit repair. Once clients complete ACORN's credit repair program, they call one of the four counseling agencies to begin homeownership counseling.[29]

NHS provides most of its homeownership counseling in groups, while SCH primarily does one-on-one counseling. NHS uses the NeighborWorks America curriculum in four group sessions of approximately two hours each. After the group sessions are completed, NHS counselors follow up with clients one-on-one as needed. SCH conducts two, two-hour sessions of group financial literacy counseling using the MoneySmart curriculum from the FDIC and then covers homeownership topics in one-on-one sessions using the NeighborWorks America curriculum. The Homeownership Counselors from both NHS and SCH have been certified at NeighborWorks America trainings.

Focus group participants reported that the pre-purchase counseling they received was very informative. However, one purchaser noted that it was exhausting to attend counseling workshops at night after a long day at work. Two focus group participants who had to repair their credit before purchasing said they received a lot of support during that process from NHS of Chicago.[30]

Home Search and Inspections

Program participants can obtain a list of real estate agents that purchasers have worked with by requesting it from CHAC staff, although most focus group participants said they found their agents through advertisements. Counseling agency staff are available for support with the home search process, but clients typically look for houses on their own. NHS provides counseling graduates with lists of properties NHS has developed or renovated in case program participants are interested in buying an NHS property. Often developers will give lists of their properties to CHAC, but CHAC will not release program participant contact information to developers.

Focus group participants had mixed experiences with real estate agents. Some purchasers struggled to get their agents to focus on the neighborhoods and the kinds of homes they wanted. Several focus group participants switched real estate agents at least once or found their homes without the help of an agent. CHAC's Homeownership Coordinator noted that, early on, real estate agents were showing

29 CHAC does not refer clients to ACORN for pre-purchase counseling because the program already has four, competitively selected counseling partners. CHAC staff indicated that if they decide they need another counseling partner and issue an RFP to which ACORN responds, CHAC would consider adding ACORN as a counseling partner.

30 These purchasers needed less than a year or less of credit repair so were not referred to ACORN.

program participants a lot of cheap "fixer-uppers" and "as-is" properties until the agents understood that such properties are not appropriate for the program.

After clients find a home and sign a purchase agreement, CHAC schedules an HQS inspection and the purchaser may request a volunteer lawyer from the Community Economic Development Law Project (CEDLP). CEDLP is a non-profit organization that coordinates and facilitates pro-bono community development legal work for Chicago lawyers. CEDLP provides orientations for volunteer attorneys at their offices as well as at corporate firms. The orientation covers Choose to Own program details and provides a refresher on real estate transactions, as most of the volunteers are not real estate lawyers. Once CHAC staff receive the purchase agreement, they fax a copy to CEDLP which then assigns a volunteer lawyer to review the agreement, meet with the client, and negotiate with the seller as necessary through the purchase.

The Homeownership Director noted that most properties fail the first HQS inspection or only receive a provisional pass, but the failures are typically due to minor issues that cost less than $300 to repair. After the seller makes any necessary repairs and the unit passes HQS, the client schedules an independent inspection. The independent inspection report is reviewed by CHAC's Homeownership Coordinator as well as by the volunteer attorney. CHAC will not allow the purchase of any home for which the independent inspection shows that more than $1,500 in immediate repairs is needed, as program participants simply do not have the resources to make such repairs after purchase. For houses that need more than $1,500 in repairs, the sellers have to be willing to make the repairs themselves or escrow the repair money at closing, as the purchasers cannot walk away from the closing with cash. For the most part, purchasers do not buy homes that have significant immediate repair needs.

Focus group participants noted that they were all looking for single-family detached homes and that they were not interested in condominiums because they felt that would be like living in an apartment. They wanted yards and their own space. One purchaser was very flexible about which area of the city to buy in, whereas most others wanted homes in a specific neighborhood near their jobs or their children's schools. One purchaser renting on the North side tried very hard to find something affordable in her neighborhood but could not and had to move to a new neighborhood to purchase.

Lenders

The Choose to Own program has had a handful of different lending partners since it began. Currently there are two active lending partners, Harris Bank and Marquette Bank; one promising new partner, Countrywide Home Loans; and one lender, Citibank, which wants to rejoin the program after a hiatus of more than a year. Bank One, a former lending partner, dropped the homeownership program after a merger with JP Morgan Chase.

Harris Bank remains the strongest lending partner and has made almost two-thirds (81) of the loans for program purchasers. Harris is a local bank with a history of providing mortgages to low- and moderate-income purchasers. As a result, Choose to Own participants are similar to the bank's typical clients. Bank management staff explained that they provide loans for this program because it is the right thing to do, not because of pressure to increase community lending to enhance their performance under the Community Reinvestment Act (CRA).[31] Harris uses Freddie Mac products.

Marquette Bank, a local Chicago-area lending institution, was predominantly an investment bank until the late nineties when it was criticized for a lack of community lending and for poor performance under the CRA. According to bank staff, Marquette then hired new marketing staff to transform their corporate culture and build up non-traditional markets that served local communities. Marquette has since developed a variety of in-house lending products for low- and moderate-income borrowers and has worked with the communities where their branch offices are located. Marquette has provided only a handful of loans for program purchasers thus far, but they have a number of program loans in the pipeline. Marquette uses Fannie Mae products.

Citibank, a national bank, made 26 loans for program purchasers but (as described earlier) has not made a loan in more than a year due to problems with remote underwriting, communication, and servicing. Citibank uses Fannie Mae products.

All program purchasers receive a list of partner lenders and are encouraged, although not required, to choose from among the partner lenders. Non-partner lenders may make loans to program participants if the loan officers are willing to meet with the Homeownership Director and commit to servicing the loans in-house. While clients are not steered to particular lenders, it appears that purchasers often use the lenders with whom their counseling agency has the strongest relationship. For example, Harris Bank has a long working relationship with NHS of Chicago, and most program purchasers who attended NHS counseling have loans from Harris Bank.

Focus group participants had very positive experiences with their lenders, except for one purchaser who had to deal with a lot of negotiations and uncertainty regarding the status of a student loan in hardship forbearance. All of the counseling agencies forward their pre-qualification calculations and supporting materials directly to the lenders. This helps the process run smoothly.

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31 The Community Reinvestment Act (CRA) was enacted in 1977 (and revised in May 1995) to encourage banks, thrifts and other lending institutions to meet the credit needs of their local communities, including low- and moderate-income clients and neighborhoods. The Act requires that institutions provide equal access to lending for all residents within a three- to five-mile area surrounding each branch location. The CRA requires that institutions' lending records are reviewed regularly by various federal agencies, and that the outcomes of these reviews impact applications for mergers or for deposit facilities. Affordable housing organizations and economic development organizations have become increasingly aware of the provisions of the CRA and have negotiated with banks to increase lending to their constituencies. While a lending institution cannot lose its charter or FDIC insurance as a result of a low CRA score, high scores are often used as marketing tools to attract both investors and new customers.

Financing Model

While the Choose to Own program allows all three voucher homeownership financing models, the HAP as income and HAP as offset models are most common. Early on, CHAC staff and other program partners expected that the two-mortgage model would be used most frequently, but loan size and affordability limited the use of the two-mortgage model to only 12 purchasers.[32] The current approach is that the purchaser chooses the model that suits her or him best. The Homeownership Director reported that homeownership counselors complete pre-qualification calculations using each of the financing models and then help the participant choose which model best fits their situation.

It is not clear if counseling agencies are actually doing multiple pre-qualification calculations and reviewing them with program participants, because the lender partners either allow the HAP as offset model (Harris Bank) or the HAP as income model (Marquette Bank, Citibank), depending on whether they use Freddie Mac or Fannie Mae lending products. Freddie Mac products treat the HAP as offset, whereas Fannie Mae products generally treat the HAP as income. This means that, if purchasers are referred to a particular bank and stick with that lender, their financing model has essentially been chosen for them.

Sample Purchase Transaction: Chicago, Illinois

Buyer's Annual Income:	$33,805 (as of 11/30/2004)
Purchase Date:	10/29/2004
Costs to Buyer:	
– Purchase Price:	$140,000
– Closing Costs:	$4,347
Sources of Financing:	
– 1st Mortgage:	$140,000 (6.3%, 30 yrs)
– Grants	$2,058 (Citibank)
– Buyer Cash Down:	$1,000
– Seller-Paid Taxes:	$1,290
Monthly Mortgage Payments:	
– Total PITI:	$1,202
– HAP to offset PITI:	$652
– Buyer's PITI portion:	$550
– Buyer's share of PITI as a percent of gross monthly income:	20%

The vast majority of purchasers are using conventional lending products that require Private Mortgage Insurance (PMI). Only two purchasers chose to use non-partner lenders, and they had FHA loans. Purchasers with voucher-backed second mortgages from Neighborhood Lending Services (NLS), the lending affiliate of NHS, do not have PMI. CHAC program rules prohibit the use of mortgages with pre-payment penalties, balloon payments, adjustable rate mortgages (ARMs), and inappropriately high interest rates.

All lending partners service program purchaser loans in-house. At Harris Bank these loans are flagged for an early alert should there be any late payments. There have not been any late payments thus far, but loan officers report that they would contact the Homeownership Director if anything were amiss.

All program purchasers are required to open a checking account at the bank from which they have taken out a mortgage. CHAC directly deposits the HAP into the purchaser's checking account each month, and the bank automatically withdraws the mortgage payment each month. CHAC has had no

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32 When the two-mortgage model is used, the second mortgage is capped at $50,000 even if amortizing the HAP over 15 years could support a larger loan. This decision was made because larger second mortgages put NHS in a vulnerable position with large loans in second position and limited the number of loans NHS could make. The twelve program purchasers that used the two-mortgage model all had second mortgages from NHS.

concerns with depositing the HAP into the client's checking account and feels that if such a level of trust has not been built up by the time of purchase, then there is something wrong with the program.

Purchasers are also required to open a maintenance reserve savings account that must hold $1,000 at the time of purchase. Purchasers are further required to deposit $75 into the maintenance reserve account on a monthly basis. Purchasers must notify CHAC and submit receipts when using the maintenance reserve account. The Homeownership Director reported that she has not audited these accounts, and the lenders noted that they do not review these account balances either. Half of the focus group participants indicated that they were making these payments, while the other half said they needed that money for other things.

CHAC follows HUD guidelines that suggest a downpayment of at least three percent of the purchase price. In addition, at least one percent of the purchase price must come directly from the purchaser.

Various downpayment and closing cost assistance programs are available to Choose to Own purchasers, providing modest amounts of assistance for most purchasers. Grants from the Illinois Housing Development Agency (IHDA) provide forgivable loans of up to $5,000 depending on household income. These grants are available through SCH and LUCHA, but not at NHS. LUCHA also administers a Federal Home Loan Bank (FHLB) grant program that provides $3,600 in assistance, as well as another program that offers up to $2,500 in the form of a deferred loan.

The City of Chicago has a HOME-funded program called New Homes for Chicago that provides deferred loans of up to $30,000, based on family size and income, to cover the gap between the purchase price of a newly constructed home (not to exceed the FHA maximum mortgage limit for the unit size) and what the purchaser can afford. This program has not been utilized very often, as most purchasers are not buying new homes. The City of Chicago has also recently begun offering downpayment assistance to low-income purchasers through the American Dream Downpayment Initiative (ADDI) using HOME funds, but this program has been overwhelmed by applications, given that only one city employee has been assigned to review the extensive paperwork required to receive the assistance. Some lenders also provide downpayment and closing cost assistance.

Home Options, an organization that assists purchasers with disabilities, has funding from the City of Chicago to provide between $12,000 and $20,000 in downpayment assistance for purchasers with disabilities. Home Options also provides accessibility grants of up to $5,000 for home modifications for purchasers with disabilities. Access Living, another organization that assists purchasers with disabilities, administers CHAC's housing modification program, providing grants for home modifications for purchasers with disabilities. CHAC and City of Chicago funding for purchasers with disabilities is limited and runs out quickly each year.

Refinancing of program loans is permitted only for certain purposes, including making needed home repairs, improving the loan terms, buying a needed vehicle, or investing in education. While several purchasers have considered refinancing, only one purchaser has refinanced (for a critical vehicle purchase). Program purchasers are not allowed to refinance for anything CHAC considers bad debt. CHAC requires that all purchasers considering refinancing meet with their original counseling agency to review how to build assets and avoid bad debts. If the family then decides to proceed with refinancing, documentation of the reasons for refinancing and all terms must be reviewed and approved by the Homeownership Coordinator. Purchasers who do not comply with CHAC's refinancing rules are terminated from the program, according to termination guidelines.

Post-Purchase Activities

During the first year after purchase, the counseling agency is supposed to contact purchasers on a quarterly basis to find out how they are doing and to review budgeting and bill payments. The contract with the counseling agency requires that it conduct a casual home visit approximately a year after purchase. As required by the voucher program, CHAC conducts annual recertifications after purchase. CHAC does not require post-purchase HQS inspections.

CHAC's Homeownership Director noted that, as the volume of purchases increases, post-purchase needs have grown. All of the counseling agencies have post-purchase counseling available, but the quality of counseling varies across the agencies and does not always provide the practical assistance homeowners are looking for. The Homeownership Coordinator conducted workshops on taxes and estate planning in the fall of 2005, as these are often issues that come up for homeowners.

Because program participants are buying homes without significant repair needs, post-purchase repairs have not been a major issue. A common big-ticket item post-purchase is tree removal. To assist with questions that purchasers have about finding reliable repair services, CHAC buys all purchasers a one-year membership to Angie's List, an online forum where homeowners share recommendations for all manner of home maintenance and repair companies and contractors. There are local organizations that offer emergency utility assistance as well as emergency weatherization repairs, and CHAC and the counseling agencies provide lists of these organizations to buyers.

Only half of the purchasers from the focus group reported receiving the kind of post-purchase follow-up described as standard by the Homeownership Coordinator. The Coordinator noted that NHS was behind on post-purchase activities and had a plan for catching up. One of CHAC's goals for the Choose to Own program is to strengthen post-purchase counseling and to monitor this component in a more structured way.

Program Outcomes

As of mid-September 2005, 129 Choose to Own participants had purchased homes. At that time another six contracts were pending and an additional 13 new construction units had been reserved for purchase.[33] The average price of homes purchased by program participants is $135,928, with a range of $81,500 to $232,000. Among purchasers, the average income is $20,818, with a range of $11,000 to $46,000. There have been no defaults, foreclosures, or resales.

About 120 additional program participants are currently in counseling, waiting for lender pre-approval, or looking for a home. Approximately 200 other clients are working through a year or more of credit repair at ACORN. As noted earlier, there are more than 1,000 completed applications on file for which the family has not yet contacted a homeownership counselor.

The majority of purchasers have loans using the HAP as offset or HAP as income models, with only 12 using the two-mortgage model. No purchasers' incomes have increased enough that they no

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[33] Per program regulations, these are units where construction is already underway. See discussion of "reserving" new construction units below.

longer qualify for the voucher program. One purchaser was terminated from the voucher program for underreporting her income to CHAC, but has managed to remain in her house according to CHAC staff. Several purchasers have lost their jobs since purchasing and are working with job developers to get rehired. One purchaser was allowed to refinance for a critical car purchase.

Among the 129 purchasers, 24 purchasers were still adding to their FSS escrow accounts at the time of closing.[34] If purchasers do not need their escrow for a downpayment and they have not completed the five-year term of the FSS program, they are encouraged to stay in FSS to build up their escrow for another approved use, such as education or a vehicle purchase.

Almost all of the homes purchased are single-family detached structures and were built between the 1940s and 1970s. Many are bungalows or center hall colonial-style homes. Since program rules require that foundations be in place before purchase agreements can be signed, it has been challenging for program participants to take advantage of the affordable new construction units being built in the city, as many of those units are sold before the ground is broken. After CHAC built up credibility with several local developers, those developers have allowed program purchasers to "reserve" new construction lots until the foundations are poured, at which time the contracts are signed.

Although most homes do not pass HQS during the first inspection or are only given a provisional pass, the repairs needed are almost always minor and cost less than $300. Since real estate agents have come to understand that the Choose to Own program does not accept "fixer-upper" and "as-is" houses, the independent inspections usually do not turn up big problems. Every once in a while the independent inspection catches a bigger issue.

One focus group participant noted that she discovered after purchase that the air conditioning did not work. This problem had not been noted in the independent inspection, as the inspection had been conducted during the winter when the heat was on. Another two purchasers from the focus group had been proactive with maintenance and had drawn from their maintenance reserve accounts for repairs and upgrades.

According to data collected by CHAC on voucher program mobility rates, 68 percent of purchasers bought in a neighborhood with a lower poverty rate from the neighborhood they came from, and 27 percent of purchasers moved from high poverty to low poverty neighborhoods. The majority of focus group participants described their new neighborhoods as safe, although one purchaser said that she feels safe only because she had an alarm installed on her home.

The neighborhoods visited during the site visit were of moderate quality, and some showed a need for infrastructure investment, with crumbling curbs and sidewalks. Some neighborhoods had experienced recent commercial development that added retail stores and banking services. Most homes in the purchase neighborhoods were well-kept, but about 10 percent were dilapidated and in poor condition. Bus and highway connections were plentiful in purchaser neighborhoods.

[34] 115 of the 129 purchasers had been enrolled in FSS. Agency-wide, approximately 1,300 CHAC clients are enrolled in FSS.

Focus group participants expressed tremendous satisfaction with being homeowners. The purchasers reported that they had been seeking independence from difficult landlords, stability for their children, a place for their children to play, and some "space to breathe" when entering the Choose to Own program. The homeowners in the focus group were very practical, well informed, and clear on what they were doing. Whenever they mentioned the challenges of homeownership, they noted that the equity-building benefits and the feeling of owning your own home made it all worth it.

Lessons Learned

CHAC staff attribute their success to a combination of factors. First they note the importance of having a committed, knowledgeable, and effective program manager. The Choose to Own program has also been lucky to have very low staff turnover at CHAC, SCH, and Harris Bank. CHAC staff thinks it is critically important to have solid program partners who can be relied upon to do their jobs. In addition, having multiple counseling and lending partners has allowed the program to function well even when one or more partners were facing challenges. The availability of housing stock within participants' price range has also been an important factor in the program's high number of purchases.

CHAC management staff reported that their heavy investment in the design phase was worthwhile, as they now have a program that runs well and provides consistent services across a large number of program partners. They also noted that the current resources available in Chicago—including various gap financing programs, assistance programs for purchasers with disabilities, and CHAC's general focus on informing voucher participants about the benefits of low-poverty neighborhoods all contribute to the homeownership program's success.

From the point of view of CHAC staff, the biggest ongoing challenges for the program are maintaining adequate HUD funding for the voucher program and the housing counseling program and finding affordable housing stock for purchasers. CHAC and SCH staff are concerned about affordability and housing choice as prices continue to rise while salaries and job stability typically do not increase for families in the Choose to Own program who have not yet become purchasers.

CHAC gets its funding from the CHA, which gets its funding from HUD. CHAC staff are concerned that HUD budget cuts to the housing choice voucher program will seriously hurt the voucher homeownership program. Both housing counseling agencies interviewed noted that funding constraints were a big issue and that they have had challenges fundraising. HUD funds 11 positions for CHAC's FSS program. For the last couple of years CHAC has applied for a homeownership coordinator position, but HUD has declined to add the position to its funding of CHAC's FSS program.

Program staff are satisfied with current program rules and hope that no new regulations are added that make the program less attractive to PHAs and their partners. While program staff do not think that this program can be made mandatory given the burdens involved, they are confident it can be more than a "boutique" program.

Fulton County, Georgia

Voucher Homeownership Program at a Glance: Fulton County, Georgia

Total Size of PHA Housing Choice Voucher Program[a]	1,600
Number of Active VHO Participants (Not including those who have closed)	30
Total Number of Home Purchases	23
Average VHO Participant Income[a]	$23,456
Average HCV Household Income[a]	$12,134
Number of Foreclosures	0
Current Number of Delinquent Payments or Mortgages in Default	0
Other Sources of Assistance for Purchasers	HOME, County funds[c]
Market Characteristics	
Range of Purchased House Prices	$89,000 to $130,000
Area Median House Value[b]	$235,313

Unless otherwise indicated, the information for this table was collected during the site visit.

[a]Source: HUD Resident Characteristics Report.

[b]Source: 2004 American Community Survey.

[c]See Financing Model section in this case study for descriptions of these programs.

Introduction

The Housing Authority of Fulton County (HAFC) administers approximately 1,600 housing choice vouchers in the unincorporated parts of Fulton County, Georgia, which includes suburban areas to the north and southwest of the city of Atlanta but excludes the city itself. Although the rental voucher program operates out of the HAFC's central office in Fulton, voucher homeownership program staff are located in a separate facility, the Red Oak Renaissance Homeownership Center in College Park.

HAFC began offering the homeownership option in 2001 and had its first purchase in 2002. HAFC staff currently work with one primary lender and a few real estate agents to administer the program. At the time of the site visit in August 2005, 23 participants had purchased homes through the program. None of the homeowners had defaulted or had a home foreclosed on so far, and staff were optimistic about the program's long-term success.

HAFC's voucher homeownership program has had some ups and downs as a result of management changes, but it now appears to be operating smoothly. Program staff attribute the program's recent success to a strong lender partnership and an individualized counseling program, which features a combination of one-on-one sessions and group homebuyers' club meetings led by HAFC's Homeownership Program Director. In addition, the program benefits from its location at the Red Oak Renaissance Center, which provides a comfortable and motivating environment for participants, away from the main housing authority and with ample group and private meeting space. However, the program faces several challenges that may limit its long-term growth, including a shortage of staff given the intensive nature of the in-house counseling provided, a lack of additional lender options, and a limited supply of good quality homes that are affordable to VHO program participants.

Housing Market Conditions

Program staff described the housing market in Fulton County as "a buyer's market," with many new housing developments springing up alongside homes built in the 1950s and 1960s. Although house prices have increased since the program's inception, staff report that purchasers are generally able to find houses they like quickly. However, there is significant variation in housing as well as neighborhood quality, even among the largely middle-class neighborhoods in the county. The older housing is typically located in the lower-income neighborhoods. Although program purchasers typically move to neighborhoods with better schools than the neighborhoods in which they were formerly renting, program staff said these new neighborhoods often have lower quality housing stock and more problems with crime and social disorder.

As of August 2005, the average price of all homes purchased through HAFC's voucher homeownership program was $110,275, with a range of $89,000 to $130,000. Program staff are concerned that increasing house prices may ultimately restrict the growth of the program, as finding quality homes in good neighborhoods becomes increasingly difficult. Between 2000 and 2004, the median house value in Fulton County (including parts of the city of Atlanta not served by HAFC) increased by 35 percent, from $175,800 to $235,313.[35]

The share of homes available to lower-income buyers is decreasing, as shown in the chart below. In 2004, only 24 percent of owner-occupied units in Fulton County (including parts of the city of Atlanta not served by HAFC) were valued at less than $150,000, compared to 42 percent in 2000. These data, albeit difficult to interpret because they cover some markets that are not available to HAFC participants, suggest that program staff's concerns about the impact of increasing house prices may be warranted.

Home Values in Fulton County, GA	2000		2004	
Less than $50k	7,712	4.6%	2,696	1.4%
$50k to $99k	38,600	23.1%	15,601	8.3%
$100k to $149k	24,944	14.9%	26,675	14.2%
$150k to $199k	22,793	13.6%	29,691	15.8%
$200k to 299k	30,115	18.0%	39,082	20.8%
300k and above	42,947	25.7%	73,829	39.4%
Total	**167,111**	**100.0%**	**187,574**	**100.0%**

Sources: 2000 data are from the 2000 Census; 2004 data are from the American Community Survey

35 The aggregate, county-level data used for this analysis did not permit us to separate data for census tracts within the PHA's jurisdiction from those outside the agency's jurisdiction.

Program Development

Management staff at the housing authority started researching homeownership programs and looking for partners in the late 1990s when HUD introduced the pilot voucher homeownership program. Staff worked with representatives from Fannie Mae (whose office is next door to the housing authority) to design an initial plan and investigate potential partners. Because no one at the housing authority had any direct experience with first-time homebuyer programs, the Executive Director decided to keep the program small and call it a "demonstration" until it got off the ground.

HAFC's initial plan was to work with Fannie Mae to develop partnerships with lenders who would become the architects of the program. Finding lenders to participate in the program turned out to be the biggest challenge of the design phase and remains a challenge during implementation.

Alongside the voucher homeownership program, HAFC also operates a lease-purchase program called the Pathways to Homeownership program. This program is a joint venture with Freddie Mac and is open to any Fulton County resident with an income between $27,500 and $96,600. Under this program, HAFC purchases homes that participants lease for up to three years and then purchase. As of August 2005, six families had purchased homes through the Pathways to Homeownership program, including one voucher program participant. HAFC staff generally discourage voucher participants from pursuing the Pathways program, because the voucher homeownership program enables them to purchase a home without first leasing.

The voucher homeownership program was initially administered out of the housing authority's main building in downtown Fulton. The program got off to a slow start, and its first director left the housing authority in January 2005. At that time, HAFC discontinued all homeownership activities for approximately six months until a replacement director could be found. In June 2005, the newly hired director of the Pathways program stepped in to fill the position and has coordinated all program activities since.

HAFC's long-term goal for the voucher homeownership program is to assist approximately 10 percent of its voucher population (160 families) to become homeowners. Management staff are concerned about growing the program too quickly and maintain that the agency will not attempt to serve more participants than the small staff can handle.

Program Management, Staffing, and Partnerships

HAFC administers all components of the homeownership program out of the Red Oak Renaissance Center. The small staff consists of the Homeownership Program Director and an assistant (although this position has not been consistently filled). Staff and program participants describe the program's approach as individualized, relying on the dedication of the small staff and its few partners. Funding for the homeownership program comes primarily from voucher program administrative fees, but the housing authority also receives some money from the HOPE VI program to cover outreach and assistance to potential purchasers from that program (discussed further below).

Until recently, Consumer Credit Counseling Services (CCCS) was the homeownership program's primary partner for pre-purchase counseling. Program staff referred clients who needed help repairing their credit to CCCS and HAFC paid a $90 fee to CCCS for these services. According to program staff, the partnership "was completely set up for failure," because CCCS offered the same services free of charge to other clients and the number of people needing intensive credit counseling quickly exceeded HAFC's resources. The Program Director has not referred a client to CCCS in months and now conducts all the counseling herself on a one-on-one basis.

Finding lenders who are willing to work with the program has been one of the director's greatest challenges. Program staff cite a lack of support for the program among lenders as the primary problem. Under the previous director, the program worked with three lenders (First Service Mortgage, Citizens Trust Bank, and Washington Mutual). Program staff had met these lenders through working with Fannie Mae during the design phase. According to program staff, these lenders were difficult to work with because they were not particularly interested in working with the housing authority or with voucher participants. Both program staff and loan officers interviewed cite communication problems, difficulty obtaining necessary information, and a lack of support from the lenders' corporate offices as the primary reasons for not being more involved in the program.

The voucher homeownership program currently works primarily with one lender, One World Mortgage, whose representative is extremely dedicated and responsive to participants' needs. HAFC's Homeownership Program Director met the representative from One World through a participant who was not satisfied with the other lender choices. The Program Director was impressed by the lender's work with the participants and developed a memorandum of understanding to create an official partnership with the bank. At the time of the site visit, all four participants who purchased homes in 2005 used One World Mortgage. The 19 participants who purchased homes before 2005 used other lenders.

The partnership with One World Mortgage has been successful, largely because program participants work with one primary representative. Focus group participants reported being very satisfied with the One World Mortgage representative. They noted that she was respectful, realistic and responsive to their questions.

Program Design

Targeting and Outreach

HAFC's voucher homeownership program is open to both rental voucher participants and former residents of the Red Oak and Boat Rock public housing developments. These two developments are undergoing redevelopment through HUD's HOPE VI public housing revitalization program. The program does not target Family Self-Sufficiency program participants but encourages them to apply. Rental voucher participants must have been in the rental program for at least one year and be in good standing with the housing authority. All participants must meet the program regulation's income and employment guidelines, they must be first-time homebuyers, and they cannot have filed for bankruptcy within the past year.

Program staff publicize the program through HAFC's web site, mass mailings, telephone calls to qualified voucher participants, and flyers in HAFC's offices. However, many applicants find out about the program through word of mouth. Former residents of the Red Oak and Boat Rock public housing developments also learn about the program through their HOPE VI caseworkers, who work with HAFC homeownership staff to identify clients who meet the program requirements.

As of August 2005, the program had had approximately 140 applicants, far exceeding the Program Director's expectations. Given that the housing authority does not restrict the number of applicants, she said the list of applicants will continue to grow. She attributes some of the list's rapid growth to voucher program staff and caseworkers referring to the program clients who may be two to three years away from homeownership. According to the Program Director, these clients apply for the program but almost never follow through.

Homeownership Counseling

Every two months, the program holds a homeownership information session at the Red Oak Center. Staff give out door prizes, serve dinner to prospective participants, and encourage applicants to bring their children. Candidates contacted by phone, referred by their voucher program advisor, or who learned about the program through outreach attend one of the sessions to learn about how to participate in the program. If they are serious about participating, they must submit a letter of interest to the Program Director, who then pulls their credit report (at no charge to the applicant) and sets up an initial meeting. Many participants attend the information session and submit letters of interest but never attend the first meeting with the Program Director.

The Program Director prefers to conduct pre-purchase counseling on a one-on-one basis, designing the counseling curriculum around the individual homebuyer. Her previous experience at Equifax and with the Fairfax County (Virginia) Housing Authority's first-time homebuyer program qualifies her to conduct the counseling.

During the first meeting, the Program Director goes through the applicant's credit report and creates a set of action steps for the applicant to work on during the next month. In subsequent meetings, the Program Director reviews the applicant's previous 36 months of financial activity. Depending on their credit scores, applicants generally meet with the Program Director on a monthly basis to work on their credit problems and receive additional pre-purchase counseling. The number of meetings has ranged from 3 to 24 times for different participants.

The Program Director "triages" applicants according to their credit scores: those with scores of 620 and above are expected to be ready for homeownership in less than six months; those with scores between 550 and 620 may need up to a year of pre-purchase counseling; and those with scores of 550 and below may require 18 months of counseling or more. Once an applicant's credit score is above 550, the Program Director considers the applicant "enrolled" in the program. At the time of the site visit in August 2005, approximately 30 applicants were enrolled.

During the counseling sessions, the Program Director helps applicants contact credit agencies, open a bank account, write dispute letters, build credit, and generate savings. Applicants also attend quarterly homebuyers' club meetings led by the Program Director. During these meetings, the Program Director chooses a chapter from a credit and homeownership counseling book put together by a local nonprofit and presents it to the applicants. Several times each year the Program Director invites representatives from local banks to give presentations during homebuyers' club meetings. Although every meeting includes information on improving credit, other topics covered include maintenance, budgeting, goal-setting, saving, being a good neighbor, refinancing, predatory lending, and equity. These topics are covered during individual counseling sessions as well.

When participants are close to completing the pre-purchase counseling, they are required to attend a HUD-certified eight-hour counseling seminar. Several organizations in the county offer the seminar, which is required for participants to access downpayment and closing cost assistance through Fulton County's HOME program. The seminars are free or offered for a nominal fee ($10). After participants take the counseling seminar, the Program Director encourages them to choose and start working with a lender.

Home Search and Inspections

Homeownership program staff maintain a list of a few real estate agents who work with voucher participants, but leaves agent selection up to clients. Sometimes lenders refer clients to real estate agents they have worked with before but program staff generally advise purchasers to find their own real estate agents if they can, and most do.

Focus group participants reported mixed experiences with real estate agents. Several reported having to change real estate agents when an agent refused to work with the participant's chosen lender. Others reported switching real estate agents for other reasons, including non-responsiveness or personality conflicts.

After a purchaser finds a home and signs a purchase agreement, the Program Director arranges for a Housing Quality Standards (HQS) inspection. None of the homes purchased by current participants passed the first inspection. However most repairs were minor and were easily taken care of by the seller. After passing HQS, the purchaser schedules an independent inspection. Findings from independent inspections are generally consistent with those of HQS inspections.

Though finding quality homes in good neighborhoods is a challenge, both focus group participants and program staff noted that purchasers only want to buy single-family detached homes, which makes it even more challenging. Purchasers are not willing to look at row houses or condominiums, making it increasingly difficult to find good quality homes at affordable prices. Most single-family detached homes in Fulton County that are affordable to VHO participants are 40 to 50 years old and will soon need major repairs. Several focus group participants mentioned that the houses they purchased through the program three or four years ago are just now showing signs of their age—water heaters are breaking, driveways are cracking, and one purchaser needed a new roof. Purchasers who purchased in new developments are not experiencing these problems.

Lenders

Although past purchasers used a variety of lenders, since the start of 2005 all loans have come from One World Mortgage. One World Mortgage is a small bank with offices in Florida, Alabama, and Georgia. The bank has several programs for low- and moderate-income purchasers. The loan officer interviewed from One World explained that helping this population become homeowners has recently been incorporated into the company's mission.

All purchasers receive a list of lenders that past purchasers have used, including Chase Manhattan Bank, National City Mortgage Company, ABN AMRO, Citi Mortgage and One World. Purchasers are encouraged, although not required, to choose from lenders on the list. Lenders not on the list are required to meet the housing authority's standards for mortgage terms, which include using only standard financing. Balloon payments, adjustable rate mortgages (ARMs), and two mortgage 80/20 loans are not permitted.[36] The Program Director enforces these requirements by monitoring pre-approval letters and HUD-1 forms and by attending all closings.

Focus group participants reported positive experiences with the current loan officer from One World Mortgage and her predecessor. Several purchasers who used other lenders reported problems transferring information and documents between the lender and HAFC staff. In these cases, the Homeownership Program Director stepped in to facilitate information sharing even though she typically is not involved in this part of the process.

All lenders are required to sign an agreement with HAFC stating that they will notify homeownership program staff immediately in the event of a missed payment. Although rare, missed payments are frequently not reported to the Program Director—especially when the loans are sold and serviced by other lending institutions that may not know how the program works. This is a source of frustration for program staff and reason to encourage purchasers to use One World Mortgage, which has not sold any loans so far.

Financing Model

One World Mortgage uses the housing assistance payment (HAP) as offset model for purchaser payments, but other lenders have used the HAP as income model. All purchasers are required by the housing authority to have a single mortgage. Although One World Mortgage has not sold any of its loans on the secondary market so far, other lenders have. All participants using One World receive 30-year, fixed rate FHA loans. At the time of the site visit in August 2005, typical recent mortgages had a 6.5 percent interest rate and a monthly PITI payment of $600 to $700. All lenders receive monthly mortgage payments in two separate checks—one from the housing authority and one from the purchaser.

Sample Purchase Transaction: Fulton County, Georgia

Buyer's Annual Income:	$20,553 (4/22/2005)
Purchase Date:	2/20/2004
Costs to Buyer:	
- Purchase Price:	$105,000
- Closing Costs:	$4,269
Sources of Financing:	
- 1st Mortgage:	$103,377 (6.5%, 30 yrs)
- Forgivable Loans:	$3,150 (0%, 10 yrs forgiven, HOME funds)
- Grants	$2,200 (county)
- Buyer Cash Down:	$500
Monthly Mortgage Payments:	
- Total PITI:	$825
- HAP to offset PITI:	$449
- Buyer's PITI portion:	$376
- Buyer's share of PITI as a percent of gross monthly income:	22%

HAFC requires a downpayment of at least three percent of the purchase price, $500 of which must come directly from the participant. Several downpayment and closing cost assistance programs are available to purchasers. Fulton County's downpayment and closing cost assistance program uses HOME funds to offer purchasers up to $10,000 based on their income and the price of the home. The loan is deferred for 10 years with no interest, with the balance decreasing by 10 percent each year the purchaser stays in the home. At the end of 10 years, the loan is forgiven. Families qualify for the downpayment and closing cost

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36 So-called 80/20 loans divide the amount financed between two mortgages (the first for 80 percent of the cost of the property, and the second for twenty percent) but require the buyer to pay a higher interest rate on the smaller mortgage.

assistance offered through the county by attending HUD-certified counseling classes required by the program.

Post-Purchase Activities

HAFC's voucher homeownership program requires that all purchasers attend quarterly post-purchase group counseling seminars and semi-annual individual counseling sessions, in addition to annual HQS inspections and recertifications. During the group counseling seminars, the Program Director covers a range of topics, including maintenance issues, budgeting, utilities, appliances, predatory lending, equity building, seasonal maintenance issues, annual HQS inspections, and building credit. She uses individual counseling sessions to discuss progress toward self-sufficiency. However, of the 10 purchasers that attended the focus group, none had attended any of these seminars or had any contact with program staff beyond inspections and recertifications since purchase.

Because most program participants are buying homes without significant repair needs, post-purchase repairs have not been a major issue. Only recently have a few early purchasers encountered problems with their older homes, with one purchaser thinking about selling her house because she cannot afford the maintenance costs. Purchasers are not required to set money aside for maintenance and repairs.

Program Outcomes

At the time of the site visit for this study in August 2005, 23 program participants had purchased homes, 19 of which purchased prior to the program changes in 2005. As of August 2005, 140 applicants were working with the Homeownership Program Director and approximately 30 were officially enrolled in the program. The Program Director estimates that 18 to 20 of these enrollees will buy homes within the next two years. The Program Director expects the remaining applicants will decide to continue renting or will discontinue their participation in counseling because they will become discouraged by the lack of homes they can afford in the areas where they would like to live.

The average price of homes purchased through the program is $110,275, with a range of $89,000 to $130,000 (as of August 2005). There have been no defaults, foreclosures, or resales. Twenty of the 23 closers purchased single-family detached homes. One purchased a condominium and two purchased new townhouses. Many purchased units in and around the city of College Park, where the Red Oak Renaissance Homeownership Center is located. Though most purchasers moved to new neighborhoods when they purchased, the quality of new neighborhoods has varied greatly. Among the homes observed during the site visit, the newer units, built in 2003 and 2004, were set back from the main streets in private developments. These homes were well-kept, with nice landscaping and proximity to shopping centers and restaurants. Older homes, built in the 1950s or 1960s, showed signs of age but overall were well-kept. These homes were located closer to busy streets and contrasted noticeably with houses nearby, which showed signs of deterioration or the presence of refuse and abandoned cars.

Focus group participants expressed tremendous satisfaction with being homeowners. The benefits they reported included gaining independence from landlords, making an investment for their children, and giving their families more space—especially a lawn, a backyard, and a driveway.

Lessons Learned

HAFC staff attribute the success of its program to several factors. First, they praised the commitment of the loan officer from One World Mortgage. She is dedicated to her clients and frequently works nights and weekends to meet their needs. The Program Director insists that the program would not be what it is if not for the One World loan officer's level of commitment. Participant's experiences with other lenders have been far less positive. Unless program staff are able to identify other lenders who are willing to work with VHO participants, the continued involvement of the One World loan officer will be very important to the program's continued ability to move VHO participants to homeownership.

A second characteristic contributing to the success of the program is the individual pre-purchase counseling. When the Program Director first revived the program, she held monthly group counseling sessions and found that she would have a line of applicants waiting to speak to her at the end of each session. She gradually replaced the group counseling with individual counseling, while keeping the quarterly homebuyers' club meetings separate so that applicants hear the same message in different settings. She says this combination of formats "helps the message stick." Although combining individual and group sessions is more difficult for her, she is certain that it is better for the applicants and encourages them to bring personal issues to the individual sessions while learning from each other during group sessions.

Finally, the Program Director and several participants said that housing the homeownership offices in a separate location from the other Housing Choice Voucher administrative offices contributes to the success of the program. The Red Oak Renaissance Homeownership Center is in a rehabilitated old house in a quiet section of College Park. The house has a large conference room, space for three offices, and a large, renovated kitchen. The house is intended to offer a comfortable community environment for homebuyers' club meetings, group information sessions, orientations, and participants' kids, who come to the office with their parents, while still offering private space for potential purchasers to meet with real estate agents or lenders in one of the offices upstairs. The Program Director described the house as a "financially empowering place" where the atmosphere is different from the PHA's more impersonal administrative offices. After people walk through her front door, they are no longer dealing with the rental office downtown but speaking with people who are going to help them through their credit problems and help them find a home.

One of the primary challenges of administering the program is a lack of staff. The Program Director is typically alone at the Red Oak Center, although she sometimes has a full-time assistant. Because of funding constraints, she has worked with seven or eight different assistants in the 16 months that she has managed HAFC's two homeownership programs. Generally she works 70 hours each week, including many nights and weekends, frequently bringing her children to work with her. During the summer of 2005 she also had help from two interns, but finding funding for staff to administer the program on a full-time basis is not a priority for the housing authority.

Another key challenge for the program is finding lenders willing to work with voucher program participants. The program has enjoyed a successful partnership with One World Mortgage, which the Program Director partly attributes to the organization's small size and interest in expanding its client base. However, having more than one dedicated lender would provide more options for program participants and allow the program to grow.

Other challenges for HAFC's program include an increasingly expensive housing market, low wages of program participants, and credit issues. Many participants working at full-time jobs get discouraged when their perception of their buying power does not match reality. Program staff would like to see greater incentives for local developers to build affordable housing and more funding for comprehensive homeownership education.

Program staff summarized their work with the voucher homeownership program as "a constant learning experience." The Program Director advises other PHAs considering implementing a voucher homeownership program to: (1) create a separate space for homeownership activities; (2) develop relationships with key partners; (3) get help, either from additional staff resources or other organizations; and (4) not expect results quickly, as it may take two full years after program start-up to see a significant number of purchases.

Indianapolis, Indiana

Voucher Homeownership Program at a Glance: Indianapolis, Indiana

Total Size of PHA Housing Choice Voucher Program[a]	6,700
Number of Active VHO Participants (Not including those who have closed)	28
Total Number of Home Purchases	62
Average VHO Participant Income[a]	$18,954
Average HCV Household Income[b]	$9,710
Number of Foreclosures	0
Current Number of Delinquent Payments or Mortgages in Default	0
Other Sources of Assistance for Purchasers	Good Neighbor Loans, FHLB, Bonar Center IDA, ADDI[c]
Market Characteristics	
Average VHO Purchase Price	$80,000
Area Median House Value[b]	$112,924

Unless otherwise indicated, the information for this table was collected during the site visit.

[a]Source: HUD Resident Characteristics Report.

[b]Source: 2004 American Community Survey.

[c]See Financing Model section in this case study for descriptions of these programs.

Introduction

The Indianapolis Housing Authority (IHA) administers approximately 6,700 housing choice vouchers in Marion County, Indiana, a mostly urban area that includes the City of Indianapolis. IHA began offering the voucher homeownership option in September 2002 and set an initial goal of reaching 100 purchases by 2007 (five years into the program). As of September 2005, the program had 62 purchases, and staff expected to exceed the program's goal of 100 purchases, possibly by the end of 2005.

IHA has promoted homeownership for their Family Self-Sufficiency program participants since 2000. Approximately 33 families have purchased homes through partnerships with Habitat for Humanity, Interfaith Housing and many local community development corporations. The announcement of HUD's HCV homeownership program provided a vehicle for greater homeownership goal achievement and offered an opportunity to address a city-wide agenda of public school and neighborhood desegregation. The HCV homeownership program, in part, was intended to help meet the requirements of a court decree that called for shifting away from the temporary school integration achieved through busing students and toward more permanently integrated schools through racially mixed neighborhoods. The idea was that the voucher assistance would enable low-income African Americans living in the city of Indianapolis to purchase homes in the racially-mixed suburban areas where, through busing, their children were attending school. The targeted areas were primarily south of the city. Although the majority of program purchasers are African American, they have not purchased in the southern suburbs due to the high cost of housing on the southside and alleged long history of racial tension. Most families have instead purchased in the neighborhoods where they were renting or in other parts of Marion County.

IHA originally operated separate voucher homeownership programs for HCV participants and public housing residents, supported by two distinct funding sources and separate staff. Early in 2005, the two programs were merged, and all prospective homebuyers—whether from the voucher program or from public housing are served through a single program. From the beginning of both programs, all participants were required to be enrolled in the Family Self Sufficiency (FSS) program and meet the same homeownership counseling requirements, which included pre-purchase counseling, homeownership process training, credit assistance and budgeting. The merger was largely driven by the need to centralize staff and facilitate funding oversight and accountability. Program staff reported that the merger allows for more consistency in program implementation, staff efficiency, enhanced provider partner communication, and increased quality.

IHA offers the voucher homeownership program in partnership with four lenders and the Indianapolis Neighborhood Housing Program (INHP), for pre-purchase counseling. The partners have shown a strong commitment to serving IHA's voucher homeownership participants and generally view the program as a success. Program staff suggest that the strong program partnerships and relatively affordable housing market have enabled participants to move into better housing and better neighborhoods, although not necessarily the neighborhoods envisioned by the integration mandate. Currently, the biggest challenge facing IHA seems to be coordinating the logistics of the program—for example, making sure housing assistance payments are sent to participants on time and quickly adjusting the payments when participants' incomes change.

Housing Market Conditions

Marion County and the City of Indianapolis cover the same geographic area, sharing exactly the same boundaries. The County consists of nine townships, with Center Township (which includes downtown Indianapolis) at the center. Center Township is where most voucher and public housing participants live. Housing prices are generally lowest in Center Township and highest in the southern suburbs. Overall, the county has one of the most affordable housing markets in this study. In 2000, the median house value was $109,200, close to the national median of $111,800. Prices have not increased as dramatically in Marion County as in most of the other communities we studied. As shown in the chart below, house values in Indianapolis changed little between 2000 and 2004, increasing by just three percent to $112,924, compared to a 35 percent increase nationwide.[37]

[37] Data from 2000 Census and 2004 American Community Survey.

Home Values in Indianapolis, IN	2000		2004	
Less than $50k	24,495	13.0%	16,165	8.4%
$50k to $99k	75,220	40.0%	61,141	31.8%
$100k to $149k	55,500	29.5%	63,448	33.0%
$150k to $199k	16,462	8.8%	25,151	13.1%
$200k to 299k	9,962	5.3%	15,248	7.9%
300k and above	6,207	3.3%	11,020	5.7%
Total	**187,846**	**100.0%**	**192,173**	**100.0%**

Sources: 2000 data are from the 2000 Census; 2004 data are from the American Community Survey

Despite the small increase in overall median house value, the distribution of house values shifted such that the number of homes in the lower ranges has decreased significantly. The number of owner-occupied units in Indianapolis valued at less than $100,000 dropped from 53 percent in 2000 to 40 percent in 2004 (see table above). Most participants in IHA's voucher homeownership program have purchased homes for around $80,000, and IHA staff and lender partners contend that it is getting increasingly difficult to find quality housing in safe neighborhoods in this price range. Program staff also argue that IHA's voucher payment standard of 90 percent of the Fair Market Rent limits the purchasing power of VHO participants.

Program Development

In 2002, IHA established an agency-wide homeownership program with the announcement of HCV voucher availability to support mortgages. Agency-wide homeownership goals were set for the Marion County Center for Housing Opportunities (MCCHO, a division with IHA), HCV rental participants, and public housing residents. A comprehensive approach to program implementation was created, although the funding sources and staff continue to be housed in three IHA departments - Resident Relations, Section 8, and MCCHO.

IHA's Resident Relations Department led the implementation of the homeownership program. Before the announcement of the voucher homeownership program, funds for homeownership were limited. Therefore, in-kind resources from Habitat for Humanity, Interfaith Housing, and several local community development corporations were used to support homeownership through the Resident Relations Department. The availability of vouchers for homeownership brought in staff in the Section 8 department, and the awarding of a 2003 ROSS Homeownership Support Services grant from HUD allowed public housing staff to bring their residents into the voucher homeownership program.

MCCHO's role in the voucher homeownership program developed as part of an effort to desegregate Indianapolis's public schools and neighborhoods. IHA's Homeownership program was a primary strategy to support permanent integration. In response to a 1970s desegregation order, Indianapolis began busing children between schools. In 1998, a new court decree called for the phasing out of busing and for increased efforts toward more permanent integration. Out of this decree, MCCHO was created within IHA. MCCHO's primary goal was to create housing opportunities for African American city dwellers in the mostly white southern suburbs, so that families whose children were being bused from the city to the southern suburbs would be able to keep them in those schools after busing ended. The voucher homeownership program was seen as an important vehicle for this integration because of its potential to move people to better neighborhoods and to provide the housing stability needed for a long-term school and neighborhood integration process. MCCHO staff were required to submit yearly reports and attend conferences on the progress of integration. This mandatory participation ended in 2003.

It quickly became clear that voucher program participants were not interested in moving to the southern suburbs due to the high cost of housing and alleged racial tension. From the perspective of program staff, the integration that was hoped for is not becoming a reality. One staff member commented that in cases where voucher holders have ventured to the southern suburbs, they have not been welcome. On the first day of the site visit for this study, one of the program staff was called away when one of the new homeowners in that area was upset by an incident with her children. Three men in a van had driven by the house and thrown glass bottles at the children, yelling racial slurs at them. During a focus group with recent purchasers, some of the voucher holders also commented on unfriendly neighbors and a sense of not being welcome in their new neighborhoods.[38]

MCCHO is no longer funded or formally staffed; however, IHA's voucher homeownership staff continue to support its mission by exposing potential homeowners to housing in their child's school district. IHA staff stay that the lack of funding, dedicated staff, and necessary community support to address this city-wide agenda hindered MCCHO's success in integrating the southern suburbs.

Program Management, Staffing, and Partnerships

The management and implementation of the IHA Homeownership Plan, now under the leadership of the Resident Relations Department, requires the staff support of the HCV, Public Housing, Finance, and Legal staff. At the time of the site visit, IHA had two staff working full time on the voucher homeownership program and one staff working half time with participants coming from public housing. Voucher program administrative fees and HCV FSS grant money are used to fund full-time staff. The staff person working specifically with the public housing participants is funded by a ROSS grant. All of the IHA staff interviewed agreed that the program has placed a higher burden on staff than anticipated. Contrary to IHA's expectation that there would be some economies of scale and experience, increasing numbers of homeowners have not resulted in decreased time spent per participant. At the time of the visit, IHA had recently undergone a downsizing of its workforce. Although the staffing of the voucher homeownership program was not affected, additional staff did not seem to be a possibility in the near future.

The partnership with the Indianapolis Neighborhood Housing Program (INHP), a HUD-approved counseling agency, has been part of IHA's voucher homeownership program since its inception. All voucher homeownership participants are referred to INHP for counseling and work with one of the six INHP counselors. Even before IHA approached INHP with the idea of a partnership, INHP was

[38] At HUD's request, we attempted to obtain more information on this incident, but the staff member who was familiar with the situation was on extended leave and could not be reached.

already offering housing counseling programs to low-income families pursuing homeownership and did not have to make any program adjustments to meet IHA's requirements. INHP did not desire a formal Memorandum of Agreement for the entire IHA homeownership program stating that the commitment to IHA clients already existed; however, they have signed an MOA for IHA's HOPE VI Homeownership program for 2005-2009. IHA does not pay INHP for services.

Although the partnership between IHA and INHP is generally strong, with participants commenting positively on the comprehensive nature of the classes, there have been some miscommunications over changes in participants' status. For example, the Director of Mortgage and Credit Services at INHP commented that there have been a few cases in which IHA referred voucher participants to INHP for counseling and INHP provided two full years of counseling, only to find out upon reevaluation that the participants did not qualify for the voucher program because their incomes were too high. In addition, INHP counselors reported cases of delays on IHA's end in producing documentation necessary for program participants to complete loan applications. These delays and miscommunication have introduced some frustrations in the partnership, but the INHP Director of Mortgage and Credit Services describes the partnership as generally successful. IHA staff acknowledged the concerns raised by INHP staff, noting that it is not uncommon for FSS participants to experience income increases over a two-year time period and that the need for third-party verifications for lender applications tend to cause delays. IHA staff said they are working to improve communications and expedite processes.

In addition to INHP, IHA partners informally with three community development corporations: United Northwest Development Corporation (UNWDC), Near North CDC, and Western Community Development Corporation (WCDC). Five participants have purchased rehabilitated homes from these organizations.

IHA also has an informal partnership with the Center on Community and Disability at Indiana University. This organization coordinates services for persons with disabilities and has helped disabled voucher homeownership participants obtain additional funds to make their homes accessible.

Finally, IHA has four lending partners. At the beginning of the program, the only lending partner was National City Bank; more recently, Fifth Third Bank, National Bank of Indianapolis, and Huntington Bank have joined the program. All of these partnerships are informal, with no Memorandums of Understanding in place, though IHA hopes to formalize the partnerships in the near future. As the first lending partner, National City Bank played an active role in the design of IHA's voucher homeownership program. IHA staff sought National City's advice on what was needed for counseling, how the housing assistance payment (HAP) should be applied, and how the process for making payments should be handled, and so IHA staff thought their participation as a VHO program lender would be valuable. Prior to partnering with IHA, National City had worked with statewide affordable lending programs and programs offered by local non-profit organizations. During the design phase, National City was a strong supporter of setting up restricted accounts for participants so there would never be a question of how the HAP was being used. National City also recommended that the HAP as offset model be used to provide participants with the most buying power possible. National City has provided loans to 44 voucher homeownership participants.

Fifth Third Bank and the Bank of Indianapolis joined the program more recently. Fifth Third has made four loans to date, and the Bank of Indianapolis has made 14. Both lenders were approached directly by IHA staff about the program and saw the program as a way of providing loans to low- and moderate-income families with limited risk.

Program Design

Targeting and Outreach

There are two ways of enrolling in IHA's voucher homeownership program. The first is to be an existing rental voucher participant, and the other is to be a public housing resident. All homeownership applicants must meet the basic income and employment requirements prior to program enrollment. With the exception of elderly and/or disabled households, head of households must earn a minimum of $10,300 annually and be employed for 12 consecutive months. Public housing residents are able to bypass the voucher waiting list and go directly from public housing to voucher homeownership after they complete the program requirements, which includes completion of pre-purchase counseling and credit repair, if necessary. They must also meet all of the income and employment requirements set for voucher participants. In both cases, participants must enroll in the Family Self Sufficiency (FSS) program, although enrollment in FSS can occur simultaneously with enrollment in the voucher homeownership program. Having the FSS requirement ensures that participants have set goals to work toward homeownership. It also gives rental voucher participants the opportunity to accrue extra savings through the FSS escrow account. Although public housing participants in FSS do not have an escrow account, they receive an earned income disregard in which increases in the earned income are not counted in the calculation of the housing assistance payment.

There is currently no specific targeting of participants with disabilities, but IHA staff noted that 35 to 40 percent of their rental voucher participants are disabled, and this percentage is also reflected in their homeowner population. In addition, roughly 10 percent of IHA's homeowners are considered to have a serious mental illness, although this is not the result of any specific targeting measures. IHA staff make extra efforts to ensure that participants with disabilities in the voucher homeownership program receive all of the training and services they need. In some cases, staff members have conducted personalized orientation and counseling sessions with disabled participants in their homes.

Due to consistent monthly attendance at program orientation sessions of 25-50 participants, outreach activities are kept to a minimum. Flyers are placed in IHA's waiting room and the voucher homeownership program is mentioned at voucher briefings and recertification meetings. Public housing residents are recruited through resident council meetings and special information sessions. Managers of public housing units also place announcements in site-specific newsletters. All FSS participants are informed of the VHO option. Periodically, staff participate in city-wide homeownership fairs to promote the program. IHA staff reported that these methods have been sufficient to recruit a pool of potential participants to the program. At the participant focus group, several participants said they had heard about the program through a mailing from a real estate agent. IHA staff said that they had not seen any such mailings.

Participants interested in the voucher homeownership program begin by attending an orientation session held by IHA staff. Orientation sessions are held monthly and are mandatory for enrollment in the program; applications are only available at these meetings. The application process requires interested households to provide information on their sources of income, employment history, household assets, current landlord, and current HAP. Applicants are also asked whether they would be the first in their families to own a home. Approximately 95 percent of IHA voucher homeownership participants are first generation homebuyers. Applicants who meet the program's income and employment requirements and are in good standing with their current landlords are accepted into the program and considered enrolled. IHA creates a central file for the participant and refers the participant to INHP for counseling.

Homeownership Counseling

INHP has provided all of the counseling for IHA's voucher homeownership program since the program's inception. INHP is a HUD-approved counseling agency. It does not provide any financial assistance or loan products to voucher homeownership participants, although it does have some down payment assistance funds from the city that it uses for other low-income clients. As with INHP's other clients, voucher homeownership participants receive homeownership counseling free of charge but pay a $20 fee for a credit report.

Voucher homeownership participants begin their counseling with INHP with a credit review. Participants who are determined to need long-term credit repair (i.e., at least two years of credit repair before they can apply for a mortgage) are referred back to IHA. At this point, they are removed from the voucher homeownership participant list and are no longer enrolled in the program. If they choose to continue with credit repair, they are referred to a consolidation firm such as Momentive and must pay for the credit services provided by that firm out of pocket as they are no longer considered a program participant. Once they have restored their credit, they return to INHP for a new credit review and may be re-enrolled in the voucher homeownership program.

Participants who do not need long-term credit repair proceed to homeownership counseling. Each participant is assigned to an INHP counselor who works with the participant through the entire process. The counselors first speak with participants by telephone to review their credit report and explain what they need to do to be mortgage-ready within two years. Participants then decide whether to continue with the process. If they do continue, they schedule a one-on-one appointment with the counselor to discuss in more detail the credit repair necessary, sign the necessary disclosures, and receive an INHP packet explaining the steps they will have to take. Counselors may also discuss homeownership financing options at this point so that participants become familiar with the concepts and terminology.

Following the individual meeting, participants enroll in INHP's Money Management course, a three-hour group course offered once every three weeks. The courses are limited to 30 students and taught by an INHP training coordinator. Topics include budgeting, the credit dispute process, and other credit repair issues. A second individual appointment is made following the Money Management course. At this meeting, the counselors review participants' budgets and help them resolve credit issues as needed. Counselors also go over the specific information that lenders need to process and approve a mortgage application. Finally, the participant creates an Individual Action Plan that outlines the steps and timeline for achieving homeownership.

The third step in the process is determined by individual needs. Counselors contact all participants at least once a month and provide help with credit repair and budgeting as necessary. Counselors also monitor their participants' progress with their Action Plans, and may meet with them individually. When participants are about three months away from being mortgage-ready, they are asked to take an eight-hour Homebuyer Education class. The eight hours can be fulfilled in one Saturday session or in a class that meets for three hours a week for three weeks. Classes are limited to 50 participants and cover a comprehensive set of topics, such as differences among various mortgage products, finding and using a real estate agent, home inspections, mortgage applications, making an offer, purchase and sales contracts, and all of the closing documents.

After Homebuyer Education, INHP counselors meet with participants individually once again to discuss the lender options available to them. Participants then select a lender and receive information about the products offered by that lender. INHP staff commented that they try to make sure participants are fully informed and stay with their initial choice of lender so as not to take extra time going from lender to lender. Once a lender is selected, INHP prepares a packet with all of the information needed, including recent pay stubs, bank account information, and a credit report. At this point, the participant has completed the INHP counseling and goes back to IHA for the remainder of the process.

IHA provides the paperwork for the HAP, and staff hold individual meetings with participants to discuss next steps and sign an authorization to locate housing. Though not yet in practice, IHA is working on developing a homebuyer's orientation session focusing on voucher program regulations that participants would attend before meeting individually with IHA staff. As program numbers increase, having a course that covers the material currently being discussed in one-on-one meetings would help ensure that all participants are receiving the same information.

As the final step in the counseling process, IHA conducts a "pre-pre-qualification" for each participant, going through the mortgage approval process to ensure that participants are truly ready to approach the lender. Once this step is complete and the participant has obtained a pre-qualification from a lender, the participant can begin the search process.

Home Search and Inspections

Participants begin the home search process with the help of IHA staff. Though not all participants use real estate agents to find a home, most do, and IHA offers a list of recommended real estate agents. To ensure a comfort level with the real estate agent, all participants are encouraged to conduct interviews with real estate agents before choosing one. IHA staff said they have had problems in the past with real estate agents who tried to steer voucher participants toward more expensive homes, sometimes encouraging them to relinquish their voucher so as to be less restricted by homeownership program rules. This would allow participants to take on riskier loans that are not allowed by the PHA, increasing their purchasing power, but also greatly increasing their risk. In response, IHA is in the process of creating a list of real estate agents that participants should avoid, in addition to the list of recommended agents.

Participants have 180 days from the time they are pre-qualified for a loan to find and purchase a home and most participants need all of this time. Focus group participants said that finding houses in good shape in the neighborhoods they wanted was the most difficult aspect of the program.

Once a home is found, IHA conducts a tax verification. This step was incorporated into the process after some early program participants faced higher than anticipated property taxes. This step is particularly important for people purchasing from a community development corporation, as these properties are supposed to be tax exempt. In the past, tax exemption forms were not filed in time, creating errors in monthly payments and HAP amounts. IHA now reviews all tax requirements with both the purchaser and the title company.

After the tax verification, the participant can make an offer on the house. If the offer is accepted, IHA staff conduct a Housing Quality Standards (HQS) inspection. The same staff that inspects rental units conducts the inspections of homeownership units. According to homeownership program staff, roughly 60 percent of the homes pass HQS the first time. Once the home has passed the HQS inspection, the independent inspection is done. Program staff review both inspection reports with the participant and discuss the extent of repairs needed and the general condition of the home. If the repairs required are substantial, staff may determine that it is not in the best interest of the participant to move forward with the purchase.

The final step in this stage is to complete all of the authorization forms related to the voucher program, including a 30-day notice to the current landlord. Staff noted that the forms can take up to a month to finalize, but all forms must be complete before the loan is processed.

IHA staff think there ought to be an opportunity for voucher participants to purchase FHA-foreclosed homes from HUD, as there are a large number in Marion County. However, these homes often need repairs before they can pass the HQS inspection, and HUD will not pay for such repairs prior to purchase. Because units purchased through the voucher homeownership program must pass HQS prior to purchase, IHA program participants have thus far not been able to purchase these HUD-owned homes. IHA staff expressed frustration that this potential source of housing is not available to voucher participants because of conflicting regulations. IHA is exploring private partnerships to overcome this challenge.[39]

Lenders

Four banks currently partner with IHA's voucher homeownership program. National City Bank was the first bank to become a partner and has made the largest number of loans to date (44). Three of the four lending partners were interviewed during the site visit: National City Bank, Fifth Third Bank, and The Bank of Indianapolis.

All of the lenders interviewed said they plan on continuing to work with voucher participants and that the program has been generally successful. The lending partners, however, did express some concern and frustration over communication and paperwork. In particular, lenders were frustrated by HAPs not being available by the mortgage payment due date. Late HAPs require lenders to make manual adjustments to participants' credit reports so that they are not faulted for late payments. One lender also noted that the voucher participants tend to require more time and "hand holding" through the loan process, though in general there was a consensus that participants come to the lenders mortgage-ready.

Focus group participants reported positive experiences with the lenders, though early participants who purchased when only National City Bank was partnering with the program expressed that they wish they had some more choice when it came to selecting a lender.

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[39] As described in the case study on the VHO program at the Housing Authority of the City of Los Angles, PHAs can help voucher homeownership participants purchase FHA-foreclosed through the Enterprise Homeownership Partners (EHOP). EHOP has Asset Control Agreements with HUD locations throughout the country, which give EHOP priority to purchase and rehabilitate properties for the voucher homeownership program.

Financing Model

All four lenders use the HAP as offset model in determining the loan amount. Although this model is often seen as more risky for lenders because it places more burden on buyers at the end of the term of HAP assistance, lenders at the Bank of Indianapolis described it as less risky than the HAP as income model. In their view, "grossing up" the HAP by 25 percent and considering it as income assigns income to the participant that is not actually there, skewing the income to debt ratio. The income to debt ratio in the HAP as offset model is based on the participant's true income, which makes the loan less risky.

Sample Purchase Transaction: Indianapolis, Indiana

Buyer's Annual Income:	$21,780 (as of 12/30/2004)
Purchase Date:	10/24/2003
Costs to Buyer:	
– Purchase Price:	$88,000
– Closing Costs:	$2,694
Sources of Financing:	
– 1st Mortgage:	$87,188 (6.5%, 30 yrs)
– Grants	$522 (seller)
– Buyer Cash Down:	$2,840
– Seller-Paid Taxes:	$675
Monthly Mortgage Payments:	
– Total PITI:	$676
– HAP to offset PITI:	$523
– Buyer's PITI portion:	$153
– Buyer's share of PITI as a percent of gross monthly income:	8%

All four lenders have used 30-year fixed mortgages (IHA only allows fixed rate mortgages), with the three banks interviewed all using loan products that have a reduced mortgage insurance requirement or no requirement at all. Fifth Third Bank has used Freddie Mac's Good Neighbor Loans, which do not have a mortgage insurance requirement, and plans to begin using FHA loans, which do not require mortgage insurance. National City goes through the Indiana Housing bond program and therefore can offer voucher participants a loan product that has a low interest rate (at the time of the visit it was 4.99 percent) and also a low private mortgage insurance requirement.

U.S. Bank services all of the program purchaser loans for National City, which sells the loans to Fannie Mae on the secondary market. In contrast, the Bank of Indianapolis said that Fannie Mae would not purchase any of the loans made to program purchasers and, therefore, the bank holds these loans in portfolio. Fifth Third also holds loans made to program participants in portfolio.

Before closing on the home, all participants are required to open a restricted checking account at the bank that originated their loan. The account is held jointly by the purchaser and IHA. HAP payments are deposited into the account by IHA on the 15th of every month, and participants must also deposit their portion of the payment each month. Only the mortgage servicing agent can withdraw from the account.

In general, the restricted accounts have worked well. There have been a couple of incidents in which a purchaser had a restricted account as well as a personal checking account at the bank and was inadvertently allowed to withdraw from the restricted account. Also, all lenders mentioned the problem of IHA not depositing the HAP on time, leading to confusion and manual adjustment of participants' credit records. IHA recognizes these challenges and is working with lenders to provide all final documentation necessary to support processing of payments. Representatives at the Bank of Indianapolis, which has had problems with delinquent payments on the part of some purchasers, suggested that purchasers should be required to be one month ahead on their payments. Under this model, purchasers would deposit their portion of the monthly payment into the restricted account at the time of purchase, then the next portion at the end of the first month. This would give the lenders the security of always having one month's worth of payments.

Several sources of downpayment assistance are available to program purchasers. The National City loan product through the Indiana Housing bond program comes with downpayment assistance in addition to a lower interest rate. The assistance is worth five percent of the purchase price up to $3,000, or seven percent up to $10,000, depending on the purchaser's income level. For purchasers with a disability, the assistance is 10 percent up to $15,000. The Bank of Indianapolis has helped three of its program purchasers obtain Federal Home Loan Bank assistance. This program requires purchasers to put in at least $500 of their own money, but will match up to $1,667 (from gifts, grants, or other sources) at a 3:1 rate for a total of $5,000. The match is forgiven if the homeowner stays in the house for at least five years. IHA does not set any downpayment requirement above that set by the program regulations or the loan product the participant has chosen.

INHP reserves most of its homeownership subsidy funds for its non-voucher clients, though the agency has offered a few participants beautification loans of up to $5,000 for renovation or repair work. These loans do not need to be repaid if the homeowner stays in the home for at least five years. A few purchasers have also had access to funds from local community action agencies for "winterization." This program is not based on a set amount of assistance, but on the needs of the home. An inspector determines the work necessary for the house to be prepared for winter, such as replacing windows, or fixing broken furnaces.

For future participants, other sources of assistance are under development. The John H. Boner Center, a non-profit organization in Indianapolis, is setting up an Individual Development Account program, which would allow public housing participants to save money toward homeownership have their savings matched at a three to one rate. IHA was also waiting for an American Dream Downpayment Initiative grant at the time of the site visit. This grant would offer downpayment assistance of up to six percent of the purchase price or $10,000, whichever is greater. IHA anticipates that these funds would be able to help 26 homebuyers.

Post-Purchase Activities

Although INHP offers post-purchase counseling, it is not offered to the voucher homeownership participants. Instead, IHA has chosen to keep post-purchase counseling and tracking in-house, so as to ensure that all participants are receiving post-purchase follow-up and that any problems are caught early. In response to growing numbers of purchasers, however, IHA has begun exploring partnership possibilities for post-purchase counseling. Among the possible partners are INHP, Indianapolis Urban League, and Momentive. IHA's ROSS Homeownership grant from HUD will also support additional post-purchase services to improve support for public housing residents.

After purchasing, each program participant is assigned to an FSS coordinator if they do not yet have one. In addition, voucher homeownership program staff contact participants monthly for the first year after purchase and quarterly for the second year. IHA staff also attempted to set up a Homeownership Club, with quarterly meetings to discuss topics decided upon by the participants. It was not required of program purchasers, but intended as a way for purchasers to find peer support. Unfortunately, the Homeownership Club was not as active as IHA staff had hoped it would be. The last meeting was held the fall of 2004, and had only three attendees. None of the participants who attended the focus group conducted during our site visit had heard of the club.

Though only currently in practice for public housing homeownership participants, IHA plans to assemble an information packet containing materials such as return address labels, information on home repair resources, and tips on home maintenance for all participants. These packets would be sent to purchasers after the first month of homeownership.

Six months after purchase, IHA staff conduct an assessment to determine whether the participant is having trouble maintaining his or her payments. If a problem is identified, IHA staff offer one-on-one case management as needed. IHA staff are developing workshops covering topics such as home repair and continued budgeting; they hope to be able to offer these workshops regularly to all program purchasers in the near future.

Annual income recertifications are conducted as required by program regulations. IHA does not conduct post-purchase HQS inspections, but program purchasers are required by IHA to set aside $100 a month for maintenance and repairs. At the time of the site visit for this study, there was no effective way to monitor whether purchasers were in fact making these savings. IHA staff had plans to set up another separate account in which purchasers could deposit their monthly savings and which could be monitored by IHA. IHA is also working with the lenders to develop annual automated reports, which would allow IHA to check whether purchasers are making mortgage payments on time rather than relying on the lenders to inform them of late payments.

Program Outcomes

From the program's inception in September 2002 to September 2005, 54 homeownership orientation sessions were attended by 454 individuals, and 402 homeownership application forms were submitted. As of the end of September 2005, 62 participants had closed on a home with a voucher, and an additional 8 households had purchased through the program but had not used the voucher because their income was high enough that they no longer qualified for the voucher subsidy. Three of the 62 purchasers were public housing residents, and the rest were voucher holders. As of September 2005, 302 participants were working toward homeownership, with 1 participant in the purchase process and another 4 searching for homes.

All of the homes purchased to date have been single-family detached houses, with the exception of one condominium. No participants have ported out to purchase, but five have ported in.[40] These five participants were referred to IHA by the state agency that handles voucher participants in the counties surrounding Marion County.

Five participants have purchased homes through community development corporations. In addition, one program purchaser bought a home in a neighborhood redeveloped through the HOPE VI

[40] In the rental voucher program, a renter can use the portability of the subsidy to move from one PHA's jurisdiction to another. In the case of voucher homeownership, a VHO participant can only "port in" to a jurisdiction that offers a voucher homeownership program. Families who port-in must first meet all the requirements of the sending housing authority, followed by any additional or different requirements set by the receiving housing authority, including homeownership counseling.

program. IHA staff hope to increase coordination between the voucher homeownership and HOPE VI programs so that homes rehabilitated or rebuilt on public housing sites can be made available to voucher participants.

According to IHA records, there have been no defaults or delinquent payments among the homeowners. However, 7 of the 14 voucher participants with loans from the Bank of Indianapolis have had 30-day late payments. Staff at the Bank of Indianapolis said they do not consider that they are entitled to alert IHA of these late payments without authorization from the participants. Meanwhile, IHA staff expect the banks to contact them immediately in the event of late payments and assume there are no problems if they do not hear from the banks. The representatives from other lenders had not experienced late payments by participants and said they would contact IHA right away should any problems arise.

Although there have not been any foreclosures among IHA voucher homeownership participants thus far, several lenders and IHA staff expressed concern that the program may not offer enough support to prevent foreclosures in the future. According to lenders, Indianapolis has one of the highest foreclosure rates in the country, because of a declining job market and high property tax rates. IHA staff and their lending partners are concerned that voucher participants may be especially vulnerable to these trends.

Focus group participants generally had positive comments about the program. Those who enrolled at the beginning of the program, however, expressed some frustration with the lack of follow-up on the part of IHA staff. They were surprised by the amount of their own initiative that was required to learn about and join the program. The limited choice in lenders was also a source of frustration for the early participants (when the program had only one lender partner). All participants expressed some concern regarding delays in paperwork on IHA's end, with one commenting that she was in her house for over a month before her HAP amount was finalized.[41] Nonetheless, participants said they had positive relationships with IHA and INHP staff.

Focus group comments on the home search process were also positive, with all participants expressing pride and satisfaction in the choices they made. Nearly all of the purchasers interviewed said that stability for their children and better schools were the most important factor in choosing a home and neighborhood. One participant said she perceived some pressure to find a home in one of the "target areas" identified by MCCHO as part of the desegregation mandate, and others reported feeling unwelcome in their new neighborhoods. Nevertheless, none of the focus group participants expressed any regret about their choice of house or neighborhood or their participation in the program.

Lessons Learned

IHA staff attribute the success of their program to the dedication of their staff and the staff of the lending and counseling partners. IHA's Executive Director hopes that the agency will soon have more concrete evidence of the program's success in helping participants to increase their incomes (and decrease their HAPs) over time. The ultimate goal, he commented, is not simply to put people in

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41 IHA staff were not able to comment on how the participant was able to move into her home before the HAP amount was finalized.

homes, but to move them toward self-sufficiency. As such, IHA staff all agreed that the FSS requirement is an important component of the program and would encourage all voucher homeownership programs to adopt this requirement.

The main challenges facing IHA are logistical. As mentioned, participants and lenders both reported problems with IHA depositing the HAP amount into the restricted accounts in time for monthly payments. IHA acknowledged that, although they release the funds on the first and the 15th of the month, delays can occur due to IHA staff error or incomplete paperwork prior to the purchase. However, IHA staff also pointed out that it can take up to a week to obtain the closing papers from the lenders, which holds up the processing of the HAP and delays deposits in the first month. IHA hopes to work with lenders to receive the paperwork earlier and possibly push back the date the payments are withdrawn from the restricted accounts.

IHA's MIS staff discussed another logistical challenge related to the HAP. Because the HAP considers all monthly homeownership expenses and not just the mortgage payment, the actual subsidy amount that goes into the restricted account from IHA can be more than the bank needs. IHA has had difficulty figuring out a way to ensure that the banks are consistently refunding the excess HAP to the participant in such cases, while maintaining a clear audit trail. There is some confusion as to what the HUD regulations are regarding these excess payments; HUD requires that the funds be returned directly to the client, but it is unclear to IHA whether keeping these excess amounts in the restricted accounts, held jointly by IHA and the participant, satisfies this requirement.

There is also an internal challenge at IHA as to when to consider a homebuyer to have purchased with a voucher. There have been a few cases in which a participant purchases a home using the voucher to qualify, but by the time of purchase has sufficient income not to qualify for a voucher. IHA staff consider these participants to be successful program purchasers, and said they should be counted as such. They have completed all of the INHP counseling and were simply farther along in meeting their goal of self-sufficiency. However, because they closed without a voucher, these participants are not captured in HUD's tracking of successful purchasers, which, from IHA's perspective, not only understates the success of the program but also prevents IHA from receiving the $1,000 credit that HUD offers for each program purchase.[42] Given that these participants have completed all the requirements for voucher homeownership, they could in theory start receiving assistance through the program should their incomes drop. As a result, IHA considers them to be still in the homeownership program.

Finally, as the supply of affordable housing in Marion County continues to decrease and incomes of program participants fail to keep pace with the cost of living, IHA staff are concerned that the voucher payment standard will become increasingly restrictive. In addition, IHA staff fear that pressures caused by reductions in HUD funding for the voucher program may further reduce VHO participants' purchasing power. Effective June 1, 2005, HUD permitted PHAs to revise their subsidy standards to reduce bedroom size eligibility as a way to reduce costs in local voucher programs.[43]

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42 HUD noted that this should not be the case. PHAs should receive the administrative credit for participants who have completed the voucher homeownership program pre-purchase counseling, but closed without a voucher due to income increases. PIH 2005-14 provides that administrative funds are to be received for these participants if they are correctly coded in the PIC system.

43 PIH 2005-9 (HA) issued February 25, 2005: Public Housing Agency Flexibility to Manage the Housing Choice Voucher Program in 2005.

IHA elected to utilize this flexibility to maximize their voucher allocation and reduced the bedroom size allowed for IHA's voucher program participants (including both renters and purchasers). Thus, program purchasers may receive the payment standard for a smaller bedroom size than they would have previously, reducing their purchasing power. Although IHA staff decided this was a necessary step to address limited funding and high demand for vouchers, staff also said the new standards, and the effective reduction of participants' purchasing power, exacerbate the problem of inadequate payment standards in the voucher program.

Lorain County, Ohio

Voucher Homeownership Program at a Glance: Lorain County, Ohio

Total Size of PHA Housing Choice Voucher Program[a]	2,800
Number of Active VHO Participants (Not including those who have closed)	69
Total Number of Home Purchases	48
Average VHO Participant Income[a]	$18,415
Average HCV Household Income[a]	$10,867
Number of Foreclosures	0
Current Number of Delinquent Payments or Mortgages in Default	1
Other Sources of Assistance for Purchasers	CDCs, Liberty Gold, IDA Programs[c]
Market Characteristics	
Range of Purchased House Prices	$50,000 to $132,000
Area Median House Value[b]	$136,556

Unless otherwise indicated, the information for this table was collected during the site visit.

[a]Source: HUD Resident Characteristics Report.

[b]Source: 2004 American Community Survey.

[c]See Financing Model section in this case study for descriptions of these programs.

Introduction

The Lorain Metropolitan Housing Authority (LMHA) administers 2,800 vouchers in Lorain County, Ohio. Most voucher participants live in the cities of Lorain and Elyria, each with a population of about 60,000. In addition, 300 LMHA vouchers are used by residents of neighboring Cuyahoga County, primarily in the city of Cleveland. LMHA accepted Cuyahoga residents onto its voucher waiting list when the Cleveland Housing Authority was experiencing financial trouble but LMHA is no longer accepting new Cuyahoga residents (other than those that port in).[44]

Prior to the voucher homeownership program, LMHA had done some work with banks to encourage homeownership among public housing residents, but the voucher homeownership program is LMHA's first major homeownership effort.

LHMA officially began offering the voucher homeownership option in July 2001, with the first participants completing homebuyer education in January 2002. The first purchase took place in July 2002, and by the time of the site visit in August 2005, 48 participants had closed on a home, with an additional four looking for homes or in the purchase process. No cap has been set on the number of vouchers that can be used for homeownership, but limited staffing is a constraint that will need to be

[44] LMHA staff were uncertain as to the nature of Cleveland Housing Authority's financial trouble.

addressed if the homeownership program is to expand. The program's outcomes have far exceeded the original expectations of LMHA staff; the original hope was that the program would help a total of five voucher participants achieve homeownership.

LMHA's program operates primarily as a single-site, self-contained program. All orientation activities, pre-purchase counseling, and post-purchase follow-up are done by LMHA's Housing Choice Voucher (HCV) Coordinator. Real estate agents and lenders have been eager to work with voucher participants and have been the primary partners to the program. Much of the program's success can be attributed to the efforts of the HCV Coordinator. She has established personal relationships with each of her participants and spends significant amounts of time counseling them, monitoring their progress both pre-and post-purchase, personally reviewing all paperwork, and attending every closing.

Housing Market Conditions

Lorain County has a fairly affordable housing market. In 2004, the median value of an owner-occupied unit in Lorain County was $136,556, 10 percent less than the national median of $151,366. House prices have increased in the county over the past four years, but at a slower rate than the national average (20 percent versus 35 percent). As of August 2005, the price of homes purchased by LMHA voucher program participants ranged from $50,000 to $132,000, with an average of about $80,000. As shown in the chart below, according to the 2004 American Community Survey, approximately 60 percent of owner-occupied units in Lorain County are valued at less than $150,000, within range of program participants.[45]

Home Values in Lorain County, OH	2000		2004	
Less than $50k	4,657	5.9%	944	1.2%
$50k to $99k	26,971	34.4%	17,319	21.6%
$100k to $149k	25,372	32.3%	30,055	37.5%
$150k to $199k	11,161	14.2%	15,577	19.5%
$200k to 299k	7,733	9.9%	9,537	11.9%
300k and above	2,019	2.6%	6,612	8.3%
Total	**77,913**	**99.3%**	**80,044**	**100.0%**

Sources: 2000 data are from the 2000 Census; 2004 data are from the American Community Survey

Although the housing market appears to be relatively stable and the housing stock adequate, LMHA staff are concerned that high unemployment rates may affect the future success of the program. Lorain has historically relied heavily on its steel mill for employment, but the mill has all but closed down over the past few years. The replacement of manufacturing and industrial jobs with lower-paying retail jobs may make homeownership a more difficult goal to achieve. Furthermore, the historical stability of house prices in Lorain may be in jeopardy; lenders who were interviewed

[45] Data from the 2000 Census and 2004 American Community Survey.

commented that property flipping (the practice of purchasing lower priced homes, making superficial changes, and selling them for a profit) has become increasingly prevalent, and this may affect the supply of homes available to voucher participants.

Program Development

The voucher homeownership program was a natural addition for LMHA, which had already begun to work with local banks to encourage homeownership among its public housing residents. LMHA sponsored forums and information sessions for potential homeownership participants. In addition, the voucher homeownership program seemed a good fit with LMHA's Family Self-Sufficiency (FSS) program. Although participation in FSS is not required for the voucher homeownership program, there has been some overlap between the two programs. The reasonably priced housing market in Lorain made the voucher homeownership program particularly attractive. Finally, there was community support for the program. Businesses, government officials, and citizen groups initially expressed support for the voucher homeownership program in the hope that it would encourage homeownership in the lower-income parts of the Lorain County, bringing stability and economic growth to these areas.

Despite the initial community support for the program, LMHA had difficulty identifying a counseling partner. There has been some collaboration with the City of Elyria, which recently began a homeownership counseling program, but ultimately, LMHA's HCV Coordinator did not think Elyria's program was adequately comprehensive. For the time being, the HCV Coordinator has decided to keep all of the case management, counseling, and post-purchase monitoring in-house.

Prior to the first purchase, LMHA sponsored an information session for lenders, in which the HCV Coordinator explained how the voucher homeownership program works, the specific requirements of the program for LMHA participants, and the benefits to lenders of tapping into this lower-income customer base. All local lenders listed in the Yellow Pages were invited to the session, and more than 40 representatives attended. The HCV Coordinator commented that this initial meeting helped lenders to understand the program more fully, thus making them less concerned about working with voucher participants.

Program Management, Staffing, and Partnerships

LMHA's HCV Coordinator conducts all the pre- and post-purchase counseling for the voucher homeownership program. LMHA has worked with the City of Lorain, community development corporations, and community action agencies to help voucher participants access affordable homes, downpayment assistance, and soft-second loans, but there is no formal partnership established between LMHA and any of these organizations. Following the initial meeting of lenders held by LMHA, many lenders expressed interest in working with the program; at the time of the site visit, 11 banks had made loans to voucher homeownership participants.

Limited staff resources for the program are a major concern for LMHA. The HCV Coordinator currently spends 60 percent of her time on the voucher homeownership program and 40 percent on the FSS program. She is the only staff for the voucher homeownership program and manages every aspect of the program on her own. Her time is funded partly by HCV administrative fees and partly by FSS grants. LMHA's Executive Director anticipates a need for another staff member for either the voucher homeownership program or the FSS program within the next year.

Program Design

Targeting and Outreach

Three times a year, the HCV Coordinator sends out a flier to existing rental voucher holders informing them of the voucher homeownership program. This is the only active outreach done by LMHA. Recruiting activities are purposefully limited, as the HCV Coordinator does not think she could take on a much larger caseload of homeownership participants.

All voucher holders receive the flier, but they must have been in the rental program for at least a year before they can use their voucher for homeownership. There is no recruitment from LMHA's voucher program waiting list. In order to be eligible for the homeownership program, voucher program participants must also be on a month-to-month lease, so as to be able to move with short notice. Other than these restrictions, LMHA does not target any specific groups from among its rental voucher participants for homeownership.

There is a month-long application process for voucher holders interested in pursuing homeownership. The first step is to complete an application that includes information about the household's current budget, employment status, and sources of income. Applicants must also submit proof that they have $2,500 to put toward the downpayment, closing costs, and inspection fees. All applicants who can show proof of the $2,500 in savings and are employed full time are invited to attend an orientation session conducted by the HCV Coordinator. After hearing an overview of the program and its requirements at the orientation, applicants who are still interested begin the pre-purchase counseling process. According to the HCV Coordinator, most applicants at least begin pre-purchase counseling, although many drop out over time.

Homeownership Counseling

The HCV Coordinator conducts pre-purchase trainings three times a year. The five classes are offered on Saturdays and last roughly three hours each.

The first two classes are general financial literacy classes. Credit reports are pulled for each participant in the class, and the process of repairing credit, setting up a realistic budget, opening a bank account, and balancing accounts are all reviewed. As part of budgeting, the class covers the steps necessary to pay off a 30-year mortgage in 17 years. This helps prepare participants for the period after the voucher expires.[46] The HCV Coordinator noted that it is after the financial literacy classes that many people decide not to continue with the program. She thinks that participants assume the homeownership voucher program will be as easy and straightforward as the rental program and do not anticipate the amount of training, personal budgeting, and credit work involved in achieving homeownership.

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[46] The HCV Coordinator focuses on 17 years rather than 15 years because she thinks that most participants will be able to handle the full mortgage payment for at least a couple of years after the end of the term of voucher assistance.

Those who do continue must take three more pre-purchase classes that relate to specific home-buying topics. The first of these is a course on shopping for a home. In this course, the HCV Coordinator discusses the role of real estate agents and the process of finding an appropriate home. The second course discusses the purchase agreement: how to make an offer on a house, what is involved in the purchase contract, and the steps between making an offer and getting to settlement. The final class walks participants through the loan closing process. Each form they will have to sign at purchase is discussed in detail, and all of the closing costs and fees are explained. Finally, basic maintenance tips are given. The HCV Coordinator often invites lenders and real estate agents to speak at these classes, giving participants a lender's perspective of what it takes to qualify for a mortgage or a real estate agent's advice on what the homebuyer needs to do to prepare for a home search.

In total, participants must attend an orientation session and five pre-purchase courses. This amounts to roughly 16 hours of classroom time, with those needing extra credit repair or budget counseling receiving additional one-on-one sessions with the HCV Coordinator. At the time of the visit, roughly 160 people had completed the full set of required counseling.

Lenders commented that the comprehensive counseling and credit repair that voucher participants are required to complete make them more mortgage-ready than the average moderate-income customer. Participants at the focus group also had positive comments about the counseling, saying it helped them with everything from the basics of understanding mortgage terminology to the more complicated credit repair process.

Home Search and Inspections

Once participants have completed pre-purchase counseling, they are ready to begin the home search process. Participants are given a list of real estate agents that have worked with LMHA in the past and have a good reputation with the HCV Coordinator, but are not required to use a real estate agent on the list. In fact, a few participants have chosen to find a home without the help of a real estate agent. On average, it takes about six months for participants to find a home, though several who attended the participant focus group reported finding their homes within a month. The HCV Coordinator noted that those who have purchased through the program thus far have tended to be very motivated and focused, knowing exactly what they wanted in a home. In almost all cases, the first home that is bid on and inspected is the home that is purchased. Because participants are educated in the negotiation process, most will go through at least two rounds of sales negotiations with the seller before signing an agreement.

The HCV Coordinator conducts all Housing Quality Standards (HQS) inspections herself. She also schedules the HQS inspections at the same time as the independent inspection, so as to be sure that the independent inspector is doing a thorough job and all the right questions are being asked. On average, she spends three hours at each inspection. Most of the homes do not pass the HQS inspection the first time, but this is often because the HCV Coordinator goes beyond what is required by the standards and gives the strictest eye to every detail in the house. If repairs are needed, it is a requirement of LMHA that the seller make all of the repairs. In three cases, the HCV Coordinator did not allow a purchase to go through, either because the problems uncovered by the inspections were too extensive or because the seller refused to make the necessary repairs. In these cases, the participants were still required to pay for the independent inspections. Participants are given copies of the inspection report and are responsible for making sure it is given to the seller. The HCV Coordinator has built a good rapport with many of the independent inspectors in the area and makes recommendations on good inspectors for her participants. Many of the local inspectors will deduct $20 or $25 from the fee for voucher homeownership participants.

In 41 of the 48 purchases, participants have purchased their homes from private individual sellers. Seven have purchased from the City of Lorain, through an infill housing program under which the City purchases dilapidated or tax delinquent properties, renovates or rebuilds them, and sells them as affordable housing.

Some focus group participants said that finding a house in good condition was difficult, but everyone commented that the inspection process was an important part of the program that protected them from purchasing poor quality houses.

Lenders

Three of the 11 lenders participating in the program (National City, First Merit, and Union National) have handled the largest number of voucher clients, with each reporting they had closed on at least 12 loans for the program. All three expressed a positive view of the program, saying LMHA's voucher homeownership participants tend to be more informed and ready to purchase than their average customer. In general, the lenders have not had problems processing these loans, with a few exceptions in which the underwriters were skeptical about the housing assistance payment (HAP) as a source of income. Because the HAP is not taxed, it can be difficult to prove that it is being received and will continue to be received in the future. The lenders suggested that HUD develop standard guidelines for how underwriters should treat the documentation of HAP payments.

Roughly 80 percent of the voucher homeownership loans handled by the lenders interviewed had been sold on the secondary market, mostly to Fannie Mae. Almost all have been Federal Housing Administration (FHA) loans, which have the benefit of not requiring mortgage insurance. Lenders reported that private mortgage insurance would add as much as $400 to monthly payments for conventional loans. In addition to FHA loans, two purchasers used two-mortgage loan products (80-20 or 80-15-5 loans) that allowed them to avoid private mortgage insurance altogether without making a substantial downpayment.

Although LMHA does not have a written agreement with any of the 11 financing partners, the HCV Coordinator is just as involved in the lending process as she is in the counseling process. The participant can choose the lender, but the HCV Coordinator monitors the process closely and must give final approval to all financing terms before any form can be signed. She requires that the HUD-1 Settlement Form be submitted to her 24 hours before the closing so that she can personally review all of the numbers in advance. She has also personally attended almost all of the closings.

Several focus group participants said they talked with many banks before deciding on a lender, and everyone agreed that the HCV Coordinator was helpful in helping them select the mortgage lender most suitable to them. There were no complaints about working with the lenders or the financing terms they were offered.

Financing Model

In all but one case, lenders have used the HAP as income model (one purchaser used the HAP as offset model). Almost all participants take out only one mortgage, though two participants took out second mortgages to avoid mortgage insurance. A separate bank account is set up for the participants after they close on their home. The account is in the purchaser's name, but it can be monitored by the HCV Coordinator as well. The HAP payments are deposited into these accounts monthly, and participants are expected to deposit their share of the mortgage payment themselves. The lender then directly debits the monthly payments from these accounts. In addition, participants must deposit $25 a month into these accounts for a maintenance reserve; the HCV Coordinator periodically checks the account balance to ensure that the maintenance deposits are being made. Although participants have full access to these accounts and could therefore take out reserve money or HAP payments for other uses, the HCV Coordinator reported no incidences of this happening.

Sample Purchase Transaction: Lorain County, Ohio

Buyer's Annual Income:	$23,400 (as of 8/23/2004)
Purchase Date:	7/10/2003
Costs to Buyer:	
– Purchase Price:	$93,000
– Closing Costs:	$2,718
Sources of Financing:	
– 1st Mortgage:	$90,210 (5.2%, 30 yrs)
– Grants	$2,250 (seller)
– Buyer Cash Down:	$3,384
– Seller-Paid Taxes:	$764
Monthly Mortgage Payments:	
– Total PITI:	$698
– HAP to offset PITI:	$187
– Buyer's PITI portion:	$511
– Buyer's share of PITI as a percent of gross monthly income:	26%

Most of the mortgages are 30-year fixed rate mortgages, though there have been a few cases in which the HCV Coordinator has allowed adjustable rate mortgages. In one case, the lender offered $8,000 in assistance toward the downpayment if the participant used a 5/1 adjustable rate mortgage. The HCV Coordinator commented that, though she is more comfortable with a fixed rate mortgage, she feels confident that her participants understand the terms and risks of adjustable rates and therefore will approve them in special cases. Closing costs have ranged from $2,200 to $4,700, with the average around $3,000. It is common for sellers to contribute toward, or even entirely cover, buyers' closing costs, as was the case in the sample transaction shown in the box above.

In addition to the $2,500 participants must contribute toward downpayment or closing costs, LMHA requires that participants make a downpayment that is at least three percent of the house value. Of the three percent, one percent must come from the participant's own funds, and the other two percent can be from other sources. Roughly half of the participants have been able to find additional assistance through community development organizations in the Lorain area. Most of these organizations offer $2,000 in downpayment assistance, and some offer additional funds that can be used toward closing costs. The community development organizations serve specific areas within the county, so which program a participant uses depends on where the property for purchase is located. Some participants have also made use of the Liberty Gold program, administered by the nonprofit Buyer's Dream Fund, in which sellers pay the required three percent downpayment for the participant. A handful of participants have also been able to make use of other programs offered by local community development corporations and community action agencies, such as an Individual Development Account program that matches every dollar of participant savings with two additional dollars. These savings and matches can be used toward the downpayment, although the match cannot be used to meet the requirement that one percent of the house value must come from the participant's own funds.

Post Purchase Activities

LMHA's only post-purchase requirement is a class on predatory lending. Many participants take this course even before they purchase their home. Although the HCV Coordinator monitors each participant's home purchase loan terms closely, she fears purchasers may later be taken in by predatory lenders offering refinancing if they are not well-educated.

The HCV Coordinator is in the process of putting together a hands-on seminar on household repairs. As many of the participants are single females (60 percent), she thinks it would help to have a seminar showing people how to do minor repair and maintenance work on their house.

Once a year, the HCV Coordinator pulls credit reports for all of her participants to see if there were any late mortgage payments. If there were, she would write a letter explaining the effect the late payments have on the participant's credit score and asking him or her to meet with her for counseling. The Coordinator commented that she tried to work directly with lenders to monitor participants' mortgage payments, but found it difficult to obtain the information she needed from them. She also noted that she has built strong relationships with each of her participants, so they tend to go to her directly if they are experiencing difficulties.

Although official post-purchase HQS inspections are not done, the HCV Coordinator does a walk through inspection of all of the homes at the time of the annual recertification. On occasion, she also conducts drive-by inspections to make sure the properties are being well-maintained.

Program Outcomes

The LMHA program has had a high success rate in terms of the number of purchases. Forty-eight had closed at the time of the visit in August 2005, with an additional four looking for homes or in the closing process. All have purchased single family homes, usually with three bedrooms. The homes are scattered throughout the county, but most lie within Lorain city limits. There have not been any cases in which a participant was unable to use the voucher because of an inability to find a suitable home within the 180-day search limit. Three participants used their voucher from LMHA to buy a home in another PHA's jurisdiction and one was in the process of "porting in" from another area.[47]

Three participants purchased the homes they were renting, but the HCV Coordinator says she has found that landlords tend to ask for higher prices, and the homes themselves tend not to be as well cared for, though the three rented homes that were purchased did pass HQS inspection. Many participants stay in the same general area where they were renting in order to remain close to their jobs. However, some participants who attended the focus group reported that they were able to move to better neighborhoods; one said she was able to improve her employment situation, put her son in a better school, and improve her life overall. Several cited the quality of school districts as playing a primary role in their decision on where to live.

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[47] In the rental voucher program, a renter can use the portability of the subsidy to move from one PHA's jurisdiction to another. In the case of voucher homeownership, a VHO participant can only "port in" to a jurisdiction that offers a voucher homeownership program. Families who port-in must first meet all the requirements of the sending housing authority, followed by any additional or different requirements set by the receiving housing authority, including homeownership counseling.

Even though FSS participation is not a requirement of LMHA's voucher homeownership program, there is some overlap between the two programs. Five of the 40 FSS participants had purchased homes through the program, and an additional five had completed homebuyer education but did not use a voucher to purchase because they met their FSS goals and increased their incomes such that they were no longer eligible for the voucher subsidy.

The HCV Coordinator noted that incomes of the voucher homeownership participants tend to increase every year. She finds that the HAP payments consistently decrease at recertification, with the only exceptions being cases involving job losses. She suggested that in general, homeowners have a stronger incentive to stay with their jobs than renters, leading to regular increases in income and more income stability. There has only been one delinquent payment thus far, and this was more a result of miscommunication than an inability to make the payment. There have been no foreclosures. The HCV Coordinator credits this success to the extensive pre-purchase counseling courses. She thinks that participants who persevere through all of the courses and program requirements are truly motivated to keep their homes.

Focus group participants had very positive things to say about the program and their homes. They felt a sense of pride in having taken responsibility for every part of the home buying process and appreciated the accessibility and attention of the HCV Coordinator when they needed assistance. Several expressed the opinion that renters in the voucher program are stigmatized and looked down upon by landlords and neighbors, making it only possible to rent in low-income, high crime neighborhoods. The homeownership program, they said, restored a sense of dignity and independence. Many said they hoped they would be off the assistance entirely before too long and thought this would be possible because of the stability owning a home gave them.

Lessons Learned

As a whole, the Executive Director, the HCV Coordinator, and the lenders and participants interviewed all considered LMHA's voucher homeownership program to be a great success. The biggest challenge facing the agency as the voucher homeownership program continues to grow is staffing. As the only staff member managing all aspects of the project with 60 percent of her time, the HCV Coordinator anticipates needing additional staff within the next year. Her hope is that additional staff can be found for the FSS program, so that she can devote 100 percent of her time to the voucher homeownership program.

The changing economy in Lorain could also affect the program outcomes. As manufacturing jobs continue to be replaced by lower paying retail jobs, participants may have more difficulty saving the required downpayment amounts. Finding an affordable home may also become more of a challenge, with incomes stagnant and house prices increasing, although the county could still be characterized as a buyer's market, with sellers willing to make pre-purchase repairs and cover purchasers' closing costs in order to be competitive.

LHMA staff also expressed concern about the long-term stability of the voucher program. The Executive Director also commented that, at one point, LMHA was running three separate voucher programs in order to comply with three different sets of rules—Unit-based Section 8, Section 8 Certificate Program, and Section 8 Voucher Program. These programs differed in whether the assistance was associated with the unit or the tenant, and had different methods of computing assistance levels. The staff hopes that the homeownership program will not be subject to changes in rules and guidelines as political administrations change.

For the time being, LHMA staff have no plans to change the agency's approach of operating the program almost entirely in-house, with the HCV Coordinator taking full responsibility. Not only are there few opportunities for outside partnerships in the Lorain area, program staff has had much success with their simple program design. If the HCV Coordinator can begin to devote all of her time to her program, she does not see a compelling reason to make changes.

Los Angeles, California

Voucher Homeownership Program at a Glance: Los Angeles, California

Total Size of PHA Housing Choice Voucher Program[a]	44,360
Number of Active VHO Participants (Not including those who have closed)	11
Total Number of Home Purchases	43
Average VHO Participant Income[a]	$17,109
Average HCV Household Income[a]	$14,355
Number of Foreclosures	0
Current Number of Delinquent Payments or Mortgages in Default	0
Other Sources of Assistance for Purchasers	Workforce Initiative Subsidy for Homeownership, LANHS, FHLB, IDA programs, IDEA, ADDI[c]
Market Characteristics	
Range of Purchased House Prices	$95,200 to $271,000
Area Median House Value[b]	$414,645

Unless otherwise indicated, the information for this table was collected during the site visit.
[a]Source: HUD Resident Characteristics Report.
[b]Source: 2004 American Community Survey.
[c]See Financing Model section in this case study for descriptions of these programs.

Introduction

The Housing Authority of the City of Los Angeles (HACLA) began offering the voucher homeownership program in 2002 under the final rule. HACLA administers approximately 44,360 vouchers and is the second largest voucher program in the nation after New York City. The voucher homeownership option is available to participants or recent graduates of HACLA's Family Self-Sufficiency (FSS) program and to public housing residents enrolled in HACLA's Homeownership Supportive Services (HSS) program.

As of July 2005, 43 families had purchased through HACLA's voucher homeownership program. Program staff are proud of the number of purchases given the extremely high-cost housing market in Los Angeles. The program is supported by a wide network of partnerships that includes two lenders, more than a dozen counseling agencies, the City of Los Angeles' Housing Department (LAHD), and Fannie Mae. HACLA's access to LAHD's network of housing counseling providers and downpayment and closing cost assistance programs has played an important role in making homeownership affordable to program participants, as did an early (now defunct) partnership with an affordable housing developer. The two main challenges currently confronting the program are unresolved funding issues and a lack of good quality housing within the price range of program participants.

Housing Market Conditions

HACLA administers vouchers in the City of Los Angeles, a large metropolitan area spanning 467 miles within the County of Los Angeles. Los Angeles has the most expensive housing market among the 10 sites in the study. According to the 2000 Census, the median house value for Los Angeles was $201,400. Housing prices have continued to rise during the past several years: by 2004, the median house value in Los Angeles had more than doubled to $414,645, while the national median increased by 35 percent to $151,366.[48]

The city's high cost of housing is one of the most significant challenges facing program participants. Based on a sample of 10 purchases made by program participants, the average purchase price was $175,170, with a range of $95,200 to $271,000. As shown in the chart below, in 2004, only 25 percent of the owner-occupied units in Los Angeles were valued between $100,000 and $300,000. In 2000, this figure was approximately 60 percent. The most affordable units in the city are in South Central Los Angeles, an area with high concentrations of impoverished neighborhoods.

Home Values in Los Angeles, CA	2000		2004	
Less than $50k	10,413	2.1%	7,287	1.4%
$50k to $99k	24,156	4.9%	6,320	1.2%
$100k to $149k	81,202	16.5%	18,512	3.5%
$150k to $199k	110,440	22.5%	29,816	5.6%
$200k to 299k	108,100	22.0%	86,625	16.3%
300k and above	157,525	32.0%	381,585	72.0%
Total	**491,836**	**100.0%**	**530,145**	**100.0%**

Sources: 2000 data are from the 2000 Census; 2004 data are from the American Community Survey

Program Development

HACLA views the voucher homeownership program as presenting an important opportunity for asset building among low-income residents of the city. The agency has had an FSS program with a homeownership component since the mid-1990s and started a homeownership program for public housing residents in late 2003.

At HACLA, a college graduate intern was responsible for building the initial relationships between the agency and LAHD, partner counseling agencies, and lenders. The intern also networked with LAHD's list of approved homebuyer education organizations and with Fannie Mae's Western Regional Office to establish the lender partnerships. Fannie Mae helped HACLA build relationships with lenders and develop policy and procedures for the program. Fannie Mae also built support for the program by convening roundtable sessions with housing authority staff and worked with one of HACLA's lending partners to adapt Fannie Mae's national Home Choice loan product for voucher

48 Data from the 2000 Census and the 2004 American Community Survey.

program participants with disabilities. Fannie Mae's Western Regional Office provides support for all California housing authorities with voucher homeownership programs.

Program Management, Staffing, and Partnerships

HACLA maintains a network of partnerships to support the voucher homeownership program. The agency conducts recruitment, screening, voucher administration, and Housing Quality Standards (HQS) inspections, while relying on partner agencies to implement the counseling and financing components. HACLA partners with two lenders and 14 counseling agencies, as well as Fannie Mae and LAHD. HACLA does not pay fees to its partners or receive fees from them. Housing Choice Voucher Administrative funds support all of HACLA's voucher homeownership operating costs.

The program's primary lenders are Citibank and Commercial Capital Bank (CCB), both of whom participate in the program to satisfy CRA requirements. At the onset of the program, Fannie Mae approached both lenders and educated them about voucher homeownership. Both lenders reported that modifying their servicing process created early implementation challenges such as changing internal systems to accept two different payments for one loan, but these issues have been resolved and the lenders are now very supportive of the program. The lenders also reported satisfaction with the communication and guidance provided by HACLA and cited high housing prices and credit issues as the biggest challenges for the program.

HACLA staff noted that although they recommend CCB and Citibank to program participants, they also make it clear that participants are free to work with any lender of their choice. If participants find another lender, HACLA will work with the lender to process the necessary paperwork so that the lender can participate in the program. For example, one recent participant obtained a mortgage from a lender, who at the time of closing sold the loan to GMAC. GMAC provided HACLA with the necessary paperwork to accept payments from HACLA and the participant.

HACLA utilizes LAHD's network of 14 counseling agencies to offer clients pre-and post-purchase homeownership education. The counseling agencies are diverse. They include two NeighborWorks organizations, three community development corporations, two non-profit financial training organizations, a real estate agents association, and a credit-counseling agency. Two of the most active organizations are Neighborhood Housing Services of Los Angeles (LANHS) and Home Ownership Made Easy (HOME). LANHS is a lending and community development organization that is a member of the national NeighborWorks America network. HOME is an affordable housing organization serving persons with developmental disabilities. Staff at LANHS and HOME reported they have been very satisfied with the communication and guidance provided by HACLA staff.

HACLA also partners with LAHD to access homeownership subsidies beyond the voucher assistance. LAHD offers first-time homebuyers deferred loans that may include housing rehabilitation assistance. At the time of the visit, HACLA staff were trying to resolve issues with LAHD, which stopped making its Purchase and Rehabilitation Assistance program available to voucher homeownership participants because of concerns with HACLA's program. Specifically, LAHD would like HACLA to establish a contingency fund to cover increases in condominium fees, utilities, and other homeownership expenses that may make it difficult for participants to meet their monthly mortgage payments. At the time of the visit, LAHD was still offering HACLA participants stand-alone purchase assistance, but since the majority of participants buy homes that require rehabilitation, the lack of rehabilitation funding was preventing a number of participants from closing.

Earlier in the program's development, HACLA also formed a partnership with a non-profit developer affiliated with the Enterprise Foundation called Enterprise Home Ownership Partners (EHOP). EHOP purchases Federally-owned properties in bulk within specific regions of Los Angeles. EHOP rehabilitates the homes and resells them to low-income residents. More than half of the program purchasers (23) have purchased an EHOP home. Program staff explained that they no longer have a partnership with EHOP because EHOP felt that the amount of time voucher participants required for purchase was too long and preferred marketing their limited supply of homes to other low-income populations. Voucher homeownership participants typically take three to four months to get from a purchase agreement to settlement, compared to one to two months for regular market purchasers.

With a large number of program enrollees, the intake process at HACLA is very labor intensive and requires large amounts of staff time. Four HACLA staff members are involved with operating the voucher homeownership program. The Assistant Housing Choice Voucher Manager spends 60 percent of her time communicating with program partners and managing other HACLA staff working on the homeownership program. The Special Programs Coordinator spends 15 percent of her time maintaining partnership relations and monitoring HUD regulations. Initially, the program also had four eligibility interviewers who conducted applicant intake and screening for the homeownership program. However, because of funding shortages, the agency currently only has one eligibility interviewer devoted full-time to homeownership. Program staff reported that the shortage of eligibility interviewers has been a challenge for the program.

During the last few years there have also been many changes in HACLA's top-level management that have resulted in a shifting of priorities involving the Section 8 Homeownership program. Program staff reported that these management changes at HACLA have been somewhat challenging. Staff have had to spend more time explaining the voucher homeownership program and its issues to the housing authority's leadership. In addition, the changes have had an impact on HACLA's partnership with LAHD and the Homeownership program staff have had to increase their efforts to maintain a good working relationship with LAHD.

Program Design

Targeting and Outreach

In addition to meeting HUD's minimum income and employment guidelines, HACLA's program requires one year of voucher program participation, plus participation in FSS or in HACLA's HSS program for public housing residents. Applicants may be currently enrolled in FSS or have graduated from FSS within the last 18 months. HACLA staff reported that FSS participants tend to be strong candidates for homeownership since many are working families who have accrued escrow accounts. However, because the program does not require a minimum period of enrollment before purchasing a home, some participants join the FSS program and rapidly purchase a home with little or no savings in their escrow accounts. Staff are considering requiring participants to enroll in FSS for a fixed period of time before purchasing. Staff are also considering opening the program to non-FSS families and longer-term FSS graduates who can document savings of $3,000 to $5,000. However, staff have not had the time to discuss the details and implications of such policy changes (e.g., increase in calls, capacity to absorb increased work, etc). HACLA would also need to make revisions to its Administrative Plan before these changes could take place.

HACLA has allocated 10 homeownership vouchers per year to participants in HACLA's HSS program, a homeownership program for public housing residents. The HSS program provides financial literacy training, homeownership counseling, and intensive case management services to residents of two public housing developments involved in the Jobs-Plus demonstration.[49] HUD initially did not allow HACLA to set aside the vouchers for public housing residents, but HACLA successfully petitioned to have the policy approved in spring 2005. Program staff reported that two or three HSS participants have applied for the voucher homeownership program but none has purchased a home yet.

HACLA currently markets the voucher homeownership program by sending fliers to FSS families on a quarterly basis and providing information at homeownership fairs that are held two or three times a year. HACLA staff also present program information at monthly resident meetings targeted toward voucher rental participants. Many participants also learn about the program through word-of-mouth.

HACLA has allowed one voucher homeownership participant to port-in from a different housing authority.[50] However, staff reported that port-ins are logistically challenging, because clients only have 120 days to find a rental or homeownership unit before losing the voucher. The time constraint makes it difficult for HACLA to meet HUD's billing deadlines for clients porting in from another jurisdiction. By the time the client approaches HACLA, a month or more has already passed because of the initial administrative procedures at the PHA issuing the voucher, and HACLA requires an additional month to process the client's information. This leaves very little time for clients to complete the pre-purchase counseling, clear their credit, and find a home. Therefore, in spring 2004, HACLA created a new policy requiring participants to rent for at least one year in HACLA's jurisdiction before being allowed to participate in the voucher homeownership program.

HACLA staff explained that the screening process for the homeownership program initially caused concern and confusion among applicants. During the screening process, applicants are contacted if there are major discrepancies between the information that participants report in their application and the information stored in HACLA's electronic files. Staff have terminated three housing choice voucher contracts due to significant findings, such as failing to report changes in employment status and assets. Although HACLA staff encounter similar situations during regular annual recertifications for rental voucher holders, applicants were worried that the homeownership application process was designed to terminate their voucher contracts. Staff added that participants were also upset and confused when the initial forms sent to ineligible voucher homeownership participants were titled "Denial Letter." As a result, staff re-titled the letter "Homeownership Interest Letter," and the letter advised them of the things they still need to do to meet the initial program requirements.

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[49] The Jobs-Plus Community Revitalization Initiative for Public Housing Families (Jobs-Plus) is a national employment demonstration program for public housing residents.

[50] In the rental voucher program, a renter can use the portability of the subsidy to move from one PHA's jurisdiction to another. In the case of voucher homeownership, a VHO participant can only "port in" to a jurisdiction that offers a voucher homeownership program. Families who port-in must first meet all the requirements of the sending housing authority, followed by any additional or different requirements set by the receiving housing authority, including homeownership counseling.

Homeownership Counseling

HACLA drew upon LAHD's network of approved homebuyer education providers in order to provide pre-purchase counseling for voucher homeownership participants. HACLA currently partners with 14 local agencies to provide this counseling. Two of the most active partners are LANHS and HOME. LANHS is a non-profit agency that was established in 1984 and provides lending and counseling services. HOME was founded in 1989 and is a non-profit housing organization that offers rental and homeownership programs to persons with developmental disabilities.

LANHS offers regular and fast track group courses for pre-purchase counseling. The regular course meets for two hours a week over eight weeks and covers the home purchase process as well as basic budgeting and money-management issues. The fast-track course covers similar topics in a two-day, twelve-hour course. Both the regular and the fast track courses fulfill HACLA's counseling requirement. They are open to other first-time homebuyers as well as voucher program participants; there is no charge for voucher participants, but there is a $75 fee for non-voucher participants. After completing the group counseling, voucher participants meet individually with LANHS staff before securing a lender.

HOME offers group and individual counseling sessions that focus on issues confronting low-income, developmentally-disabled clients interested in homeownership. The agency offers 8- to 12-hour group sessions on financial management and the home purchase process, both of which satisfy HACLA's counseling requirement. The classes are offered every other month and are available in English and Spanish. HOME also offers financial literacy education programs covering topics such as banking, credit, budgeting and consumer rights. In addition to HOME and LANHS, participants may receive counseling through any of the other 12 partnering counseling agencies, including New Economics for Women and the East L.A. Community Corporation.

Participants interested in using LAHD downpayment and closing cost assistance are required to complete eight hours of homebuyer education and invest three percent of their personal funds for downpayment. If they complete an additional four hours of homebuyer education, LAHD reduces the downpayment requirement to one percent. Most focus group participants were aware of this policy. One participant was surprised when HACLA staff requested that she complete four more hours of training after she had completed an eight-hour seminar.

Although HACLA staff and program lenders consider the homebuyer education provided to program participants to be worthwhile, they say that even with the training, many participants are unprepared for homeownership. One lender reported that some participants are so eager to own a home that they ignore the advice taught in the homeownership classes. She explained that some clients are willing to accept unusual financing terms, such as offering sellers a price higher than the appraised value of the property. Another lender noted that it was difficult for participants who attended single-day counseling sessions to retain all of the information provided.

Another lender reported that during spring 2005 there was an increase in the number of non-mortgage ready participants seeking financing. HACLA staff explained that participants with poor credit or long-term credit issues were approaching lenders for a mortgage without the approval of HACLA or the homeownership counseling staff. HACLA has since created a form that the counseling agency signs before the participant goes to a lender that confirms that the participant has completed homebuyer education, is credit-ready, and is prepared for financing. Although this has helped HACLA verify participant completion of counseling, some participants continue to go directly to lenders before contacting HACLA.

One of the HACLA staff interviewed described a need for increased financial literacy training. She suggested that HUD make financial literacy a requirement for the voucher homeownership program, noting that, although homebuyer education programs may include a financial literacy component, the topic is so important that it should be offered as a separate training session. She argued that financial literacy and budgeting support is particularly important for elderly and disabled clients on fixed incomes. HACLA used to offer financial literacy training classes but now refers participants to classes offered by non-profit community organizations.

Home Search and Inspections

HACLA does not offer formal search assistance to clients. At the start of the program HACLA and HOME held a workshop to train 25 to 30 real estate agents about the program. HOME provides its participants with a listing of real estate agents and available properties. However, staff noted that the program lacks a supply of good real estate agents who understand the voucher homeownership program.

Once participants complete the required homebuyer education, HACLA issues them a housing assistance payment (HAP) determination letter that specifies the amount of monthly subsidy they will receive. Participants then have 180 days to purchase a unit unless they receive an extension. Approximately 44 percent (132) of participants have received HAP determination letters but failed to purchase within 180 days. In these cases, their rental vouchers remain effective. It is unclear how many of these participants applied for an extension, but staff noted that most participants give up searching if they have not found a home within a year. Price is the biggest barrier for participants. One focus group participant who had purchased a condo reported that she originally had wanted to purchase a single-family home, but was limited by the affordability of the market.

In addition to the mandatory HQS and independent inspections, participants who obtain a second mortgage from LAHD must also have an additional inspection. The LAHD inspection is usually the first inspection conducted in the series. In contrast to the HQS inspection that focuses on identifying immediate deficiencies, the LAHD inspection concentrates on the life expectancy of various structures and systems in the home. Program staff estimated that approximately 10 percent of homes fail to meet LAHD standards.

HACLA staff and their partners reported that voucher homeownership participants usually require more time between signing the purchase agreement and settlement than non-voucher participants in order to complete the three inspections and secure financing. Voucher homeownership participants typically require three to four months to get to settlement, while regular market purchasers only require one to two months. The extra time makes it difficult for participants to find homes, because in such a tight market, sellers can easily sell the house to non-voucher holders in a shorter period of time. One lender commented that the number of inspections was excessive, and HACLA staff reported that several clients were close to losing the homes they had selected because of the length of the closing process.

LAHD and HACLA staff have been trying to resolve an issue with the HQS inspection process. Sellers have been upset that the HQS inspection requires them to repair their homes prior to purchase, even though participants are eligible for rehabilitation funds from LAHD. However, LAHD rehabilitation funds are available only after purchase and voucher homeownership program regulations require that the unit pass HQS prior to purchase. HACLA has written to HUD requesting that buyers be allowed to complete HQS repairs within six months of purchase. In the meantime, LAHD's rehabilitation funds are not offered to voucher homeownership participants who require repairs prior to purchase.

HACLA staff reported that they help participants review the independent inspection reports. Program staff review the report, advise participants if they need another professional opinion, and notify them if any items are likely to be cited during the HQS inspection process. A copy of the independent inspection report is also attached to the HQS report and reviewed by HACLA's inspectors during the HQS inspection.

Even with the majority of participants undergoing three inspections, several focus group participants noted that their new homes still had major maintenance issues. Three participants reported roofing and plumbing problems that were not apparent until after moving into the home. One of the participants had purchased a newly constructed single family home and indicated that she was working with LANHS staff to sue the developer. Two of the other participants had purchased condominiums and reported that their homeowners' associations did not have enough funds to address maintenance problems. These participants suggested that LANHS should review homeowners' associations' financial statements for adequate reserves before approving condominium purchases.

Lenders

Citibank and Commercial Capital Bank (CCB) have been the primary lenders for HACLA's voucher homeownership program. Citibank has made approximately three-quarters of the loans, while the others have been provided by CCB. Citibank reported that the program offered a good opportunity for meeting Community Reinvestment Act requirements and increasing their pool of loyal, committed customers. Citibank representatives reported that they did not see the program as very risky because of HACLA's involvement and because of their ability to sell loans to Fannie Mae. CCB sells loans to both Fannie Mae and Freddie Mac, with the exception of ACORN Housing loans, which are held in portfolio.

Both lenders noted that it was challenging to develop a system that would accept payments from both the participant and the housing authority. CCB eventually established two accounts for each participant, one for the participant's payments and one for the housing authority's payments. When both funds have been received, the total payment is applied to the participant's loan. Citibank staff use a similar system, except that they have one holding account per loan for both housing authority and participant payments. Because of problems with their computer system, HACLA had some difficulties issuing timely HAP payments to Citibank in early 2005. However, HACLA staff modified the computer system and expect no further delays.

Financing Model

Citibank and CCB both use the HAP as offset model in order to provide participants the maximum purchasing power in this high-cost housing market. Both lenders offer 30-year, fixed-rate, below-market loans for first-time homebuyers in combination with other subsidies. Citibank offers some loans through a partnership with ACORN Housing. The affordable housing agency HOME also offers Fannie Mae's Home Choice program for disabled purchasers, which is a 15 to 30-year, fixed-rate, below-market mortgage. Private mortgage insurance is required for loans with loan-to-value ratios of less than 80 percent.

Sample Purchase Transaction: Los Angeles, California	
Buyer's Annual Income:	$17,172 (as of 12/18/2004)
Purchase Date:	5/15/2003
Costs to Buyer:	
– Purchase Price:	$174,500
– Closing Costs:	$3,421
Sources of Financing:	
– 1st Mortgage:	$139,600 (5.9%, 30 yrs)
– Deferred Loans:	$26,780 (0%, deferred 30 yrs/until resale)
– Forgivable Loans:	$10,000 (0%, 5 yrs forgiven, AHP)
– Buyer Cash Down:	$1,745
Monthly Mortgage Payments:	
– Total PITI:	$1,377
– HAP to offset PITI:	$733
– Buyer's PITI portion:	$644
– Buyer's share of PITI as a percent of gross monthly income:	45%

Many participants combine loans with up to $115,000 in purchase and rehabilitation assistance from LAHD. Up to $90,000 is available for purchase assistance loans (including closing costs) with an additional $25,000 available for rehabilitation costs. The amount of purchase assistance is determined by the difference between the purchase price and the amount of mortgage for which the buyer qualifies. LAHD loans carry a zero to three percent interest rate and are due at sale or transfer of the property or in 30 years. The loans also have an equity share component through which LAHD receives a share of the profits from any increases in property value.

Participants have access to a variety of downpayment and closing cost assistance subsidies. For example, Citibank offers a $3,000 closing cost grant and additional assistance through the Workforce Initiative Subsidy for Homeownership program. Participants also have access to closing cost and downpayment subsidies through LANHS; the Federal Home Loan Bank's Affordable Housing Program grant; and Individual Development Account (IDA), Individual Development and Empowerment Account (IDEA), and American Dream Downpayment Initiative (ADDI) funds. There is no restriction on the amount or number of grants a participant can receive, and the total amount of assistance received varies by program. IDA account matches range from $1 to $1 up to $5 to $1. Maximum assistance on an IDA account is $15,000, including the participant savings and the match money.

HACLA, LAHD, and their lender partners all expressed concerns about post-purchase affordability. House prices in Los Angeles are so high that, even with the HAP and other subsidies, the total loan package is often insufficient to meet participants' needs. Some homebuyers may pay as much as 60 to 70 percent of their income toward housing expenses as a result of rising utility and condominium fees. While HACLA staff advise participants to set aside funds for maintenance and repairs, program staff do not check whether clients are doing so. In order to provide a safety net for participants and minimize the risk of delinquencies or defaults, LAHD is urging HACLA to establish a contingency fund to help participants with post-purchase cost increases. HACLA staff were developing the details for the contingency fund at the time of visit.

LAHD staff explained that recent HUD cuts in the voucher program have caused them to worry about HACLA's ability to guarantee the HAP for 15 years. Since LAHD's loans are in second position, LAHD would be vulnerable if HACLA defaulted on its payments. LAHD is seeking documentation that evidences HACLA's commitment to continue to provide a monthly subsidy to program participants in the event of future cuts in voucher program funding. HACLA staff noted that they were unsure if they could offer such a guarantee in an environment of Federal funding instability.

Post-Purchase Activities

HACLA does not require post-purchase counseling or homebuyer education, although it is recommended and offered by several of the program's counseling partners. LANHS offers a post-purchase program that consists of a series of workshops covering credit recovery, default and foreclosure prevention, predatory lending, insurance, and home maintenance and repair. The courses range from two to four hours in length. LANHS also offers "hands-on" home repair workshops at its Home Maintenance Training Center, which features model bathrooms, kitchens, and walls. HOME offers individual post-purchase counseling and group post-purchase workshops.

LAHD reported that it has been challenging to work with participants whose homes require post-purchase rehabilitation work. After purchase, participants are given a list of LAHD-approved contractors to complete the needed repairs. However, LAHD reported that several participants have been dissatisfied with the quality of their contractors and indecisive about their repair needs. As a result, LAHD staff have spent a significant amount of time trying to help four or five participants resolve their concerns.

Dissatisfied participants have complained about their post-purchase repair problems to local and Federal political officials. The State Board of Contractors has also been involved in reviewing several cases, one of which was ruled in favor of the participant. LAHD explained that one participant had nine contractors leave the job because of participant complaints, and another participant was so difficult that the contractor refunded all of the money invested into the work. LAHD staff suggest that participants should be given more post-purchase counseling and help with managing the rehabilitation process after purchase. HACLA staff said that, while they have been as responsive as possible with such issues, there are some participants who create extra difficulties and need more help than the housing authority can provide.

HACLA staff also noted that some participants have difficulties transitioning from renting to homeownership because they think they can rely on the housing authority to help with maintenance and other post-purchase responsibilities after they close. HACLA has spoken with Fannie Mae about developing a video for voucher homeownership participants that would address the differences between renting and owning.

Program Outcomes

At the time of the site visit for this study in July 2005, approximately 300 participants had completed pre-purchase counseling and 43 participants had purchased a home. Staff reported the program had an average of 20 purchases a year in 2003 and 2004, with the remainder of purchases taking place in

2005. There have been no defaults or foreclosures and lenders report that very few participants have missed payments. Program staff explained that a greater number of families were able to purchase during the early years of the program because housing prices were less expensive and families had access to a supply of affordable units through EHOP. In addition, HACLA significantly lowered its voucher payment standards in April 2004 in order to maximize the number of participants receiving assistance. Although the agency has adjusted the payment standards somewhat since then, program staff report that the payment standards are still inadequate for the high-cost housing market. In some cases, participants have seen homeownership expenses increase while also experiencing decreases in their HAP due to salary increases. In many of these cases, the increases in expenses and decreases in HAP are not fully offset by the salary increase, causing concern for these households.

Program staff estimated that as of July 2005, approximately 22 participants were in the process of searching for a home. Although most work hard to find a house, participants are often limited by the affordability of the market. Some participants find homes in affordable, but less desirable neighborhoods, while others give up searching after a year.

Program staff stated that, of the 43 participants that purchased homes, 23 purchased single-family homes while the remainder bought condominiums. Sixteen participants purchased through EHOP, 23 purchased from private sellers, and 4 participants bought the unit they had previously rented.

Since purchasing, three participants have sold their homes and left the voucher program. One participant paid off the entire loan and purchased a new home, one sold the home to move in with family members, and a third participant sold his home and left the voucher program for unknown reasons. Another participant was in the process of selling her home and returning to renting with a voucher after experiencing a significant increase in her homeownership expenses from rising condominium fees and taxes.

The neighborhoods visited during the site visit varied from fair to excellent in quality. Most neighborhoods were largely residential, although one was located near a heavily commercialized area. The homes in the purchase neighborhoods were fairly well-kept, with some minor housekeeping issues (e.g., worn paint, broken fence).

Three of the focus group participants who had purchased condominiums reported that they were dissatisfied with their purchases because of maintenance issues and rising fees resulting from ineffective homeowners' associations and management companies. The participants reported that their homeowners' associations were plagued by fiscal mismanagement and did not have enough money to deal with maintenance problems. Two participants who lived in the same building complained that their management company was issuing work to a targeted list of vendors instead of to the lowest bidder. Another participant suggested that real estate agents and inspectors should review the history and reputation of the homeowners' association and management company before referring participants to a condominium building or completing an inspection report.

A participant who had purchased a single-family home through EHOP reported that, although she was fairly satisfied with her purchase, she was still attempting to recover costs incurred through damages from a leaky roof. The participant noted that she had discovered the roofing issue shortly after moving in but her insurance would not cover the costs of the damage (although the PHA requires buyers to get homeowner's insurance, there is no specification as to the minimum amount of coverage needed; this decision is left to the buyer with advice from their counseling agency and/or real estate agent on typical coverage needed). At the time of the site visit, the participant was working with LANHS to consider a possible lawsuit against EHOP to recover her personal costs.

Lessons Learned

HACLA staff attributed the voucher homeownership program's success to its wide network of partnerships and cited Fannie Mae as a key player in the program's development. An initial partnership with EHOP and a slightly less competitive housing market allowed a large number of participants to purchase homes during the first two years of the program. Participants also had access to significant purchase subsidies through LAHD.

Program staff emphasized the importance of maintaining good communication and establishing strong partnerships when developing a voucher homeownership program. They added that establishing clear procedures and a system to track participant information was also important, and noted that HACLA's program could be improved to better document the status of all participants since intake.

Program staff noted that some participants continue to have ongoing credit issues after purchase and need a better understanding of the housing market and financial issues. Staff have been trying to determine how they can strengthen the FSS program to increase the services provided to voucher homeownership participants. While they would like to emulate the intensive case-management approach used by HACLA's HSS program, staffing resources are limited.

Overall, HACLA staff have been very pleased with the program's outcomes, but cited the lack of LAHD funds and the expensive housing market as major challenges. Staff were working with LAHD to develop a participant contingency fund, but were uncertain that they could address all of LAHD's concerns. Program staff and their partners further noted that, even with the HAP payment and other subsidies, program purchasers still confront financial challenges to sustaining homeownership when faced with rising taxes, condominium fees, and insurance premiums.

Montgomery County, Pennsylvania

Voucher Homeownership Program at a Glance: Montgomery County, Pennsylvania

Total Size of PHA Housing Choice Voucher Program[a]	2,560
Number of Active VHO Participants (Not including those who have closed)	837
Total Number of Home Purchases	41
Average VHO Participant Income[a]	$26,404
Average HCV Household Income[a]	$12,568
Number of Foreclosures	2
Current Number of Delinquent Payments or Mortgages in Default	2
Other Sources of Assistance for Purchasers	USDA Rural Development, ADDI[c]
Market Characteristics	
Range of Purchased House Prices	$55,000 to $165,000
Area Median House Value[b]	$160,700

Unless otherwise indicated, the information for this table was collected during the site visit.

[a]Source: HUD Resident Characteristics Report.

[b]Source: 2004 American Community Survey.

[c]See Financing Model section in this case study for descriptions of these programs.

Introduction

The Montgomery County (Pennsylvania) Housing Authority (MCHA) administers approximately 2,500 housing choice vouchers in an affluent suburban county outside of Philadelphia. MCHA was one of the first housing authorities authorized to pilot the voucher homeownership option under HUD's proposed rule. MCHA was attracted to the homeownership option as an opportunity for innovation within the housing choice voucher program and for expanding the housing options of its clients. MCHA also viewed the program as an opportunity to support some of the communities within the county that have suffered from declining homeownership rates.

The homeownership option is available to new or existing participants in MCHA's voucher program. At the time of the site visit in May 2005, 41 households had purchased homes through the program. One of the distinctive features of MCHA's program is its pre-purchase counseling component, which includes five two-hour homeownership workshops led by MCHA staff and a mandatory one-on-one credit counseling session provided by the Consumer Credit Counseling Services. HUD counseling grants and other grants pay for the counseling. Another noteworthy feature of MCHA's program is the high degree of lender participation. During the design phase, program staff paid particular attention to the needs of private market lenders, which has facilitated lender participation. As of May 2005, 19 different lenders had made mortgage loans to program participants.

Montgomery County's program is one of two programs selected for this study that were also studied in HUD's early implementation assessment of the voucher homeownership program.[51] The purpose of including these previously studied sites was to see how the programs have evolved since they were visited in 2002. Although MCHA has been able to achieve its goal of 10 purchases per year since 2001, the program now is facing some challenges. Most important, house prices have increased substantially in recent years, outpacing income gains made by voucher participants. In addition, dedicating sufficient staff to the homeownership program, given recent cuts in the voucher program overall, is increasingly difficult. The program started with two full-time staff but is now down to one; this makes it difficult to provide the individualized attention that was a hallmark of the program's early success.

Housing Market Conditions

Montgomery County is a large suburban county located 20 miles northwest of Philadelphia. The county as a whole is affluent, but it contains some low-income communities. The western half of the county is considered rural; most of the population lives in suburban communities in the southeastern portion of the county.

Housing costs are generally high in Montgomery County. According to the 2000 Census, the median house value in Montgomery County was $160,700, approximately 34 percent higher than the national median. The homeownership rate is also generally high (74 percent in 2000), although some parts of the county have been steadily losing homeowners and have homeownership rates under 50 percent.

As shown in the chart below, the proportion of units affordable to lower-income buyers has been declining over the past several years. Less than half of the owner-occupied housing units in Montgomery County had values estimated at less than $150,000 by the 2000 Census, and only 13 percent were valued below $100,000. By 2004, only 23 percent of the owner-occupied units in the county were valued below $150,000, according to the American Community Survey.[52]

Home Values in Montgomery County, PA	2000		2004	
Less than $50k	3,085	1.5%	3,148	1.4%
$50k to $99k	27,287	13.0%	15,317	6.6%
$100k to $149k	63,898	30.4%	35,400	15.3%
$150k to $199k	51,983	24.7%	39,952	17.2%
$200k to 299k	37,807	18.0%	57,711	24.9%
300k and above	26,177	12.5%	80,236	34.6%
Total	**210,237**	**100.0%**	**231,764**	**100.0%**

Sources: 2000 data are from the 2000 Census; 2004 data are from the American Community Survey

51 The second is Bernalillo County, NM.

52 Data from the 2000 Census and 2004 American Community Survey.

With so few moderately priced homeownership units, this is a relatively difficult housing market for voucher program participants to become homeowners unless the family either finds a home in one of the pocket's of affordability or has access to additional subsidies. Program staff report that there are very few good quality units available for less than $100,000. Units in the $100,000 to $150,000 price range are generally located in the older, more densely settled areas of the county. These areas have significantly higher poverty rates than other parts of the county, but they are also the places where social services are located and public transportation is available, and therefore they are attractive to some participants in MCHA's homeownership voucher program. Thus far, participants have purchased units ranging from $55,000 to $165,000 (based on 41 purchases to date). The current average purchase price is $111,857, up 24 percent from 2002.

Program Development

MCHA's main goal for the voucher homeownership program was to offer an opportunity for voucher program participants with steady income and good credit to build equity and establish roots in their communities. The agency also anticipated that there would be more public support for the homeownership program than for the rental voucher program, which has faced considerable community opposition in certain areas of the county over the past decade. In order to encourage as many people as possible to become homeowners, the agency did not set any limits as to how many households could participate. However, agency staff did not expect that a large share of voucher participants would become homeowners, given the income levels of voucher families and the cost of housing in the county. Therefore, MCHA set a goal of 10 purchases per year.

As one of the first sites authorized to pilot the voucher homeownership option, MCHA found that developing the program was highly labor intensive. As MCHA's Deputy Executive Director put it in 2002, "HUD told us what we had to do, but not how to do it." Beginning in 2000, MCHA went through a lengthy planning and design phase, during which the Deputy Executive Director and Homeownership Program Administrator worked closely with a staff person from the Philadelphia HUD Office to recruit lenders to the program.

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

Even after MCHA addressed the issue of stability of borrower income, many lenders remained reluctant to participate in the program. Therefore, MCHA's Deputy Executive Director of Management and Administration, Homeownership Program Administrator, and the HUD Philadelphia staff person invited local lenders with active community lending programs, usually the CRA officer and a senior underwriter, to meet in person to discuss the program. These meetings ultimately helped MCHA to garner the support of a few lending institutions, and this number has grown over time. The Homeownership Program Administrator continues to contact lenders on the Pennsylvania Housing Finance Agency's approved lender list about once every six months to publicize the program and to try to continue to expand the pool of lenders willing to work with program participants.

Program Management, Staffing, and Partnerships

Now operational for several years, MCHA's homeownership voucher program continues to require significant time from agency staff and partners. The program is primarily managed by one full-time MCHA staff person, the Homeownership Program Administrator. Her position is funded entirely through voucher program administrative fees and FSS grants. In prior years, the Homeownership Administrator was supported by a clerical staff person, who spent approximately 60 percent of her time on the homeownership program. However, due to cuts in voucher program funding, the agency is no longer able to dedicate this level of staffing to the program. Although it is difficult to estimate the staff to client ratio for the homeownership program because staff spend most of their time working with clients who are working toward homeownership but have not yet purchased, it is substantially higher than the 400:1 ratio that applies to MCHA's rental voucher program.

Other MCHA staff contribute to the homeownership program on a more limited basis. MCHA's Deputy Executive Director, who worked intensively on the program in the startup phase, now spends two to three days a month on the program. MCHA's Deputy Executive Director for Maintenance participates in one of the five homeownership workshops, which requires approximately 8 hours a year.

Although MCHA conducts most homeownership counseling in-house, the voucher homeownership program also works with two partners. Consumer Credit Counseling Services (CCCS) runs two of the five homeownership workshops and provides one-on-one credit review and counseling for program participants. Staff from the Fair Housing Council and a legal services organization conduct a workshop on Fair Housing and Predatory Lending. Both partners provide their services free of charge to the agency and to participants.

MCHA's program has a number of partners in the lending community. A total of 19 lenders have provided loans to program participants, and 15 lenders are currently actively involved in the program. Most of the lenders offer loan products from the Pennsylvania Housing Finance Agency (PHFA). In addition, a number of families have used the U.S. Department of Agriculture's (USDA) Rural Development Section 502 Loan Program (henceforth referred to as "Rural Development Loans") to purchase in rural areas in the western part of the county.

MCHA staff attribute much of the program's success to its strong partnerships. Providing the homeownership counseling in-house is resource intensive, particularly while the curriculum is being developed, and having partners conduct workshops in their areas of expertise has been crucial to the agency's ability to provide the level of counseling that it does.

Program Design

Targeting and Outreach

The homeownership option is available to all current participants in MCHA's rental voucher programs who are in good standing with the agency and meet the minimum income and employment requirements specified in the final rule. The homeownership option is also available to households who receive a new MCHA voucher, although the agency does not currently have the funding to issue new vouchers.

MCHA has not set any limit on the number of households that may attend homebuyer education or pursue homeownership through the program. Program staff have always expected that relatively few voucher participants would be able to purchase through the program, given income and credit constraints; as a result, the agency decided not to set limits on which families could try to do so. For example, MCHA has a preference for, but does not require, participation in its FSS program. (The FSS program is discussed in the homeownership program briefing as a good way to begin saving toward a down payment or to access employment-related services.) Furthermore, MCHA does not formally screen participants for program eligibility on the basis of income and employment until after they have completed the first three of five homeownership workshops required by the program. Households found to be ineligible for the program may nonetheless attend the additional two workshops.

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

MCHA has since limited its mailings to voucher participants with incomes of at least $10,300. This approach allows the agency to target program recruitment to eligible households, while still casting a wide net. Thus far, the agency has conducted nine rounds of recruitment (sending letters and holding briefings), and more than 700 families are currently in the process of working toward homeownership. Between 2001 and 2004, MCHA attracted a sufficient number of households to achieve its goal of 10 purchases per year, but only three households purchased in 2005.

Homeownership Counseling

MCHA conducts the homeownership counseling required for the program in-house, using partners to lead some workshops. MCHA had originally planned to provide all of the counseling through an outside partner, but initially was unable to identify a counseling agency that staff felt comfortable using for this purpose. In addition, MCHA's Deputy Executive Director and Homeownership Program Administrator felt strongly that the program needed to provide the counseling in-house in order to develop personal relationships with program participants and thereby tailor the counseling to participants' needs.

MCHA first provides a preliminary briefing on the program. As part of this briefing, past program participants share their homebuying experiences with prospective purchasers through a prerecorded video. On the video, a purchaser describes her experiences selecting a real estate agent, finding a home, interpreting the independent inspection, and working with a lender. Program staff report that participants find it valuable to hear first-hand what is involved in the purchase process.

After the briefing, MCHA requires program participants to attend five two-hour homeownership workshops prior to looking for a home. MCHA offers the homeownership workshops in cycles of one or two workshops per month over a four- to five-month period. During the month in which the workshop is held, MCHA conducts each workshop two or three times over a two-week period, with both morning and evening times offered. Thus far, all of the workshops have been held at MCHA's central offices or at the public library in Norristown, PA where many voucher families live. All workshops are conducted as group sessions, although MCHA's Homeownership Program Administrator also works with families on a one-on-one basis as needed. Agency staff report that group workshops have the advantage of families motivating each other to stick with the program.

The subjects of the five mandatory workshops are: 1) Budgeting and Money Management; 2) Credit; 3) Fair Housing and Predatory Lending; 4) How to Buy a House; and 5) Home Maintenance. Participants must also attend one-on-one credit review and counseling provided by a program partner after they complete the second workshop (as described below). Finally, a one-on-one meeting with the Program Administrator just prior to purchase is required.

The first three workshops are led by partners, although the MCHA's Homeownership Program Administrator is present at all times. Consumer Credit Counseling Services (CCCS) conducts the two Budgeting and Money Management and Credit workshops, while the Fair Housing Council and a legal services organization lead the Fair Housing and Predatory Lending workshop. CCCS also provides free one-on-one credit review and counseling for clients after they complete the second workshop. When MCHA's program began, this individual counseling was optional; it is now required for all program participants.

The fourth workshop, How to Buy a House, is the longest of the five workshops and is led by MCHA's Homeownership Program Administrator. The fifth and final homeownership workshop is taught by MCHA's Executive Director for Maintenance and covers the basics of home maintenance—what maintenance needs to be done on a regular basis, what repairs are likely to be needed over time, and how to work with contractors.

In addition to the five workshops and the individual credit counseling session, MCHA recently instituted a mandatory one-on-one meeting with the Program Administrator that occurs just prior to purchase. The purpose of this hour-long meeting is to go over the settlement process and to make sure that participants understand what is expected of them after purchase: annual reexaminations, income recertifications, and home maintenance. At the meeting, the Administrator also makes it clear to participants that she is available to answer questions and provide support on an as-needed basis after they move into their new homes.

MCHA's Homeownership Program Administrator reported that the pre-purchase workshops and individual counseling sessions give agency staff an opportunity to develop a personal bond with program participants, one that is important for motivating clients and supporting them as they encounter challenges post purchase. Participants in the focus group held at the time of the site visit all reported that they had a good relationship with the Homeownership Program Administrator and felt comfortable going to her with questions. Several participants directly attributed their ability to purchase a home to the support they received from the Program Administrator, the information they received at the workshops, and the individual credit counseling received through CCCS. Some participants reported using the workshops and credit counseling to help evaluate whether they were ready to purchase. Others mentioned budgeting, sound financial decision-making, and home maintenance as key skills they had learned from the workshops.

Home Search and Inspections

Beyond the workshops, MCHA does not provide program participants with additional assistance as they search for a home to purchase. Program participants are encouraged to work with a buyer's agent, but MCHA does not provide lists of recommended real estate agents. Based on the focus group, it appears that most participants do in fact work with real estate agents to find their homes, although one participant reported finding a house through the Internet. The focus group participants confirmed that families are responsible for finding their own agents and that MCHA did not encourage them to use any particular real estate agent or group of agents.

Participants admitted directly from MCHA's voucher waiting list have a total of nine months to complete all five workshops and purchase a home. MCHA does not impose a time limit on participants joining from the rental program, although if the participant prequalifies with a lender, the lender may limit the time the prequalification is valid. Most focus group participants reported looking at 5 to 10 homes before finding one they liked, although one couple reported looking at as many as 30 homes. Many participants reported that they could not find homes in good shape in their price range, and a few noted that they settled for particular houses because of a time limit on their prequalification or because the costs of the homes they truly desired were above their price range. Focus group participants who were admitted to the homeownership program from the voucher waiting list commented that nine months was a short period of time to complete entire the process, which they found very stressful.

Most respondents purchased homes near where they had rented, because of proximity to schools, doctors, and work. However, one couple noted that they made a special effort to move to a rural area so that they could have their own garden. Another couple described problems they encountered with their first choice of home, including sellers not wanting to make the sale using a Federal Housing Administration (FHA) loan (which the couple wanted to use) and the home not passing an inspection. Nonetheless, all of the focus group participants concluded that they were generally satisfied with the homes they purchased. They also commented that MCHA staff were available to answer questions throughout the process and held one-on-one meetings with them to remind them of the steps in the process and go over specific details.

Given the age of the affordable housing stock in Montgomery County, the two required pre-purchase inspections are a key component of MCHA's program. MCHA conducts the Housing Quality Standards (HQS) inspection within a week of receiving the participant's agreement of sale, prior to the independent inspection. The HQS inspection is conducted by one of MCHA's regular inspectors, accompanied by the Homeownership Program Administrator. Participating in the initial HQS inspection familiarizes the Program Administrator with the property and helps her to interpret the results of the independent inspection. If the HQS inspection does not reveal any major flaws in the property and the seller is willing to make the needed repairs, the participant arranges for the independent inspection. Participants purchasing in certain parts of the county may be required to have an inspection by the local borough. In addition, USDA conducts a separate inspection on the property if the participant is purchasing with a Rural Development loan. The county also requires an inspection if the participant will receive county downpayment or closing cost assistance.

MCHA's Homeownership Program Administrator reviews the independent inspection report with the participant. Although most of the homes inspected thus far have required only minor repairs (participants learn in the workshops to look for houses in good condition), several participants cancelled agreements of sale as a result of problems revealed by the independent inspection. For example, one focus group participant cancelled her first offer after the inspection found roofing and electrical problems and termites. MCHA staff encourage participants to use the minor repairs suggested by the independent inspection report as a guide to future maintenance needs.

Lenders

Thus far, 19 different lending institutions have provided mortgage loans to MCHA program participants. Some of these lenders are holding the loans in portfolio, but others have sold FHA-insured loans on the secondary market. One mortgage company has made a commitment to MCHA to hold the loans in portfolio for one year and service the loans in-house during that time. MCHA has worked hard to expand the pool of lenders so as to give participants the same options as non-subsidized purchasers.

MCHA maintains a list of 15 lenders who are committed to working with program participants and provides this list to participants during the homeownership workshops. MCHA has developed close working relationships with some of these lenders, but a significant share of buyers have borrowed through lenders with whom MCHA has no special relationship. None of the lenders interviewed during the site visit reported any problems with the program, although program staff noted that one lender stopped participating after a loan fell through, and this resulted in the lender's having to cover the appraisal fee.[53] However, at this point in time, the main concern of lenders seems to be the long-term sustainability of the voucher program given cuts in federal funding for housing programs.

Focus group participants did not generally report problems working with lenders. Several commented that, as a result of the homeownership workshops, they were comfortable with the lending process. In a couple of cases, loan terms were renegotiated prior to settlement, but the Program Administrator was available to go over any issues that arose and to give advice. Most focus group participants were satisfied with their financing terms, although one noted that she would have preferred the interest rate she was first quoted. Another participant noted that she had some difficulty obtaining a loan through the U.S. Department of Agriculture's (USDA) Rural Development Section 502 Loan Program, although ultimately she did. Program staff and a real estate agent interviewed also reported problems with Rural Development loans, particularly from sellers who were reluctant to accept this form of financing because they perceived it as more burdensome than other types of mortgages. One issue is that Rural Development offices receive annual funding for their loan programs. When the annual allocation is expended, the office cannot make more loans until the next funding year. There have been problems with Rural Development being unable to proceed with loans they thought they could make because the funding ran out sooner than expected.

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[53] This was an unusual situation in which a family member committed fraud to open new credit lines in the prospective homebuyer's name, resulting in damage to her credit record. The homebuyer was not willing to press charges against the family member, so the transaction did not proceed.

Financing Model

MCHA's voucher homeownership program uses the single mortgage model in which the housing assistance payment (HAP) is considered as an addition to the participant's monthly income. MCHA chose the HAP as income model over the two-mortgage model because the program did not have access to a source of second mortgage financing and did not offer the HAP as offset model because the higher payment burden entailed by that model was viewed as too risky. In addition, the agency believed that treating the HAP as income would be the simplest model for lenders to implement and, therefore, the most likely to gain their support.

Sample Purchase Transaction: Montgomery County, PA

Buyer's Annual Income:	$40,610 (as of 4/1/2005)
Purchase Date:	11/30/2004
Costs to Buyer:	
– Purchase Price:	$137,000
– Closing Costs:	$6,862
Sources of Financing:	
– 1st Mortgage:	$134,883 (5.8%, 30 yrs)
– Forgivable Loans:	$8,676 (0%, 8 yrs forgiven, county)
– Buyer Cash Down:	$1,554
Monthly Mortgage Payments:	
– Total PITI:	$1,148
– HAP to offset PITI:	$395
– Buyer's PITI portion:	$753
– Buyer's share of PITI as a percent of gross monthly income:	22%

MCHA sends the HAP payment directly to the participant in advance of when the monthly mortgage is due, and the participant writes one check for the full amount of the mortgage. This eliminates the servicing concerns associated with receiving mortgage payments from two different sources. However, receiving the HAP directly has created problems for three program purchasers, who have had their Food Stamps jeopardized because Pennsylvania's Department of Welfare counts the HAP as part of the family's income in determining their eligibility for Food Stamps. MCHA's Homeownership Program Administrator is currently working with USDA (the participants have Rural Development loans) to determine whether the HAP can be treated as something other than income for Food Stamps' purposes.

MCHA does not require any minimum down payment beyond what may be required by the lender or provider of down payment assistance. The agency also imposes relatively few restrictions on the type of loan product that participants can obtain, but does not allow balloon payments or adjustable rate mortgages. In addition, MCHA's affordability criteria require that the monthly homeownership expenses minus the HAP be less than 50 percent of the participant's adjusted monthly income. The monthly homeownership expenses include the principal, interest, taxes, and insurance on the mortgage (PITI), a $150 reserve for maintenance and replacement (adjusted for condo fees on a case-by-case basis), the utility allowance appropriate to the size of the unit, and any other required expenses.

MCHA's Homeownership Program Administrator reviews the financing terms of each purchase transaction (running the numbers herself as a double check) and reserves the right to disapprove any transaction that does not meet the program's affordability criteria. MCHA's Homeownership Program Administrator was a real estate agent for many years prior to joining MCHA and has experience in banking, as well as title conveyance.

In addition to requiring that participants obtain fixed rate loans, MCHA prefers loans that have zero points and competitive interest rates. If the financing is affordable, MCHA may, on a case-by-case basis, approve a loan with a higher interest rate than is typical for program participants or with short-term prepayment penalties, or they may allow seller financing with an independent appraisal.

Program participants typically use one of three types of loans:

- USDA Rural Development 502 direct loan: minimum of one percent interest for 33 or 38 years, no down payment requirement;
- Pennsylvania Housing Finance Agency (PHFA) loan: 4.5 percent interest for 30 years, down payment requirement varies by loan product; or
- FHA and conventional loans: interest rates vary by product, three to five percent down payment; private mortgage insurance (PMI) is required for conventional products.

Loan servicing procedures vary by lender. PHFA and RD loans are typically serviced by the loan originator, while other loan types may be sold on the secondary market or serviced through third party entities. MCHA asks all participating lenders (as well as purchasers) to notify the Program Administrator of all cases of late payments. In addition, every year participants must provide MCHA with a statement from their lender saying that they have been making their payments on time.

Program staff report that this notification system is somewhat effective, as over the course of the program the Program Administrator has worked with a number of households that have encountered problems meeting their mortgage payments. The local USDA office tracks its Rural Development loans carefully in the first year of the loan. At the time of the site visit, USDA was in contact with the Program Administrator about a case of a purchaser at the end of her first year of homeownership who was delinquent on her payments. However, with the exception of USDA, program staff cannot rely on lenders to notify them of late payments, particularly those lenders who do not service the loans in-house.

In addition to favorable loan terms, most MCHA voucher homeownership participants require some form of down payment and closing cost assistance to make the purchase affordable. The share of participants receiving down payment and closing cost assistance through public programs has grown over time. In 2004, 13 of 16 purchasers received down payment and closing cost assistance through the County's first-time homebuyer program, which MCHA administers.[54] In the past, this assistance took the form of a zero-interest loan for up to 10 percent of the sales price, funded through the County's Affordable Housing Fund. The program is now funded by the American Dream Down Payment Initiative (ADDI) and provides down payment or closing cost assistance up to the greater of six percent of the sales price or $10,000. This assistance is in the form of a zero-interest loan repayable upon sale or transfer of the home if the house is sold or transferred within eight years (otherwise forgiven). In order to qualify for this program, buyers must meet certain income requirements and contribute at least two percent of the sales price toward the purchase from their own resources.[55]

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[54] The funds come through the County but MCHA administers the loans to purchasers and is the lien holder.

[55] The ADDI funds are not restricted to voucher homeownership program participants—they are available to any first time homebuyers who meet the income criteria, including families on MCHA's public housing program. MCHA publicizes the program to non-voucher holders as well.

Among the 13 purchasers who received downpayment assistance through the County/MCHA program in 2004, the average loan amount was $6,738. In the early years of the program, some purchasers benefited from the fact that sellers agreed to cover their closing costs as part of the purchase agreement. In the current market where homes sell more quickly, this no longer happens.

Post-Purchase Activities

MCHA does not require post-purchase HQS inspections or post-purchase counseling. At the time of purchase, participants sign a pledge to the housing authority that they will maintain their home, and they are encouraged to use the independent inspector's report on minor repair needs as a preliminary guide for what needs to be done. In addition, on an annual basis (at the time of recertification) participants are required to provide MCHA with current utility bills, a statement of condominium fees and dues (if applicable), and a mortgage statement from their lender with evidence that they have been making their payments on time. These documents, along with third party income verifications, help MCHA to recalculate the level of subsidy and to confirm that the monthly homeownership expenses continue to be affordable. Focus group participants commented that they found collecting this paperwork on an annual basis to be burdensome, but one homeowner thought it helped her to be organized. In addition, all reported that they maintained informal contact with the Program Administrator.

MCHA has recently encountered problems with program purchasers misrepresenting their income. Through the Uniform Income Verification process, the agency identified several families that had underreported their total household income. Five families have been terminated from the program for not reporting income and owing money to the PHA. MCHA staff is only aware of one of these cases resulting in foreclosure. In that case, the purchaser was dropped from the voucher program due to non-compliance with program rules before the foreclosure occurred.

Another concern for MCHA is that program purchasers could be vulnerable to predatory lending as their equity increases. Participants may be especially vulnerable if they no longer receive the voucher assistance as a result of increased earnings, or if the terms of the refinancing allow them to forego the voucher assistance. Predatory lending in refinancing is addressed in the Fair Housing and Predatory Lending Workshop and in brochures produced by Freddie Mac and MCHA. Also, to the extent that the refinancing package entails the continued receipt of the voucher assistance, MCHA must review and approve the terms of the refinancing. Similarly, down payment assistance received through the county creates an additional eight-year lien against the property that mitigates the risk that predatory sales tactics will result in future liens because the county would have to be notified of the refinancing.

A third concern for program staff is how to prepare purchasers for the end of the term of voucher assistance. Most purchasers have 30-year mortgages, but will stop receiving voucher assistance in year 15. The agency has not yet developed policies addressing affordability issues for families that reach the end of their voucher assistance and have to assume the full mortgage payment. Staff suggest this would be an appropriate area for HUD to provide guidance.

Program Outcomes

MCHA held its first program orientation in December 2000 and had its first purchase in June 2001. As of May 2005, 41 households had purchased homes through the program, exceeding MCHA's goal of 10 purchasers per year. In addition to the 41 participants who have purchased, some 727 families are in various stages of completing the homebuyer workshops, qualifying for mortgages, and searching for homes.

The 41 purchasers to date represent 5.5 percent of MCHA's voucher program overall. MCHA program participants have purchased homes throughout Montgomery County, with purchase prices ranging from $55,000 to $165,000 and an average purchase price of $111,857. Most of the homes purchased through the program thus far have been pre-1950 row houses or single family homes in rural areas. Out of a sample of 10 recent purchases, six were row houses or duplexes built before 1940, two were single-family homes built before 1950, one was a row house built in 1987, and one was a condominium built as low-income housing in 2002. Nine of the 10 were three-bedroom units and one was a five-bedroom unit.

As might be expected given their age, eight of the 10 homes failed the initial HQS inspection. The most common fail items were missing handrails, substandard wiring, lack of ground-fault circuit interrupter (GFCI) outlets in the kitchens and bathrooms, and faulty or missing smoke detectors. In all cases, the seller made the necessary repairs prior to purchase.

In general, program staff reported that participants in the homeownership program are purchasing better quality homes in better quality neighborhoods than they lived in as renters, although several participants purchased the units they had previously been renting or units in the same neighborhood. Of the 41 purchasers to date, 17 have bought in the borough of Norristown, which has a substantially higher poverty rate than the county as a whole (17.2 percent versus 4.4 percent). However, Norristown is also one of the major centers of social services, employment, and transportation in the county, which makes it attractive to low-income families. A disproportionate percentage of MCHA's voucher renters live in Norristown and in Pottstown, another low-income area.

Among the 10 units surveyed during the site visit, seven were located in Norristown, one in Pottstown, and two in Royersford, a fast growing area of the county. Royersford is becoming increasingly suburban, although it is still considered to be rural by the USDA. The units observed in Norristown and Pottstown were generally in good or excellent condition, and litter and refuse in the streets was only a minor problem. Owner upkeep of the surrounding housing stock was also good. In Royersford, neighborhood conditions and amenities were excellent, and the two purchased units were in good condition.

In general, the focus group participants appeared to be extremely happy with homeownership. Several cited the hard work and struggle involved in getting to the point of purchase, but all were pleased with the decision to buy the house they bought. The focus group participants described their homeownership experience as "transformational," and each gave a concrete example of how homeownership had improved their lives, including: less stress, not having to wait for the landlord to fix things, safer neighborhoods, better schools, feeling part of a community, having space and a garden, and higher self-esteem. They all said that they would not have been able to purchase without the voucher subsidy and the assistance of the Program Administrator. Several noted that they were anxious to get off the program and begin paying the full mortgage themselves.

Focus group participants did not raise affordability as a major concern, although one purchaser who had a difficult time saving enough money to buy her home described her financial situation as precarious: "We did everything we could to get our costs down – turned off lights, looked at the price of food... I've built up a nest egg, but I'm only one step ahead of the wolves – I always need something fixed." Another participant said that the pressure she felt to close on a home resulted in her accepting a higher interest rate than she wanted (5.75 percent versus 4.75 percent).[56] However, despite the higher interest rate, this participant did not express particular concern about meeting her monthly mortgage payments.[57]

Thus far, six program purchasers have increased their household income to the point that they are no longer eligible to receive voucher assistance. In addition, five purchasers have been terminated from the program for under-reporting their income and owing money to the PHA. One purchaser who was terminated from the voucher program for not complying with income recertification requirements subsequently lost her house to foreclosure.

Overall, MCHA has been satisfied with the program. The number of purchasers has met or exceeded the agency's expectations, and, although the number of households who begin but do not complete the homebuyer workshops is high, this largely reflects MCHA's desire to keep the program open to as many income-eligible households as possible, regardless of whether they will be able to purchase in the near term. At the same time, over the past year as funding for the program has been constricted, outreach has been reduced, and the number of households attending briefings and completing homebuyer education has declined, as has the rate of purchases. Program staff attribute this decline to increasing housing costs. Furthermore, because the agency does not have the budget to issue vouchers to many families on the waiting list, there are few new families joining the voucher program who might be eligible for and interested in homeownership. Given the difficult housing market and the high level of staff resources the program requires, agency staff expect the rate of purchases will be lower going forward than in the program's early years.

Lessons Learned

MCHA attributes the success of its program to the dedication of its staff and to its approach to homeownership counseling. The agency believes that doing the majority of the counseling in-house has led program participants to be better prepared for homeownership than their counterparts in programs where the counseling is done only by outside agencies. Providing the counseling in-house allows the Program Administrator to develop a close bond with program participants, something that was emphasized by participants in the focus group. In addition to being part of all the workshop sessions, the Program Administrator encourages participants to come to her with questions

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56 Prior to becoming a homeowner, this participant had not been on MCHA's voucher program. (MCHA offers the homeownership option to qualified applicants who come to the top of the waiting list.) As a result, she had only 90 days to find and settle on a home.

57 Staff explained that the purchaser initially expected to qualify for a PHFA loan at the lower rate, but because of her credit rating, she did not qualify. Instead, she financed her purchase with an FHA loan that carried the higher rate, but did not require private mortgage insurance (PMI).

throughout the process and meets with participants individually as needed. This personalized approach makes it more likely that purchasers will feel comfortable notifying the housing authority (as they are required to do) if they fall behind on their mortgage payments, which is very important because the agency cannot rely on all of its lenders to report late payments in a timely manner.

Another factor in the program's success is its targeting and recruitment approach. By allowing any household meeting the program's minimum income requirement to participate in homeownership counseling, the agency casts a wide net among potential purchasers. Although the Program Administrator is available to all program participants, the sheer number of people attending briefings and workshops means that to a large extent people have to decide for themselves whether homeownership is a viable option for them. As a result, the families that complete the process tend to be the ones that are most committed to becoming and remaining homeowners. Furthermore, the required credit counseling identifies credit issues early enough in the process that those participants with a desire to own a home can make necessary changes.

A final strength of MCHA's program is the high degree of lender participation. Thus far, 19 different lenders have made loans to program participants, and 15 lenders are actively interested in participating in the program. MCHA staff attribute their success with lenders to the intensive work that they did in the program design stage (as well as through on-going efforts) – with the assistance of a local HUD staff person – to find out what lenders needed to feel comfortable with the program and to develop policies and procedures to meet those needs. In particular, the decisions to use the HAP as income model and to provide the HAP directly to participants were driven by lender preferences: most lenders like the HAP as income model because it is most like a traditional loan.

Among the many challenges involved in operating the program, agency staff continue to emphasize the high level of staff effort required, particularly as compared to the rental voucher program. MCHA thinks one full-time staff person is the minimum required to run a successful program with 10 purchases per year, and funding this position through voucher program administrative fees and an FSS grant is challenging for an agency with limited funding for the voucher program overall. The extra administrative fee provided for program purchasers is helpful, but not sufficient to cover the staff time required to service existing purchasers, particularly when the volume of new purchasers is not high. In addition, since the homeownership program is small in terms of the total number of voucher holders, most of the work involved in processing these vouchers is not as systematized as it is for the rental program, which presents challenges for data entry, reporting, and third-party verification.

In addition to the level of staff effort required, a further challenge for agencies contemplating offering the homeownership option is finding the right person to run the program. MCHA believes that the person managing the program on a daily basis needs to have a background in lending or real estate, because of the complexity involved in calculating how much subsidy the participant can receive and in evaluating the affordability of a given loan package. At the same time, training in HUD regulations for income calculations and program eligibility are necessary if the administrator has no prior PHA experience.

For MCHA, the major challenge going forward will be maintaining enough households in the pipeline to justify dedicating staff to the program. As outreach has been reduced, the number of new families attending briefings, completing counseling, and purchasing is decreasing. In addition, in recent years housing prices in Montgomery County have risen at a faster rate than incomes, particularly for voucher participants in the lowest paying jobs. These housing market conditions are not an insurmountable barrier – families are still able to purchase because of low interest rates and down payment and closing cost assistance – but they are a factor limiting program growth. And while there are still a large number of families currently on the rental program with an interest in homeownership – including more than 700 families at some stage in the program's process – MCHA staff are concerned that many of these families may have income and credit issues that will take a long time to address, potentially resulting in a slower rate of purchases than the program has enjoyed in the past.

State of New Hampshire

Voucher Homeownership Program at a Glance: New Hampshire

Total Size of PHA Housing Choice Voucher Program[a]	3,200
Number of Active VHO Participants (Not including those who have closed)	55
Total Number of Home Purchases	83
Average VHO Participant Income[a]	$20,693
Average HCV Household Income[a]	$13,061
Number of Foreclosures	0
Current Number of Delinquent Payments or Mortgages in Default	1
Other Sources of Assistance for Purchasers	USDA Rural Development, Single Family Mortgage Program, American Dream Program, Home of Your Own[c]
Market Characteristics	
Range of Purchased House Prices	$37,600 to $250,000
Area Median House Value[b]	$151,366

Unless otherwise indicated, the information for this table was collected during the site visit.

[a]Source: HUD Resident Characteristics Report.

[b]Source: 2004 American Community Survey.

[c]See Financing Model section in this case study for descriptions of these programs.

Introduction

The New Hampshire Housing Finance Authority (NHHFA) is a non-profit public corporation that administers approximately 3,300 housing choice vouchers. NHHFA provides a variety of homeownership, rental assistance, supportive services, and multi-family financing programs for low and moderate-income families. While NHHFA serves families across the entire state of New Hampshire, the agency receives no state appropriations for operating purposes and is not a state agency. The majority of NHHFA's funds are generated through the sale of tax-exempt bonds, together with fees and grants from the Federal government and other entities.

NHHFA started its voucher homeownership program, known as the Homeownership Voucher Program (HVP), in 2001. The agency has made available 150 vouchers, or approximately five percent of its total voucher allocation, for homeownership. As of May 2005, 83 households had purchased through the program, with no defaults or foreclosures to date.

NHHFA's program has been successful for several reasons. First, the program benefits from the skills and dedication of experienced NHHFA staff and partners. NHHFA has partnerships with eight counseling agencies and nine financial institutions across the state. This geographically dispersed network ensures that voucher program participants throughout the state have good access to the program's strong pre-and post-purchase counseling services. Finally, although New Hampshire's housing market is fairly expensive, participants can still access good quality, affordable homes with the assistance of subsidies provided by NHHFA and its partners.

Housing Market Conditions

New Hampshire is predominantly rural, but the majority of its housing units are located in cities, towns, and along major highways. Housing prices increased steadily throughout the state of New Hampshire since the early 1990s, with more rapid increases since 2000. According to the 2000 Census, the median house value in the state was $127,500, about 14 percent higher than the national median of $111,800. By 2004, New Hampshire's median house value was $216,639, up 70 percent since 2000. In comparison, the national median was $151,366, up 35 percent from 2004.[58]

As shown in the chart below, as housing costs rose between 2000 and 2004, the share of stock affordable to lower-income buyers declined. The share of owner-occupied housing units in New Hampshire valued at less than $200,000 dropped from 82 percent to 44 percent over this four-year period.[59]

Housing prices vary somewhat across the state, with the southeastern areas of the state – those within commuting distance of Boston – being the most expensive. The 2004 median house values in Hillsborough and Rockingham Counties in the southeast part of the state were $249,900 and $284,900, compared to $93,500 in Coos County to the north. Depending on where they choose to purchase, program staff report that high housing costs can be a barrier for program participants, in some cases limiting their choices to condominiums or mobile homes rather than single family homes. As of May 2005, the average price of homes purchased by all program participants was $137,453, with a range of $37,600 to $250,000.

Home Values in New Hampshire	2000		2004	
Less than $50k	25,526	7.7%	19,653	5.5%
$50k to $99k	82,027	24.8%	25,923	7.3%
$100k to $149k	104,433	31.6%	46,817	13.1%
$150k to $199k	58,713	17.7%	64,121	18.0%
$200k to 299k	40,360	12.2%	104,794	29.4%
300k and above	19,724	6.0%	95,341	26.7%
Total	**330,783**	**100.0%**	**356,649**	**100.0%**

Sources: 2000 data are from the 2000 Census; 2004 data are from the American Community Survey

58 Data from the 2000 Census and 2004 American Community Survey.

59 Data from the 2000 Census and 2004 American Community Survey

Program Development

A key aspect of NHHFA's mission is helping individuals and families access safe, affordable housing. The agency has been offering homeownership programs for low and moderate-income families since 1981.

After HUD issued the final rule for the voucher homeownership program in 2000, NHHFA established a team of staff to develop the program. The agency's organizational structure contributed to early implementation challenges. NHHFA administers its homeownership programs in one division and the housing choice voucher program in another.[60] Developing the voucher homeownership program required a merger of roles and responsibilities between the two divisions, with at least six staff members actively involved. Staff explained that ensuring communication was challenging since each division had its own set of procedures and terminology. For instance, terms such as "disability" or "income" were defined differently for the programs administered by the two divisions.

Initially, operating the HVP was very time-intensive. One staff member noted that the first 10 purchases were like "pulling teeth." However, through constant communication and extensive cooperation, NHHFA has established a program that now operates very smoothly and with much less effort than during the implementation stage.

Since the start of the program, NHHFA staff have developed a thorough set of procedures and documentation forms for the program. NHHFA provides applicants with clear, step-by-step instructions on how to purchase a home using their voucher, including separate instructions for securing financing. NHHFA eligibility and intake screeners are given detailed written procedures to follow for the HVP participants. Participants are also required to complete pre-and post-purchase certification forms and evaluations. The certification forms document all of the topics covered during homebuyer education.

Program Management, Staffing, and Partnerships

NHHFA is the primary organization responsible for administering the HVP. The agency's responsibilities include recruiting and screening participants, administering the housing assistance payment (HAP), and conducting Housing Quality Standards (HQS) inspections. While the agency offers homeownership counseling and financing, it also partners with eight counseling agencies and nine financial institutions throughout the state. Program staff reported that it was not difficult finding partners for the HVP. NHHFA had been operating several homeownership programs prior to HVP, so the agency had already established strong relationships with all of the counseling agencies and financial institutions.

NHHFA's eight counseling partners are located throughout the state and include three housing trust agencies, four community development organizations, and one community development financial

[60] NHHFA's primary homeownership program is called the Single Family Mortgage program and serves low and moderate income buyers with below market rate mortgages and downpayment assistance. The agency also runs several programs for special populations, including divorced purchasers, owners of manufactured homes, and persons with disabilities. See www.nhhfa.org/homeown.htm.

institution (CDFI). Three of the four community development organizations are NeighborWorks organizations. The CDFI provides homeownership counseling for persons with developmental disabilities. The counseling partners provide pre-and post-purchase homeownership training as well as individual level counseling. During the implementation stage, NHHFA's homeownership division staff met with their counseling partners to educate them about the VAMO program.

To encourage lender participation in financing voucher homeownership purchases, NHHFA developed a mortgage product known as the Voucher Assisted Mortgage Option (VAMO) for use by its network of lenders. This loan product is targeted to HVP purchasers, but otherwise has the same guidelines as NHHFA's Single Family Mortgage Program. (As discussed below, using VAMO is one of several financing options and is not required.)

In developing their lender relationships, NHHFA reviewed their list of 46 financial partners and invited 10 of the most active and reputable partners to a meeting about the VAMO program. Program staff explained that the lenders trusted NHHFA and it was not difficult to convince them to participate in the program. NHHFA homeownership staff still work directly with their partners to respond to finance-related issues and questions. They have met individually with each participating lender to conduct an intensive training about the program, and they provide several additional trainings per year for lenders on various finance topics. Partners said that they have great communications with NHHFA staff and praised them for their ongoing support.

NHHFA's most active financial partners include a mix of private lenders, non-profits, and public agencies. Two of NHHFA's most active private lenders are DownEast Mortgage and Citizens Bank. Both of these lenders underwrite and originate loans using NHHFA's loan products. U.S. Department of Agriculture (USDA) Rural Development, New Hampshire Community Loan Fund (NHCLF), and Manchester Neighborhood Housing Services (MNHS) are also involved with originating loans, but they do not always use NHHFA's products.

Instead of having one program coordinator responsible for every aspect of the program, NHHFA relies on multiple staff members who are experienced in various areas, such as finance, education, and voucher administration. In addition to 12 program monitors who conduct initial phone briefings and home inspections, a homebuyer education coordinator conducts group homebuyer education seminars, and a part-time homeownership counselor conducts individualized pre-purchase education. Two homeownership department staff provide support for lender-related issues, and the assisted housing director handles special issues as they arise.

NHHFA funds the HVP with the agency's voucher administrative funds and a HUD homeownership counseling grant. NHHFA received the HUD counseling grant in 2003 and developed the homeownership counselor position with those funds. Staff reported that the grant has been essential for their program's success. The grant also allowed NHHFA to pay counseling partners for their homebuyer education services. NHHFA pays each partnering organization $200 for any client who completes their pre-or post-purchase training.

Program Design

Targeting and Outreach

Voucher program participants who meet both HUD's income and employment guidelines and NHHFA's banking and credit requirements are eligible for the HVP. NHHFA requires that participants have a bank account that has been active for a minimum of six months and an established credit history as evidenced by rental payments, utility payments, or a credit report. NHHFA also allows voucher holders from other housing authorities that do not offer voucher homeownership to join NHHFA's program—a practice known as "porting in."[61] Approximately 12 to 15 percent of HVP's current homeowners have ported in from other agencies. In the case of New Hampshire's statewide program, a prospective purchaser whose PHA does not offer a VHO program may be able to port in to NHHFA's program without actually moving to a different area.

Enrollment in the Family Self-Sufficiency (FSS) program is not required, although staff encourage FSS participants to participate in the HVP. Nine FSS participants have purchased homes through the program. One staff member noted that, compared to non-FSS participants, FSS participants seem more ready for homeownership because of their intensive, individual case-management.

When the HVP started, NHHFA conducted initial outreach by distributing fliers and hosting information sessions with their program partners. By the time HUD issued its final rule in 2000, five participants had already purchased homes through the program. NHHFA generated publicity by highlighting these successes through several newspaper articles and a local television news broadcast.

Currently, all voucher participants learn about the HVP through fliers placed in tenant briefing packets, while FSS participants also learn about the program through their quarterly case management meetings. Many participants find out about the program through word-of-mouth. Program staff report that they are comfortable with the program's current level of activity and are not interested in changing their outreach methods.

Homeownership Counseling

All participants in the HVP program are required to attend both a general homebuyer education seminar and a more in-depth pre-purchase education counseling session. Both components are offered by NHHFA both directly and through its eight counseling partners located throughout the state. The purpose of the homebuyer education seminar is to provide participants with an overview of the various homeownership programs available and to help clients assess whether homeownership is the right option for them. Pre-purchase education discusses topics covered in the seminar in more detail and provides participants with information about issues specific to the voucher homeownership program. NHHFA allows participants to complete pre-purchase education in an individual or group setting.

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[61] This expression refers to the "portable" nature of the housing voucher. In the rental voucher program, a renter can use the portability of the subsidy to move from one PHA's jurisdiction to another. In the case of voucher homeownership, a VHO participant can only "port in" to a jurisdiction that offers a voucher homeownership program.

At NHHFA, a homebuyer education coordinator teaches the homebuyer education seminar in a group session to all first-time homebuyers, including non-voucher holders. The seminar covers the steps involved in purchasing a home, the responsibilities associated with homeownership, and the various sources of financing available. NHHFA's seminars are free and open to the general public. The agency uses a curriculum approved by the Federal Housing Administration (FHA), and guest speakers participate at each session to explain the roles of real estate agents, lenders, inspectors, and other participants in the home purchase process. NHHFA offers the homebuyer education seminars during two, three-hour evening sessions, while seminars offered by their non-profit partners vary in structure.

NHHFA's homeownership counselor provides individualized pre-purchase education in the form of a one-on-one counseling session. These sessions are conducted in-person, frequently at the participant's home. On rare occasions the session may be conducted by telephone. During the counseling session, the homeownership counselor encourages the participant to order a credit report with a credit score if the participant has not done so already.[62] The counselor then establishes an action plan with the client.

NHHFA developed its own pre-purchase education curriculum in October 2003 with the help of a HUD homeownership-counseling grant. NHHFA created the curriculum by reviewing materials obtained from NeighborWorks America, the Internet, and other homeownership workshops.

One of NHHFA's lending partners, the New Hampshire Community Loan Fund (NHCLF), offers homebuyer and pre-purchase education for participants with developmental disabilities through the Home of Your Own program. Clients are usually referred to NHCLF through other service providers. NHCLF staff work with each participant and his/her support team of family members, friends, and service providers to assess the participant's disability, deliver the homebuyer training and counseling, and develop a strategic plan to find a home that meets the participant's current and future accessibility needs. NHCLF staff report that their clients typically require six months to three years before they are ready to close on a home.

NHHFA has not set any standards for the duration or format of training offered by its counseling partners, although both group and individual counseling are offered in all locations and the content includes the topics suggested in HUD's guidance. NHHFA also does not determine where participants will receive their training. In general, participants opt to attend training at the agency that is most conveniently located for them. If there are no counseling partners in a participant's area, the NHHFA homeownership educator provides the one-on-one education.

Participants who complete pre-purchase education with a partner agency are required to have the housing counselor complete a documentation form, certifying the number of hours and topics reviewed with the client. All participants, whether they receive pre-purchase education from NHHFA or from one of its partners, are also asked to complete a pre-purchase education evaluation form. NHHFA provides participants a $10 incentive for completing the evaluation form.

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[62] Participants may obtain a free credit report, but the free report does not include a credit score. The cost of the credit report with a credit score ranges from $16 for a single report to $52 for a report from multiple agencies that includes a Credit Advisor. (Credit Advisor analyzes the factors contributing to the credit score and suggests steps the client could take that would improve the score.)

Several focus group participants report that, in addition to attending homebuyer and pre-purchase education, they had enrolled in an Individual Development Account (IDA) program through NHCLF. Participants in NHCLF's IDA program work with community partners, including NHHFA to access financial literacy. Four of NHHFA's counseling partners also offer financial literacy workshops. IDA program participants also have access to matching funds offered by NHCLF and its partner organizations. Program staff estimate that eight or nine HVP participants have been involved in an IDA program.

During interviews with focus group participants, participants report completing their homebuyer seminars and pre-purchase education at NHHFA and Manchester Neighborhood Housing Services (MNHS). One participant said that she had received her education through Citizens Bank. Participants report that the classes presented information on budgeting, home searching, and inspections. One participant commented that a presenter taught them "how a house could look great on the outside but could be a horror show on the inside." While most of the participants were fairly satisfied with the training received, one couple who had completed their seminar at MNHS spoke limited English and reported that the classes could be improved if the instructor used more simplified English.

NHHFA lender partners report that the counseling has been very effective. One noted that the program has "worked out fantastic," with homeownership education and financial literacy as key components for success. Other lenders agreed, saying that "homeownership counseling makes a big difference" and that participants are much more knowledgeable about the homeownership process after receiving training. Staff at MNHS suggested that their agency's training could be improved if class sizes were lower. MNHS classes average 87 participants, while NHHFA offers classes with 10 to 40 participants.

Home Search and Inspections

NHHFA issues participants a HAP determination letter after they complete pre-purchase education. Once they receive the HAP determination letter, participants have 180 days to find a home. Staff allow participants three 30-day extensions before they have to reapply by submitting updated income and employment verifications. Program staff report that few participants require extensions. Most participants find a home within 180 days or give up searching.

With the exception of NHCLF, NHHFA and the majority of its partners provide participants with a list of real estate agents but do not directly help participants during the home search process. Since NHCLF works with developmentally disabled participants, its clients require more intensive assistance. NHCLF staff work directly with the participant and his/her support team to understand current and future accessibility needs and may accompany participants during the home search.

Staff report that when participants search for a house, affordability is usually more of an issue than quality. Of those that fail, the most common reasons are faulty smoke detectors, stair or railing problems, and minor leaks.

Program staff report that thus far, most participants have purchased single-family detached homes, although a few bought condominiums. Several of the units were newly constructed. Although staff said that few participants require extensions to the 180 day search period, focus group participants report that they spent six months to one year searching for a home. The majority of participants said that it was difficult to find an affordable home. One noted that it was especially difficult for her since her only source of income was Social Security payments. She explained that she eventually purchased a condominium because there were no single-family homes in her price range. Another participant who had six children reported that it was difficult finding an affordable home because in addition to the purchase price, she also needed to watch the cost of property taxes.

Lenders

NHHFA's nine financial partners include a mix of private lenders, non-profit organizations, and public agencies located throughout the state. Staff provide a list of lenders who participate in the VAMO program to participants, but do not require that participants choose a lender from the list. Two of NHHFA's most active VAMO lenders are DownEast Mortgage and Citizens Bank. The USDA's Rural Development Section 502 Loan Program serves participants in rural areas. NHCLF and Manchester Neighborhood Housing Services (MNHS) also provide financing for the program.

DownEast Mortgage and Citizens Bank originate and underwrite loans using NHHFA's loan products. Both lenders sell their VAMO loans to NHHFA after purchase. DownEast Mortgage is a regional mortgage company, serving residents of Maine and New Hampshire, while Citizens Bank is a national, commercial bank. A loan officer from DownEast Mortgage reported that the ability to sell the loans to NHHFA minimized the risk to his institution of participating in the VAMO program.

USDA Rural Development, NHCLF, and MNHS are all involved with origination, underwriting, and closing of loans to HVP participants. The institutions use each other's products interchangeably, based on participant eligibility and need. USDA Rural Development holds all its loans in portfolio and services them in-house while NHCLF and MNHS may keep their loans or sell them to NHHFA. NHCLF serves participants with developmental disabilities and other very low-income populations who may not qualify for other affordable lending products. Since the very low incomes of these clients represent a greater risk for the lender, the interest rate on NHCLF's loan product is typically higher than those offered by the other lenders that serve voucher homeownership participants.

Financing Model

The single-mortgage model has been used to finance all purchases made through the VAMO program, but the treatment of the HAP depends on the institution originating the mortgage. Loans originated by the private lenders, NHCLF, and MNHS consider the HAP as a direct offset to the monthly mortgage payment, while loans originated by USDA Rural Development count the HAP as income. The Rural Development staff interviewed indicated that because they count non-wage sources of income (in addition to the voucher) in qualifying participants for a loan and offer very low interest rates, the HAP as income model provides participants with sufficient buying power.

Sample Purchase Transaction: New Hampshire

Buyer's Annual Income:	$15,577 (as of 9/30/2004)
Purchase Date:	7/31/2002
Costs to Buyer:	
– Purchase Price:	$150,000
– Closing Costs:	$3,929
Sources of Financing:	
– 1st Mortgage:	$145,500 (7.0%, 30 yrs)
– Grants:	$5,820 (NHHFA)
– Grants:	$2,534 (gift)
– Buyer Cash Down:	$400
Monthly Mortgage Payments:	
– Total PITI:	$1,255
– HAP to offset PITI:	$868
– Buyer's PITI portion:	$387
– Buyer's share of PITI as a percent of gross monthly income:	30%

At the onset of the program, NHHFA encouraged its partners other than Rural Development to use the HAP as offset model so that participants could maximize their buying power in an expensive market. In order to minimize risk, NHHFA requires that participants who use NHHFA financing pay at least 50 percent of the monthly mortgage and homeownership expenses using their own funds, unless they are elderly or disabled. The rationale behind this requirement is that buyers contributing at least 50 percent of the mortgage payment at the onset have a good chance (due to increases in income) of assuming the full amount of the mortgage by year 15, when the voucher subsidy runs out. Purchasers paying less than 50 percent may take longer than 15 years to get to a point where they can assume the full mortgage, placing them at risk of payment shock or foreclosure at the end of the subsidy term. Elderly and disabled purchasers are exempt from this requirement because they continue to receive the voucher subsidy for the full term of the mortgage.

NHHFA explained that after a lengthy debate, program staff decided to issue the HAP directly to participants, in order to encourage responsibility and independence. Initially, several staff opposed the policy, fearing that it could lead to a greater number of delinquent payments. However, program staff explained that they have a computer system that tracks loans held in-house very closely, and delinquencies have not been an issue. They also noted that the policy has been especially helpful for working with mortgage companies, since many mortgage companies are unable to accept partial payments.

Although NHHFA's computer system tracks in-house loans very closely, staff are aware of late payments or delinquencies on other loans only if informed by their partner agencies. Of the 83 loans closed, NHHFA services 49 loans. Twenty-four are held by Rural Development, five by NHCLF, two by MNHS, and three by private lenders. NHHFA's staff explained that they focus on monitoring the loans that use NHHFA products because they pose the greatest potential risk to the agency. For other loans, program staff rely on lenders to notify them of late or missing payments.

NHHFA offers a variety of first-time homebuyer loan products that voucher participants can use in conjunction with the voucher subsidy. One of the most common is the Single Family Mortgage Program (SFMP), which offers participants a 30-year, below market, fixed interest-rate loan. HVP participants who use the SFMP product face the same financing guidelines as others in the SFMP. Although it depends on the insurer, participants are usually required to invest a three percent downpayment, with one percent coming from the borrower's own funds. Participants using the SFMP can also borrow up to $25,000 for rehabilitation costs.

Like many private mortgage lenders, NHHFA requires mortgage insurance for loans that have loan-to-value ratios that are greater than 80 percent.[63] Loans have been insured through private corporations, FHA, the U.S. Department of Veterans Affairs, and Rural Development. With mortgage insurance, participants can access loans covering up to 97 percent of the selling price.

63 Borrowers who obtain FHA loans pay an up-front and monthly mortgage insurance premium (MIP). Private lenders may require Private Mortgage Insurance (PMI). In either case, the insurance protects lenders from losses in the event of default by a borrower (mortgagor). The premium is paid by the borrower and is included in the mortgage payment. Unlike mortgage interest, PMI and MIP are not deductible.

Qualified participants in the SFMP can take advantage of an option to buy down the current SFMP interest rate by two percent for the first three years and one percent for the next two years. Only borrowers earning 60 percent or less of the statewide median income may qualify for this program. It is available to voucher holders and non-voucher holders, but this option is not available for voucher participants using VAMO. Borrowers must have at least one child, must be first-time buyers, and must participate in pre-purchase homeownership counseling. Offered through NHHFA's network of participating lenders, this option allows buyers to reduce their interest costs in the first few years of the mortgage. The amount of the interest subsidy becomes a zero percent non-amortizing mortgage due upon sale if the property is sold within the first 10 years, or forgiven after 10 years.

NHHFA offers several options for downpayment and closing cost assistance. A cash assistance grant option through the SFMP allows participants to access up to four percent of the loan amount for downpayment and closing cost assistance. The American Dream Program, funded by the American Dream Demonstration Initiative, also offers participants a zero percent forgivable loan that provides up to six percent of the purchase price or $10,000. Some participants may also have FSS escrow funds or Individual Development Account (IDA) savings (including matching funds) available for downpayments and closing costs.

In addition to NHHFA's loan products, participants also have access to various products offered through Rural Development and NHCLF. Rural Development offers both 100 percent financing and loans combined with NHHFA finance products. When RD and NHHFA loans are combined, Rural Development loans are in second position, with a minimum fixed interest rate of one percent over 33 years.

NHCLF offers the Home of Your Own program for adults with developmental disabilities. Because the very low incomes of these purchasers posed a greater risk to lenders, interest rates on NHCLF loans typically were higher than those offered by other lenders who worked with VHO participants. Typical loan terms are seven percent for 20 to 25 years. Loans may be serviced by NHHFA or NHCLF, depending on which agency underwrites the loan. Staff at NHCLF noted that the voucher homeownership program is challenging for those with disabilities, because if homeowners' insurance or taxes increase, the HAP cannot increase if it already is based on the full voucher payment standard. Other sources of income, such as SSI, also do not increase, and participants often have limited ability to increase their employment income.

Two focus group participants had used private lenders, and two had used Rural Development. All the participants reported that their lenders were very helpful and accessible. One said that "Rural Development helped a lot—she even went with us to get the key to our house on the last day."

Post-Purchase Activities

NHHFA requires that all HVP participants participate in some type of post-purchase counseling or post-purchase education, although this requirement is not strictly enforced. One month after purchase, NHHFA's homeownership counselor sends a letter to the participant requesting that he or she participate in a one-on-one post-purchase counseling session at NHHFA or some other type of post-purchase activity through one of NHHFA's non-profit partners.

During the session, participants review topics on home maintenance, budgeting and money management, predatory lending, home safety, and record keeping. Similar to the pre-purchase education curriculum, NHHFA uses materials developed by Neighborhood Reinvestment together with resources acquired through the Internet and homeownership workshops.

NHHFA's homeownership counselor makes three attempts to contact the participant for post-purchase counseling. NHHFA sends a binder of post-purchase curriculum materials to non-responsive participants. The homeownership counselor reports that approximately 65 households have received some form of post-purchase education. She said she thinks the post-purchase education is effective because participants do call if they encounter problems or have questions. She estimated that about half the participants contact NHHFA at least once a year, and roughly one-quarter contact the agency occasionally but less than once a year. NHHFA offers participants a $25 gift certificate for completing a post-purchase evaluation form, which acts as an incentive to participate in the training.

In addition to post-purchase education, during the first year of homeownership, purchasers receive advice through a quarterly homeownership newsletter. The newsletter covers common post-purchase issues. NHHFA also sends purchasers an annual calendar with homeownership tips. In addition, participants are encouraged to set aside funds for repairs and maintenance, although program staff do not track whether they actually do so.

The focus group participants report that they thought the post-purchase counseling was helpful. Most participants completed their counseling at Manchester NHS or NHHFA. One participant was interested in refinancing his home and noted that it would be helpful if NHHFA provided information on refinancing options and the different types of mortgages available.

Program Outcomes

At the time of the site visit in May 2005, NHHFA staff reported that 180 participants had enrolled in the program, 138 had completed pre-purchase counseling, and 83 had purchased a home. Fifty-five participants were in the process of searching for a home. Participants are considered to be "enrolled" when they complete the initial eligibility screening and a homebuyer education seminar. However, staff report that a majority of enrolled participants drop out of the program before purchasing because of credit issues.

Eight purchasers have left the VHO program or stopped receiving voucher assistance for homeownership. No purchasers left the program because of foreclosure. Four of the eight purchasers had income increases large enough that they no longer receive a voucher subsidy, while two purchasers could not afford to maintain their homes. Another two participants decided that they did not like owning a home and returned to renting with a voucher. On average, these events occurred 13 months after purchase. Three of these participants purchased in 2002, two in 2003, and three in 2004.

The purchaser neighborhoods visited during the site visit were of good to excellent quality, with good access to schools, retail, and grocery stores. The purchased homes were well-kept and in good condition. Program staff indicated that participants tend to purchase homes in neighborhoods that are similar to those in which they rented.

Overall, focus group participants were pleased with their home purchases, although several were concerned about their ability to keep up with the mortgage payments. One participant who purchased with a Rural Development loan was worried that, because her income had increased slightly during the past year, the interest rate on her mortgage (and therefore her overall mortgage payment) would go up at the next income evaluation. Rural Development re-evaluates participant incomes every two years because the interest rate is based in part on the borrower's level of income. The participant explained that she was already using her extra income to pay her monthly $200 fuel bill and could not afford to pay any more toward her mortgage. At the time of interview, she said that she was exploring the possibility of switching to a different lender that she understood offered a fixed one percent mortgage rate.

Another participant noted that after he had moved into his condominium, he experienced a $30 increase in his condominium fees and other miscellaneous fees. With an interest rate of 5.5 percent, he was interested in learning how to refinance at a lower rate. Another participant also commented that making the monthly payments could be challenging. Her husband has been on disability for a year and she recently stopped working. With six children, she said that it would be very difficult for her family to make ends meet.

Lessons Learned

NHHFA staff attributed the success of the HVP to a combination of factors. The executive director noted the importance of having a team of dedicated and skilled staff. She added that the agency's low staff turnover rate contributes to the program's continuity. Program staff cited their strong network of partnerships with counseling and lending agencies throughout the state as a key to the program's successful implementation. Both staff and their partners agreed that providing strong pre-and post-purchase counseling services has also been a factor in the program's success.

NHHFA staff said that the 2003 HUD counseling grant was a critical resource for the program. With these funds, the agency was able to hire a homeownership counselor and develop pre-and post-purchase counseling materials. Staff noted that, since many voucher participants have credit and financial issues, it is important that NHHFA provide intensive individual counseling and support. NHHFA staff are concerned that HUD will reduce funding for housing counseling grants in the future.

Program staff also reported that they are concerned about HUD's commitment to funding the housing voucher program. If HUD were to reduce voucher program funding, NHHFA would need to limit the resources dedicated to the HVP. Finally, they expressed the opinion that HUD should make voucher homeownership a greater priority by providing more administrative funds for housing agencies that offer the homeownership option.

Pinellas County, Florida

Voucher Homeownership Program at a Glance: Pinellas County, Florida

Total Size of PHA Housing Choice Voucher Program[a]	2,700
Number of Active VHO Participants (Not including those who have closed)	16
Total Number of Home Purchases	27
Average VHO Participant Income[a]	$15,315
Average HCV Household Income[a]	$10,667
Number of Foreclosures	0
Current Number of Delinquent Payments or Mortgages in Default	0
Other Sources of Assistance for Purchasers	HOME, FHLB, Tampa Bay CDC[d]
Market Characteristics	
Range of Purchased House[b] Prices	$30,000 to $141,000
Area Median House Value[c]	$137,900

Unless otherwise indicated, the information for this table was collected during the site visit.

[a]Source: HUD Resident Characteristics Report.

[b]Based on a sample of 10 purchasers.

[c]Source: 2004 American Community Survey.

[d]See Financing Model section in this case study for descriptions of these programs.

Introduction

The Pinellas County Housing Authority (PCHA) administers approximately 2,700 housing choice vouchers in Pinellas County, Florida, a suburban portion of the Tampa/St. Petersburg metropolitan area. PCHA operates the voucher homeownership program jointly with Partners for Self-Sufficiency (PSS), a non-profit case management organization devoted to serving public housing and housing choice voucher participants in Pinellas County.

PCHA and PSS began offering the voucher homeownership option in 2000 exclusively to participants in PCHA's Family Self-Sufficiency (FSS) program. As of October 2005, 27 FSS participants had purchased homes through the program. Twenty-five of those participants currently receive voucher assistance. One purchaser experienced an increase in income and did not need the voucher assistance to purchase; she no longer receives voucher assistance. Another purchaser was terminated from the program for non-compliance with voucher program rules. There have been no defaults or foreclosures so far, and staff are optimistic about the program's success. Program staff have not set official goals for the size of the voucher homeownership program, but aim for one purchase per month.

Interviews with program staff and a sample of purchasers suggest that the key to this program's success is its streamlined approach. Clear policies and protocols combined with a simple administrative structure (one representative from the housing authority and one representative from PSS) result in smooth daily operations.

Housing Market Conditions

Pinellas County is a suburban county covering approximately 280 square miles. The county has 24 unincorporated municipalities, including a dozen or so beach towns. Areas along the coast and in the northeastern part of the county are largely unaffordable for program purchasers. The southern part of the county is the most affordable.

Overall, Pinellas County has one of the more affordable housing markets among the 10 sites in this study, but housing prices have increased significantly during the past four years. In 2000, the median house value in Pinellas County was $85,600, approximately 23 percent lower than the national median. By 2004, the median house value had increased by 61 percent to $137,900, just 10 percent lower than the national median.[64] Based on a sample of 10 purchasers, the average price of homes purchased by program participants was $90,550, with a range of $30,000 to $141,000.

As shown in the chart below, according to the American Community Survey, approximately 55 percent of owner-occupied units in 2004 were valued at $150,000 or less. According to program staff, house prices in Pinellas County have increased by another 30 to 40 percent since 2004, making it almost impossible for voucher program participants to purchase homes with three or more bedrooms within current payment standards anywhere in the county. Although most participants qualify for approximately $120,000 in loans based on the number of bedrooms for which they qualify, most end up purchasing one- or two-bedroom single-family homes that cost approximately $80,000, because they cannot find larger units that are affordable with a voucher. The housing stock in Pinellas County consists largely of older homes, manufactured homes and low-rise condominium buildings developed for a market of retired singles and couples, making smaller and more affordable units relatively plentiful.

Home Values in Pinellas County, FL	2000		2004	
Less than $50k	57,429	19.5%	32,231	11.0%
$50k to $99k	121,916	41.5%	62,304	21.3%
$100k to $149k	56,041	19.1%	66,126	22.6%
$150k to $199k	25,849	8.8%	52,238	17.9%
$200k to 299k	18,384	6.3%	40,314	13.8%
300k and above	14,250	4.8%	39,070	13.4%
Total	293,869	100.0%	292,283	100.0%

Sources: 2000 data are from the 2000 Census; 2004 data are from the American Community Survey

[64] Data from the 2000 Census and 2004 American Community Survey

Program staff described the quality of the housing bought by program participants as "average" and said that most homes need some work but are generally well built. Major shopping centers, restaurants and other amenities are accessible throughout the area. There are few pockets of poverty in Pinellas County, and program staff report that program participants generally purchase in middle-class neighborhoods that are slightly better than where they were renting.

Program Development

PCHA management staff started the homeownership program in 2000. The current program staff interviewed for this case study were not part of the program design and start-up phase and were not able to comment on design issues, such as the decision to restrict the program to FSS participants.

Program Management, Staffing, and Partnerships

From the beginning of the program until mid-2004, the housing authority designated one staff member to administer all aspects of the program, including counseling. In August 2004, PCHA signed a two-year contract with PSS for the counseling activities associated with the voucher homeownership program.[65] At the same time, PSS also took over administration of other aspects of PCHA's FSS program. Housing authority staff were familiar with PSS because PSS works with several different local counseling programs in which some PCHA clients had participated.

PSS is a non-profit agency that administers self-sufficiency programs to voucher and public housing residents in Pinellas County. PSS administers the FSS program for the St. Petersburg and Clearwater Housing Authorities as well as PCHA, and coordinates counseling programs offered by local nonprofit organizations in the area. The agency's offices and six employees are located in the housing authority's main building. The staff is made up of three FSS case managers, one FSS coordinator, the Executive Director, and the Assistant Director. The FSS coordinator is also the homeownership counselor and the only PSS staff member who works on the voucher homeownership program.

PCHA and PSS now administer the homeownership program jointly. PCHA's staff person is responsible for managing client files, calculating the amount of the housing assistance payment (HAP), arranging for Housing Quality Standards (HQS) inspections, and conducting annual recertifications. PSS conducts outreach and recruitment for the voucher homeownership program from among their FSS clients and coordinates the provision of homebuyer education by three HUD approved counseling agencies. PSS also conducts lender outreach and reviews and approves the financing terms of each purchase.

At the time of the site visit in October 2005, PCHA was undergoing significant transitions in staffing. At the senior management level, PCHA's rental voucher program was being managed by the Housing Choice Voucher Manager from the St. Petersburg Housing Authority, and the Deputy Director of the St. Petersburg Housing Authority was acting as the Deputy Director of both housing authorities. In addition, three different PCHA staff members had administered the voucher homeownership program during the previous year: the original administrator, who ran the program from inception to December 2004; the interim administrator, who ran the program from January 2005 to August 2005; and the

65 PSS staff interviewed were not able to provide details on the financial arrangements under this contract.

current administrator, who took over in August 2005. She is responsible for a full caseload of voucher participants in the rental program (more than 400) in addition to the 25 homeowners. The increase in her workload has been tremendously stressful, especially because she is paid on an hourly basis—clocking in and out each day and is not paid for any overtime. She estimated that she spends about 10 hours per week on homeownership activities, while the PSS staff member who works on the homeownership program spends all of her time on it. Neither staff member received any training from the outgoing homeownership coordinators, and both are still "learning on the job."

Although the lack of continuity in the management and staffing of the voucher homeownership program has not affected the pace of purchases, it has been frustrating for PCHA and its partners. A representative from American Home Mortgage, one of the lending institutions that has worked with program participants, commented that the constant staff turnover has made her not want to work with this program. She is unable to build relationships with PCHA staff members and is therefore unable to market her services effectively to prospective clients. In general, building lender relationships has been a key challenge for PCHA's program. Although the FSS coordinator has a few contacts at banks in the area, the program has no formal lender partners who are committed to working with voucher homeownership participants and program staff over the long term.

Program Design

Targeting and Outreach

In order to qualify for PCHA's voucher homeownership program, applicants must:

- Have rented through PCHA's voucher program for at least one year and have met all program requirements (such as paying rent on time);
- Be enrolled in FSS for at least a year and making progress toward their FSS goals;
- Meet the program income and employment guidelines; and
- Have established checking and savings accounts and regularly deposit money into the savings account.

All FSS participants who have been part of the FSS program for at least one year are eligible to be considered for homeownership. PCHA's FSS program currently has about 80 participants and another 73 on the waiting list. FSS participants learn about the homeownership program primarily through their FSS caseworkers, but the housing authority also distributes flyers and sends letters to potential candidates. Though the program does not specifically target certain groups of participants, program staff do not want to enroll participants who have barriers that would prevent them from being good homeowners, such as inability to hold a job because they are caring for sick or disabled children or relatives.

Typically, an FSS caseworker will refer a client to the FSS coordinator, who reviews the client's file and interviews the client. The referral takes place when the caseworker thinks the client is ready to pursue homeownership. In reviewing the client's file and conducting the interview, the FSS coordinator generally looks for the desire to own a home, ability to handle the responsibility, and progress toward the goals the client set when she started the FSS program. Most clients' goals include homeownership, but also becoming employed full-time and getting off public assistance, including Food Stamps and TANF. The housing authority has a five-year time limit for FSS participation, so most clients work toward the same goals but progress at different rates. Some clients may have barely passed the one-year mark but are ready for homeownership, while others may have been part of the FSS program for five years and still are not ready.

During the first meeting, the FSS coordinator describes the rules of the homeownership program and the family's obligations under that program. Homeowners must continue to contact the housing authority with all income or household changes, they must continue to comply with all voucher program rules, they are responsible for finding their own lender and real estate agent, and they are responsible for all maintenance and repairs to the property they buy.

Applicants sign a series of agreements and disclosures in order to participate in the program, including a form specifying that they have 120 days from the time their loan in pre-approved to close on a property. Most voucher homeownership participants close within 30 days of pre-approval.

Homeownership Counseling

PSS has formal partnerships with three HUD-approved agencies that provide free (or very low-cost) homeownership counseling to low-income homebuyers in the Pinellas County/Tampa Bay area: Tampa Bay Community Development Corporation (CDC) Homebuyers Club, Clearwater Neighborhood Counseling Services, and St. Petersburg Neighborhood Housing Center. Representatives from these agencies also sit on PSS's Management Advisory Committee. Counseling is available to any low- to moderate-income resident of the county interested in purchasing a home. Potential homebuyers in the voucher homeownership program choose the counseling agency that is most convenient to where they live or where they would like to purchase. The majority of purchasers choose to go to the Tampa Bay CDC Homebuyers Club.

Classes are held in group settings that cover two general topics: budgeting and homeownership. In the budgeting classes, participants learn about saving, good faith estimates, earnest money, closing costs, maintenance, and repairs. In the homeownership classes, which are free for voucher homeownership participants, prospective homebuyers learn about working with lenders, the preapproval process, the housing market, working with real estate agents, predatory lending, HQS inspections, mortgages, and the settlement process. Voucher homeownership participants must attend eight hours of budgeting classes and eight hours of homeownership classes. Classes are offered year round at all-day seminars or in two-hour segments over four weeks. Completing classes at these agencies also qualifies participants for downpayment and closing cost assistance offered through the county.

After participants complete homebuyer counseling, they may need a few hours of one-on-one financial counseling before meeting with a lender. The FSS coordinator works informally with these clients to clean up their credit until they can be pre-approved for a loan. In some cases, she refers clients back to one of the counseling agencies. All three agencies offer a limited number of one-on-one sessions, in addition to group counseling.

Home Search and Inspections

The program maintains a list of a few real estate agents who are willing to work with voucher homeownership participants, but leaves agent selection up to clients. Sometimes lenders refer clients to real estate agents they have worked with before. Focus group participants noted that they found real estate agents on their own, either by looking through the newspaper or through word of mouth. They also report finding homes on their own. A few said that they found a home before finding a real estate agent.

When participants find a property that they are interested in purchasing, program staff set up the HQS inspection. Generally, homes do not pass the first inspection. Program staff encourage participants to attend the HQS inspection and then help schedule the independent inspection. Sellers complete necessary repairs on homes, which are typically minor and include replacing smoke alarms, locks or windows, and fixing tripping hazards. Once the home passes the HQS inspection, participants sign a purchase agreement and go to closing.

Most participants purchase single-family detached homes. Focus group participants had purchased homes between 2001 and 2003 and none found the home search process difficult. However, due to higher housing prices all participants noted that they could never find the same type or quality of home in the current housing market.

Lenders

After completing homebuyer counseling, participants choose a lender. Though the FSS coordinator has a few contacts at banks in the area, participants usually choose their own lenders, often going to the bank where they have checking or savings accounts. Participants work with lenders on their own and notify program staff when they are pre-approved for a mortgage. Lenders often take a participant's application over the phone. A representative from American Home Mortgage explained that she immediately pulls the applicant's credit report and checks his or her eligibility for various assistance programs after speaking with the applicant for the first time. She sends a package to the applicant with the information needed for pre-approval. The PCHA program then gives participants 120 days to close on a home.

The lack of formal partnerships with lending agencies has been a key challenge for the program. Because of staff transitions and limited outreach to local banks, finding lenders willing to work with participants has been difficult for participants. The bank representatives interviewed seemed willing to work with families using vouchers to purchase but found the length of time it takes participants to go through the PCHA's homeownership voucher program challenging. Lender representatives explained that many times they can identify potential voucher program homebuyers early in the process. However, because of the length of the FSS waiting list and the requirement to be enrolled in the FSS program for at least a year, banks are forced to wait months or even years for a good client to be "ready" to meet with a lender. This frustrates lenders and discourages them from conducting outreach to clients unless they are already in the voucher homeownership program, even though one of the lenders interviewed reports that she can identify good candidates for the homeownership program before program staff can.

Another source of frustration for lenders is the constant staff changes at the PCHA voucher homeownership program. Lenders had developed relationships with the original program staff, but for the past year no one from the housing authority or PSS has reached out to them. The bank representatives interviewed said that they did not even know the names of the current staff administering the homeownership program.

Focus group participants worked with a variety of lenders and all reported positive experiences. They described finding lenders by using the bank where they have savings and checking accounts, through word of mouth, or by using the bank closest to their home. All mentioned being pleasantly surprised when they found out how large a mortgage they could qualify for with a voucher.

Financing Model

PCHA's voucher homeownership program uses the HAP as income model. Until September 2005, the housing authority sent the HAP directly to the homeowner, who then sent a mortgage payment to the bank. However, there have been many problems with this method, among them that the housing authority was not notified when homeowners missed or were late on their mortgage payments. Beginning in September 2005, the housing authority started sending the HAP checks directly to lenders. Program staff hope to work with homeowners and lenders already in the program to transition them to this two-payment system. They also are planning to develop a notification system so that the housing authority is told when the homeowner's share of the payment is missed.

The majority of purchasers use conventional lending products, but some purchasers had Federal Housing Administration (FHA) loans and one purchaser had a loan from the Department of Veterans Affairs. Program rules prohibit balloon payments, adjustable rate mortgages, and two mortgage 80/20 loans, which divide the amount financed between two mortgages (the first for 80 percent of the cost of the property, and the second for twenty percent) but require the buyer to pay a higher interest rate on the smaller mortgage. Typical homebuyers take out mortgages with fixed rates for 30 years.

Sample Purchase Transaction: Pinellas County, Florida

Buyer's Annual Income:	$12,300 (as of 12/30/2004)
Purchase Date:	5/2/2003
Costs to Buyer:	
– Purchase Price:	$75,500
– Closing Costs:	$2,282
Sources of Financing:	
– 1st Mortgage:	$71,892 (6.9%, 30 yrs)
– Deferred Loans:	$4,450 (0%, 5 yrs deferred)
– Buyer Cash Down:	$2,233
– Seller-Paid Taxes:	$106
Monthly Mortgage Payments:	
– Total PITI:	$619
– HAP to offset PITI:	$381
– Buyer's PITI portion:	$238
– Buyer's share of PITI as a percent of gross monthly income:	23%

Homebuyers are required to put at least $500 of their own money toward a downpayment, and sometimes they pay as much as $1,500. Although more than half of FSS participants have escrow accounts with balances ranging from $24 to $2,000, participants typically do not use these funds to help pay for the house they purchase because they are able to access downpayment and closing cost assistance from several community programs (described below). Instead, they use the escrowed funds to pay off debt, buy cars, go back to school, or build savings.

Various downpayment and closing cost assistance programs are available to voucher homeownership participants, providing modest assistance (three to seven percent of the home price) that varies according to the purchaser's income and the price of the home. Most homebuyers receive downpayment or closing cost assistance through the Pinellas County Board of Commissioners' HOME program. The Federal Home Loan Bank and the Tampa Bay Community Development Commission also offer assistance to qualified homebuyers. These loans are typically zero percent interest and forgivable after 5 or 10 years.

Post-Purchase Activities

After purchase, most participants graduate from the FSS program, especially if homeownership was one of their goals (it is for almost everyone). If participants are still working toward goals, they continue to meet with their FSS caseworker until their five-year contract ends. Graduating from the FSS program usually does not mean that participants stop receiving voucher assistance.

All homebuyers continue to meet with the PCHA staff person on an annual basis for as long as they are receiving voucher assistance. She ensures they are still in compliance with all housing authority rules, documents income and household composition changes, and sets up annual HQS inspections and income recertifications.

All purchasers are required to attend at least one session of post-purchase counseling at any of the agencies where they attended the homeownership counseling. However, program staff do not verify attendance at post-purchase counseling and are unsure of how many homebuyers have actually attended. None of the focus group participants had attended post-purchase counseling or knew that it was required.

Program Outcomes

As of October 2005, 27 voucher homeownership participants had purchased homes through the PCHA voucher homeownership program. One purchaser no longer needs the voucher assistance, and another was terminated from the program because of non-compliance with voucher program rules. The remaining 25 purchasers continue to receive assistance. Five of these purchasers closed on properties in 2005, and 16 potential purchasers were active in the homeownership program at the time of the site visit. There have been no defaults, foreclosures, or resales, but there have been some problems with late payments under the two-payment model.

Almost all homes purchased through the program thus far have been one or two-bedroom, single-family detached structures built between the 1950s and 1980s. Many of the homes are ranch or bungalow-style homes, although a few are manufactured homes or condominiums. In general, homes observed during the site visit were well-kept, but a few were in poor condition and needed major repairs. There is little new development in the county, and the majority of houses date from the 1970s. Focus group participants report that the most desirable area in the county is Pinellas Park, the northeastern section of the county. Although most purchasers try to find affordable homes there, only a few succeed.

The neighborhoods visited during the site visit were of moderate quality. Several homes purchased through the program were located on very busy streets close to major shopping centers or highway entrances.

Focus group participants expressed tremendous satisfaction with being homeowners. One participant was able to adopt her granddaughter after purchasing her home. Another turned her garage into a third bedroom so her grandchildren could visit. Homeowners in the focus group were well informed and said that PCHA and PSS staff adequately prepared them for homeownership. They balanced the challenges of owning a home with the benefits, and all agreed that they would not sell their homes for a long time.

Lessons Learned

Despite the constant staff transitions at the housing authority, program staff say their program has been successful. They attribute their success to streamlined program administration. For example, in prior years, many voucher program staff members were involved directly in each participant's progress through the FSS program and toward homeownership. Now, all potential homeowners are "turned over" to homeownership program staff once they begin the homeownership process. In the three months since taking over the program, the two program staff have developed a system to keep files organized and communicate regularly with each other. They have streamlined program operations and believe that, going forward, homebuyers will be able to move much more quickly through the program—and more participants will buy homes each year.

Another characteristic of the program that staff believe contributes to its success is the motivation and determination of homeownership program participants. After being on the FSS waiting list and completing one year of the FSS program, these homebuyers know what to expect and understand the responsibilities that lie ahead.

Although PCHA staff consider their program to be successful, staff continue to encounter the following challenges: (1) the increasingly expensive housing market and low voucher payment standards; (2) developing relationships with outside partners, including lenders; and (3) need for additional guidance on the most efficient way to operate the program. First, prices of housing in the area are increasing each year, and program staff do not believe homeownership candidates will be able to afford quality homes with the current payment standards and their incomes. Although some participants have annual incomes of roughly $40,000, it is becoming harder to purchase good quality homes at that income level, even with the voucher subsidy. Second, program staff have not established strong partnerships with lenders. Going forward, they will have to do more to reach out to banks and develop relationships with key contacts. Finally, both PCHA and PSS program staff suggested that they would benefit from additional guidance from HUD on how to operate the program, either in the form of a training program or technical assistance materials.

Waco, Texas

Voucher Homeownership Program at a Glance: Waco, Texas

Total Size of PHA Housing Choice Voucher Program[a]	1,894
Number of Active VHO Participants (Not including those who have closed)	Not Available
Total Number of Home Purchases	21
Average VHO Participant Income[a]	$13,920
Average HCV Household Income[a]	$9,166
Number of Foreclosures	0
Current Number of Delinquent Payments or Mortgages in Default	0
Other Sources of Assistance for Purchasers	NHS, City of Waco Housing and Community Development[d]
Market Characteristics	
Range of Purchased House[b] Prices	$55,000 to $88,500
Area Median House Value[c]	$106,700

Unless otherwise indicated, the information for this table was collected during the site visit.

[a]Source: HUD Resident Characteristics Report.

[b]Based on a sample of 10 purchasers.

[c]Source: 2004 American Community Survey.

[d]See Financing Model section in this case study for descriptions of these programs.

Introduction

The Waco Housing Authority (WHA) administers approximately 1,800 vouchers in McLennan County, Texas. WHA began offering the voucher homeownership program in 1999 under the proposed rule. The agency has been providing homeownership opportunities to low-income families through its HUD HOPE 3 and Family Self-Sufficiency programs (FSS) since the early 1990s.[66] Staff view homeownership as an important part of long-term self-sufficiency and were eager to implement the voucher homeownership program. At the time of the site visit for this study in July 2005, 21 participants had purchased homes through the program.

The majority of WHA's purchases occurred during 2001 and 2002, with a slowdown in recent years. In the early years of the program, voucher participants benefited from an ample supply of reasonably priced housing units. In addition, WHA was able to attract a large pool of qualified homeownership participants by maintaining a separate waiting list for the voucher homeownership program. However, in 2004 HUD required WHA to eliminate the separate waiting list because HUD's VHO program rules preclude the establishment of a separate waiting list for voucher homeownership.

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66 The HOPE 3 program was launched by the U.S. Department of Housing and Urban Development in 1992 to aid nonprofit and public agencies in acquiring, rehabilitating, and reselling single-family homes to low-income families.

Program staff reported that this, together with the increasing credit problems of program applicants, has adversely affected both recruitment to the program and the number of purchases. During the site visit in summer 2005 and in a follow-up telephone contact in February 2006, staff reported that few new participants are entering the Waco VHO program.

Housing Market Conditions

WHA administers vouchers to residents located in McLennan County, a region spanning over 1,000 square miles in central Texas that includes the city of Waco. In 2000, the median house value in the city of Waco was $66,400, approximately 40 percent lower than the national median of $111,800.[67] Although the median house value increased by 60 percent to $106,700 in 2004 as a result of strong economic growth in the area's retail and industrial sectors, Waco nevertheless has one of the most affordable housing markets of the 10 sites in this study.[68] Among a sample of 10 purchases made by program participants that were selected for review during the site visit, the average purchase price was $72,888, with a range of $55,000 to $88,500. As shown in the chart below, in 2000, approximately 76 percent of owner-occupied units in Waco were valued at less than $100,000, within the potential price range of voucher program participants given the agency's payment standards.[69]

Home Values in Waco, TX	**2000**	
Less than $50k	17,232	36.3%
$50k to $99k	18,804	39.6%
$100k to $149k	6,125	12.9%
$150k to $199k	2,922	6.2%
$200k to 299k	1,464	3.1%
300k and above	916	1.9%
Total	**47,463**	**100.0%**

Source: 2000 Census

Program Development

WHA staff were eager to implement the voucher homeownership program as soon as HUD issued the proposed rule in 1999 in order to take advantage of the flexibility the proposed rule afforded in program design. Agency staff had already helped 16 public housing and voucher participants to secure homeownership through the FSS and HOPE 3 programs, and they were confident in their ability to operate homeownership programs. The agency's HOPE 3 grant period was also ending at this time, so voucher homeownership offered the agency another opportunity to increase homeownership options for residents.

67 Data from the 2000 Census.

68 Data from the Real Estate Center at Texas A&M University.

69 For this case study, data on distributions of house prices are not available from the 2004 American Community Survey.

WHA management staff explained that developing and implementing the program did not require much initial effort, since the agency had already established a strong partnership with the Neighborhood Housing Services of Waco (NHS). NHS had been providing homeownership education, downpayment and closing cost assistance, and help working with lenders for WHA's HOPE 3 and FSS participants since the early 1990s. When WHA started the voucher homeownership program, NHS worked with WHA to educate its network of lenders and other lenders in the community about the program.

Program Management, Staffing, and Partnerships

WHA staff work closely with the NHS to operate the voucher homeownership program. WHA conducts recruitment, screening, Housing Quality Standards (HQS) inspections, and voucher administration activities, while relying on the NHS and its lender partners for counseling and mortgage financing. WHA funds the voucher homeownership program entirely through voucher program administrative fees and does not pay NHS for its services. NHS staff reported that they have been satisfied with their relationship with WHA. Staff from both organizations meet on an as-needed basis.

WHA has also partnered with two private developers, Weatherby Homes and Edanbra Development Corporation (EDC), to provide purchasers with a supply of affordable units. WHA's partnership with Weatherby Homes began prior to the start of the voucher homeownership program, while the partnership with EDC started after the program was developed. Weatherby Homes and WHA initially worked with City of Waco officials to access closing cost and downpayment assistance funds for the voucher homeownership program. However, the partnership with Weatherby Homes is no longer active. WHA staff report that they have been unable to get in contact with Weatherby staff since mid-2005 and do not know whether the developer is still in business. Staff were not able to provide further details on the partnership with EDC.[70]

WHA staff estimate that 10 lenders have provided mortgages to WHA's voucher homeownership participants. Seven of the 10 are based out-of-state, while three are local. Program staff explained that NHS refers participants exclusively to local lenders, but the developers sometimes referred participants to out-of-state lenders. While the local lenders have good relationships with the NHS, WHA staff have had very limited contact with any of the lenders that have participated in the program.

Since becoming fully operational, there has been no change in the level of staffing resources devoted to the program. WHA's Special Operations Manager and Occupancy Specialist each spend 25 percent of their time conducting intake and screening activities. The Section 8 Director and Deputy Executive Director spend five to seven percent of their time reviewing loans and program policies. The Executive Director has a background in real estate and also spends about five percent of his time reviewing loan files prior to purchase.

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70 It does not appear that participants were steered toward these developers. Instead, the developers' units were presented as options they could explore.

Program Design

Targeting and Outreach

WHA's voucher homeownership program is open to all voucher program participants who meet the minimum work and income requirements established by the final rule. Staff determined that the federal eligibility criteria were sufficient and did not want to impose additional program requirements or focus their outreach toward any target population.

Program staff explained that, during the start-up phase of the program, maintaining separate waiting lists for the voucher and voucher homeownership programs was critical to their success in recruiting program participants. In 1999, WHA had over 1,000 applicants on the rental voucher waiting list and, therefore, developed a separate homeownership waiting list in order to allow qualified homebuyers to access vouchers more quickly. The voucher homeownership program waiting list typically had 200 applicants, which provided an incentive for qualified families to apply for this component of the voucher program. Having two waiting lists also allowed WHA to attract a pool of eligible and mortgage-ready applicants, although they also used traditional outreach methods such as mailing letters to current voucher holders and advertising through the FSS program.

During a HUD site visit in May 2004, HUD informed WHA that federal policy prohibited the agency from maintaining a separate waiting list for the voucher homeownership program.[71] WHA staff report that the restriction significantly limited their ability to recruit interested applicants, since demand for homeownership among current participants in the rental voucher program has been low. In addition, since WHA's voucher waiting list has been closed since November 2003, staff were unable to expand their recruitment efforts to new families even before May 2004. Approximately 1,671 applicants were on the voucher waiting list as of July 2005; WHA plans to re-open the waiting list when the number of applicants falls below 1,000.

Currently, WHA provides information about the voucher homeownership program at orientations for new voucher participants and mails fliers to voucher participants who are within six months of their annual recertification date. New voucher participants interested in homeownership are invited to attend an orientation and one-on-one counseling session. Current voucher holders only attend the one-on-one counseling session. Following the counseling session, program staff verify participants' employment, income, and criminal history. Staff also review participants' credit reports before referring them to pre-purchase counseling. Program staff estimated that 40 to 50 percent of participants who apply for the program do not meet the minimum income or employment requirements.

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[71] Citing 24 CFR part 982, subpart M, HUD's final rule on the voucher homeownership specifies that "...a PHA may not maintain separate waiting lists for special housing types [of which voucher homeownership is one] or provide a selection preference based on a family's willingness to use the housing choice voucher for a particular special housing type." See *Federal Register*, Volume 65, No 177, September 12, 2000, p. 55149.

Homeownership Counseling

WHA staff refer participants to NHS for homebuyer education and counseling. Participants start their homebuyer education by attending a one-on-one counseling session with an NHS homebuyer counselor. During the session, the counselor works with participants to review their income and credit history, and discuss the costs and benefits of homeownership. If participants decide to continue pursuing homeownership, the counselor works with them to develop an Action Plan. The counselor then refers participants to courses in financial literacy and homebuyer education.

Although the financial literacy course is recommended for all participants, it is not mandatory. NHS offers the course on a weekly basis in four, three-hour workshops. Topics covered include budgeting, credit issues, and consumer rights. The financial literacy course uses the "Money Smart" curriculum provided by the FDIC and certified by HUD. Participants must pay a $25 fee for the class. The homebuyer education course is a free, eight-hour, one-day session covering the home search process, inspections, and maintenance. Guest speakers participate in both the financial literacy and homebuyer education sessions.

Participants in the voucher homeownership program attend classes alongside NHS's non-voucher clients and meet individually with program counselors as needed. NHS staff explained that they try to ensure that participants understand the consequences of leaving the voucher rental program and the responsibilities that homeownership entails.

We interviewed one WHA participant about her program experience.[72] She said that she had attended the financial literacy and homebuyer education training and that the workshops were very helpful. She explained that the classes taught her how to manage her credit and debt payments. She noted that, "before, I was in so much debt I couldn't afford a house if the City gave it to me. I learned to be self-sufficient." After attending the NHS workshops, the participant reported that she had reduced her debt so that she owed money only for student loans and car payments.

Although an NHS homeownership counselor interviewed suggested that the classes were effectively preparing participants for homeownership, she also suggested that the classes would be improved if students were forced to be more engaged in class discussions. She added that it can be more difficult for students in the homebuyer education workshops to learn from each other, compared with students taking other NHS courses, since the homebuyer education courses take place in single rather than multi-day sessions. She also noted that it is difficult to design classes that communicate effectively to clients with varying educational backgrounds.

Home Search and Inspections

After participants complete pre-purchase counseling, they are ready to choose a lender and real estate agent. While NHS staff do not steer participants to any particular lenders or real estate agents, the agency does have a large display of business cards and brochures at NHS's front entrance that participants may use to help identify contacts. Neither NHS nor WHA offers any formal search assistance.

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[72] While all WHA purchasers were invited to the focus group, only one participant attended the session.

WHA staff and their partners agreed that voucher homeownership participants have little difficulty finding affordable, good quality homes in the city of Waco and McLennan County. Most participants find a home within 30 days and purchase single-family, detached units. Of the 21 units purchased so far, 19 were newly constructed. Fourteen of the new homes were purchased from Weatherby Homes, two from EDC, and three from other for-profit developers. Since the majority of the homes were newly built, there have been minimal HQS issues. Only one of the 21 homes failed the HQS inspection during the first attempt. Staff also said that the independent inspections have not identified any major problems.

Lenders

WHA staff estimate that 10 lenders have worked with voucher homeownership participants to date. Seven of the 10 lenders are located out-of-state, while three are local. The local lenders are Austin Loan Corporation, First Preference, and Wells Fargo. Austin Loan Corporation is no longer in business.[73] Staff explained that participants typically used out-of-state lenders if they purchased a unit through Weatherby Homes or EDC, as these developers have their own lender referrals. NHS only refers participants to local lenders.

WHA staff have limited contact with lenders. Lenders have not contacted WHA staff to discuss housing assistance payment (HAP) verification or other HAP-related issues. In addition, while WHA staff have notified lenders that they should contact WHA if there are any late payments or other issues, no lenders have contacted WHA to date.

Financing Model

WHA's voucher homeownership program has been using the single-mortgage model to finance purchases made through the program, treating the HAP as income. During summer 2005, WHA changed its Administrative Plan so that lenders have the option of using the HAP as a direct offset to the monthly mortgage payment when using Federal Housing Administration (FHA) lending products. No participants have used this HAP as offset model to date. Staff explained that they made this change to reflect the new underwriting policy issued by FHA in July 2005 and to give participants access to larger mortgages if needed.

Sample Purchase Transaction: Waco, Texas

Buyer's Annual Income:	\$6,500 (as of 9/27/2004)
Purchase Date:	7/31/2002
Costs to Buyer:	
– Purchase Price:	\$65,000
– Closing Costs:	\$4,532
Sources of Financing:	
– 1st Mortgage:	\$58,058 (7.5%, 30 yrs)
– 2nd Mortgage:	\$7,800 (3.0%, 30 yrs)*
– Grants:	\$3,023 (city)
– Buyer Cash Down:	\$669
Monthly Mortgage Payments:	
– Total PITI:	\$595
– HAP to offset PITI:	\$564
– Buyer's PITI portion:	\$31
– Buyer's share of PITI as a percent of gross monthly income:	6%

*This loan is deferred for five years, then amortized over 30 years.

[73] We were unable to reach staff at Wells Fargo to discuss their experience. We spoke with a senior-level staff person at First Preference. She reported that she was unaware of First Preferences' involvement with the voucher homeownership program and suggested that a former employee may have closed a loan in 2002 for a WHA participant.

The agency currently sends the HAP directly to the participant to promote a sense of independence and responsibility. However, following the new FHA regulations, WHA will send the HAP directly to the lender if the HAP as offset model is used.

Most participants obtain a below-market rate, 30-year first mortgage, with additional subsidies funded by NHS and the City of Waco's Housing and Community Development department (WHCD). NHS and the WHCD both offer grants and loans that subsidize downpayment and closing costs. NHS provides grants that average $5,000 per participant and loans that range from zero to five percent interest. WHCD provides subsidies that range from $9,000 to $14,000. NHS requires a minimum $500 or two to three percent of the purchase price for downpayment, but does not require participants to invest any of their personal funds toward this minimum downpayment requirement. NHS staff indicated that, while they encourage participants to save money for maintenance and repairs, they were unaware of any participants who had done so.

NHS works with lenders and WHA to approve mortgage underwriting for program participants. NHS has an underwriting committee that reviews every loan to ensure that participants are offered reasonable rates and terms. Balloon payments and adjustable rate mortgages are not allowed. After NHS's review, the file is forwarded to WHA for final review. WHA's Executive Director has a strong background in real estate and reviews each participant file prior to purchase. Another program staff member has also started attending real estate finance classes so that she can be involved in the loan review process.

The one participant interviewed for this report said that it was easy for her to obtain financing, but difficult to work with an out-of-state lender. The participant had selected a lender based on the options provided by Weatherby Homes. According to the participant, "I worked with Washington Mutual and was calling them in Arizona, California, and Kentucky." She said that, while she felt the lender was responsive, sometimes it took four to seven days before they returned her calls.

Post-Purchase Activities

While WHA's program does not require post-purchase counseling, participants can request individual counseling from NHS or WHA staff on an as-needed basis. None of the voucher homeownership purchasers has requested post-purchase counseling to date, although the one participant interviewed indicated that she was interested in learning more about post-purchase issues. She thought that post-purchase counseling seemed important: "I didn't know about changes in taxes and insurance... A dream home can become a disaster if you're not ready." At the time of the site visit, NHS staff reported that they were in the process of developing a formalized post-purchase counseling component and expected an increase in clients receiving post-purchase education.

After purchase, WHA meets with participants only for their annual recertification. WHA does not perform post-purchase HQS inspections. WHA staff expect lenders to contact them if there are any issues with participant loan payments, although none have done so thus far.

Program Outcomes

As of July 2005, 21 WHA participants had purchased a home with a voucher subsidy, and approximately 45 participants had completed homebuyer training. Of the 21 purchases, six participants no longer receive a voucher because their incomes have increased beyond the subsidy phase-out point, one participant was terminated from the program, and 13 participants continue to receive voucher assistance. Staff explained that WHA had terminated one participant because she had moved without notifying the housing authority. The lender foreclosed on her property shortly after the termination occurred.

The majority of WHA's purchases occurred during the first two years of the program. The program experienced a "cream of the crop" effect, with mortgage-ready participants purchasing early in the program. The remaining participants have been working to resolve credit issues or have dropped out of the program because of credit issues. Staff reported that the lack of a separate voucher homeownership waiting list has limited their ability to recruit eligible and mortgage-ready participants. They expect the program to remain fairly small, with 20 purchases in total over the next four to five years.

Other than the foreclosure mentioned above, WHA staff have not been informed about any missed payments. However, a WHCD staff member said that she was aware of one situation in which a participant had been at risk of foreclosure because she had missed several payments. The participant had applied for foreclosure prevention assistance program through WHCD.

The neighborhoods visited during the site visit were of fair quality. Many of the participants had purchased newly constructed units located within several blocks of an existing public housing development. The majority of the homes were very well-kept and the neighborhoods were convenient to schools, grocery stores, and churches.

The participant interviewed for the study reported that she was very satisfied with the home that she had purchased in 2001, but noted several issues. She reported that she had purchased her home while it was still under construction and had been promised that it would include French doors and a carport. However, the finished house did not include these features, and the developer was unresponsive to her complaints.

Since moving into her new home, the participant had also experienced sharp increases in property taxes, which increased her overall homeownership expenses. She described feeling "uneasy with the financing terms…it seemed reasonable at first and then taxes went up. I would like to start saving a little more money for escrow but it's hard."

Overall, the participant was quite pleased with her new neighborhood, reporting that the neighborhood had improved significantly since she first moved in. There had been prostitutes and drug dealers in the area until she and several neighbors formed a neighborhood watch group. The group met with the City to request additional lighting for the street. She reported that, as a result of these efforts, children can stay out later to play and people can sit in their yards more comfortably.

Lessons Learned

WHA attributes the early success of its program to their knowledgeable staff and local partnerships with NHS, Weatherby Homes, and WHCD. Staff have been pleased with their homeownership outcomes, but acknowledge that they have been challenged to recruit a steady pool of qualified candidates for the program now that they no longer can maintain a voucher homeownership waiting list. When asked why interest among current voucher holders seems to be low, staff did not offer any suggested reasons. Outreach efforts to potentially qualified participants are limited because the waiting list for the entire voucher program currently is closed. Credit issues are a barrier for both potential applicants and program participants who have not yet purchased.

In order to expand the pool of qualified candidates, WHA staff suggested that HUD modify the voucher program targeting rules to allow participants with slightly higher incomes to qualify for the voucher program. Allowing a greater share of participants with incomes over 30 percent of the area median income to receive vouchers (above the 25 percent now permitted) would increase the pool of applicants qualified for the voucher homeownership program.

Staff also reported that they were interested in developing a stronger relationship with their lenders. The housing authority currently has very limited contact with lenders, and many of participants have borrowed from out-of-state lenders. Although WHA staff have requested that lenders notify them if issues arise, the fact that this has not happened so far is a source of concern.

Appendix A

Exhibit A-1: Characteristics of Case Study Sites, Ordered by Median House Value in 2004

Site Name	**Waco**		**Indianapolis**		**Bernalillo County**		**Lorain**		**Pinellas County**	
Jurisdiction	Waco, TX		Indianapolis, IN		Bernalillo County, NM		Lorain County, OH		Pinellas County, FL	
	2000	**2004**	**2000**	**2004**	**2000**	**2004**	**2000**	**2004**	**2000**	**2004**
Total Population	213,517	NA	782,414	766,094	556,678	582,643	284,664	285,464	921,482	905,599
% Pop. In Rural Areas	25.1%		1.0%	--	4.3%	--	16.3%	--	0.1%	--
% Pop. In Poverty	16.8%		11.6%	13.0%	13.5%	14.3%	8.7%	14.6%	9.8%	10.3%
Median HHold Income **	$33,560		$40,051	$39,815	$38,788	$40,977	$45,042	$44,711	$37,111	$39,513
Homeownership Rate	60.2%	NA	67.8%	60.6%	63.6%	67.1%	74.1%	71.6%	70.8%	70.6%
Homeowner Vacancy Rate	2.4%		2.5%	3.6%	2.1%	1.3%	2.0%	0.6%	0.2%	0.9%
Rental Vacancy Rate	6.8%		10.9%	13.8%	11.7%	8.7%	7.3%	3.2%	9.6%	7.2%
Age of Housing Stock										
1990 to 2000 (or later)	15%	NA	14%	20%	21%	28%	13%	17%	10%	12%
1980 to 1989	18%		14%	14%	19%	16%	7%	6%	21%	18%
1940 to 1979	58%		56%	48%	57%	53%	62%	59%	65%	67%
1939 or earlier	8%		17%	18%	4%	3%	18%	18%	4%	3%
Value of Owned Units										
Less than $50K	36%	NA	13%	8%	8%	4%	6%	1%	20%	11%
$50K to $99K	40%		40%	32%	24%	17%	34%	22%	41%	21%
$100K to $149K	13%		30%	33%	36%	41%	32%	38%	19%	23%
$150K to $199K	6%		9%	13%	17%	21%	14%	19%	9%	18%
$200K to $299K	3%		5%	8%	10%	9%	10%	12%	6%	14%
$300K and above	2%		3%	6%	5%	8%	3%	8%	5%	13%
Median House Value (all owner-occupied units) *	$66,400	$106,700	$96,600	$112,924	$123,200	$136,168	$113,800	$136,556	$85,600	$137,900

Exhibit A-1: Characteristics of Case Study Sites, Ordered by Median House Value in 2004 *(continued)*

Site Name	Montgomery County		New Hampshire		Chicago		Fulton County		Los Angeles	
Jurisdiction	Montgomery County, PA		State of NH		Chicago, IL		Fulton County, GA		Los Angeles, CA	
	2000	2004	2000	2004	2000	2004	2000	2004	2000	2004
Total Population	750,097	751,097	1,235,786	1,261,970	2,895,964	2,719,290	816,006	782,858	3,694,834	3,745,742
% Pop. In Rural Areas	3.5%	--	40.8%	--	0.0%	--	2.1%	--	0.2%	--
% Pop. In Poverty	4.3%	5.3%	6.4%	7.6%	19.2%	21.0%	15.2%	18.4%	21.7%	18.0%
Median HHold Income **	$60,829	$64,190	$49,467	$55,580	$38,625	$40,656	$47,321	$45,920	$36,687	$40,682
Homeownership Rate	73.5%	77.8%	69.7%	72.6%	43.8%	48.5%	52.0%	55.6%	38.6%	40.9%
Homeowner Vacancy Rate	1.2%	0.3%	1.1%	0.8%	2.3%	3.1%	3.2%	4.7%	2.2%	0.8%
Rental Vacancy Rate	5.7%	5.5%	3.5%	6.0%	6.3%	12.1%	7.5%	12.8%	3.8%	2.6%
Age of Housing Stock										
1990 to 2000 (or later)	13%	17%	13%	16%	5%	6%	22%	32%	6%	7%
1980 to 1989	12%	11%	22%	20%	4%	4%	18%	16%	11%	11%
1940 to 1979	55%	51%	41%	40%	53%	49%	51%	46%	66%	63%
1939 or earlier	20%	21%	24%	25%	38%	41%	9%	6%	17%	18%
Value of Owned Units										
Less than $50K	1%	1%	8%	6%	3%	1%	5%	1%	2%	1%
$50K to $99K	13%	7%	25%	7%	24%	9%	23%	8%	5%	1%
$100K to $149K	30%	15%	32%	13%	26%	15%	15%	14%	17%	3%
$150K to $199K	25%	17%	18%	18%	20%	18%	14%	16%	22%	6%
$200K to $299K	18%	25%	12%	29%	15%	22%	18%	21%	22%	16%
$300K and above	12%	35%	6%	27%	12%	34%	26%	39%	32%	72%
Median House Value (all owner-occupied units) *	$158,900	$182,619	$127,500	$216,639	$144,300	$225,247	$175,800	$235,313	$215,600	$414,645

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