



# HOUSING CHOICE VOUCHER HOMEOWNERSHIP PROGRAM GUIDEBOOK



# **ACKNOWLEDGEMENTS**

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**CHAPTER 1**



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## INTRODUCTION

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On September 12, 2000, HUD published the final rule for the Homeownership Voucher Program. Since then, there have been widespread expressions of interest in the program from would-be participants and Public Housing Agencies (PHAs). Prospective participants are eager to use voucher assistance to purchase a home of their own. PHAs are enthusiastic about the possibility of assisting families in purchasing homes, but need guidance on designing programs that allow participating families to have the greatest chance for success. This guidebook is intended as a first step in meeting that need.

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## GUIDEBOOK IS ORGANIZED AS FOLLOWS

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Chapter 1 gives a basic overview of the voucher homeownership program, followed by guidelines for deciding whether a homeownership program is right for your agency in Chapter 2.

Chapter 3 describes program management. Chapters 4-8 provide details about program design including homebuyer counseling, financing, types of eligible housing and the physical standards requirements for potential units. Chapter 9 discusses post-sale activities and Chapter 10 discusses program-reporting requirements.

The homeownership voucher regulations, 24 CFR § 982.625-982.643, set up program guidelines — and only a few specific mandatory requirements covering areas of program operation (*for example, income and employment requirements, the calculation of the voucher subsidy, and the term of the homeownership assistance to be provided*). Otherwise, the regulations allow PHAs broad flexibility in tailoring their programs to local conditions. The

level of flexibility is at once exhilarating and intimidating – exhilarating because there are so many options available to PHAs, and intimidating because many PHAs have little experience with homeownership and don't know where to start.

This guidebook has been developed to provide assistance to PHAs that are thinking about starting a homeownership program, and also to PHAs that have taken the first tentative steps and are wondering what to do next. The guidebook provides a hands-on approach to program development, and provides resources that will be helpful to PHAs in identifying and resolving program issues.

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## REGULATORY HISTORY

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The notion of allowing low-income families to use voucher assistance to purchase — rather than lease — housing pre-dates the passage of the **Quality Housing & Work Responsibility Act of 1998** (QHWRA) and the ensuing regulatory issuances. Section 8(y) of the **Housing Act of 1937** (42 U.S.C. 1437f(y)) authorized the use of tenant-based assistance for eligible families that occupied homes purchased and owned by family members. Section 8(y) was originally enacted by Section 185 of the **Housing and Community Development Act of 1992** (*Pub. L. 102-550, approved October 28, 1992; 106 Stat. 3672*), and the original proposed rule was issued in 1994. However, the program was never implemented because HUD determined that statutory changes were needed.

QHWRA (*Pub. L. 105-276, approved October 21, 1998; 112 Stat. 2461*) provided the statutory framework on which the new 8(y) homeownership program is built. Under the new program, homeownership is a “special housing type” like shared housing and group homes. Like other special housing types, PHAs may choose whether or not to implement the program and allow the use of the homeownership option to voucher recipients. HUD does not provide additional units and/or special funding for PHAs that elect to provide the homeownership option for program participants.

The proposed rule for the Homeownership Voucher Program was published in the Federal Register on April 30, 1999. The final rule was issued on September 12, 2000.

Following the issuance of the final homeownership rule, additional rules were issued proposing one-time down payment

### FAMILY ELIGIBILITY WITH A VOUCHER

Under the Homeownership Voucher Program, the family must qualify more than once. Initially, they must meet the PHA’s eligibility criteria, be selected for participation by the PHA, and must meet HUD’s eligibility requirements as stated in 24 CFR § 982.627. Determining how families will be selected to participate in the Homeownership Voucher Program, and whether to establish additional eligibility criteria, are the initial responsibilities of the PHA. Later, participants will have to qualify under somewhat different criteria with the mortgage lender for a loan.

### COUNSELING WITH A VOUCHER

As stated in 24 CFR § 982.630, families wishing to participate in the Homeownership Voucher Program must complete a homeownership counseling program before they are eligible to purchase a home. Although HUD regulations suggest a few areas that should be covered in the counseling program (*e.g., home maintenance, money management, negotiating a home purchase, obtaining a mortgage loan*), the topics to be covered and the duration of the counseling program are left to the discretion of the PHA. The counseling may be provided by the PHA or by another agency (*such as a HUD-approved housing counseling agency*) working with or approved by the PHA. It is also left to the PHA to decide whether or not to require the family to attend post-purchase counseling.

assistance grants for homebuyers (*Federal Register, June 13, 2001*), and a pilot program for homeownership assistance for disabled families (*Federal Register, June 22, 2001*), as well as further modifying the existing Homeownership Voucher Program. The 2005 Consolidated Appropriations Act provided a net appropriation of \$1.2 billion for PHA administrative fees for the tenant-based voucher program during calendar year 2005. Congress specified that HUD may allocate up to \$25 million of the \$1.2 billion administrative fee appropriation to PHAs that need additional funds to administer their tenant-based voucher programs.

Through the Homeownership option, a PHA may provide voucher assistance for an eligible family that purchases a dwelling unit for residence by the family. 24 CFR § 982.628 authorizes the use of voucher homeownership assistance for the purchase of units not yet under construction at the time the family contracts to purchase the home. This regulatory revision, adopted October 12, 2000, expanded the housing choices available to families participating in the homeownership option under the HCV program. 24 CFR § 982.626(c), discusses applicable environmental review requirements for. 24 CFR § 982.637 details portability requirements when a family receiving homeownership assistance chooses to move to another unit. Environmental review requirements per 24 CFR § 982.626(c) must be satisfied for that unit in order for the family to continue receiving tenant-based assistance.

### **APPLYING FOR A MORTGAGE WITH A VOUCHER**

A homeownership voucher increases the monthly amount that an assisted home buyer can pay, and the cost of the home that the family can afford. To determine the total amount that the assisted family can pay, however, the family must know not only how much they can borrow based on their own income, but also how a prospective lender will treat the housing assistance payment (HAP) in calculating the total amount that the family can borrow. In Chapter 6, we will discuss the various approaches lenders have taken to determining the impact of the HAP on the amount a family can borrow: adding the HAP to the amount available for mortgage payments; counting the HAP as income; or even obtaining a second mortgage loan to be paid with the HAP. Because each of these approaches has a different impact on the amount a family can pay for the loan – and the home – it is especially advisable for voucher home buyers to meet with a lender sooner rather than later in the home buying process, and to have the assurance of a loan pre-qualification to satisfy seller concerns about how the family will be able to pay for the home.

Because the Homeownership Voucher Program is new and unfamiliar to many lenders, the PHA will have a significant role to play in publicizing the program and helping participating families find receptive lenders. Several PHAs that implemented pilot programs have described this as one of the most important activities in the early stages of program administration.



**FINDING A HOME WITH A VOUCHER**

The housing search process is the same for a family with a homeownership voucher in most respects (*including the benefits of using a reputable real estate agent to guide the family through the purchase process*). Exceptions to this general rule include:

- The entire unit is to be owner-occupied by the voucher holder family (*i.e., no subletting of the property*).
- While optional independent home inspections are becoming an increasingly common part of the home buying process, they are mandatory for families purchasing under the Homeownership Voucher Program. The Homeownership Voucher Program also requires that the PHA conduct a Housing Quality Standards (*HQS*) inspection, and that any deficiencies be corrected prior to the purchase of the home. This generally precludes the purchase of a “fixer-upper” or “handyman’s special” in need of major repairs unless the owner agrees to make the necessary repairs before the house is sold.
- The unit is within the jurisdiction of the PHA that issued the voucher, or the jurisdiction of another PHA that administers a Homeownership Voucher Program and accepts the family into its program as a new participant. A homeownership voucher family should never make any binding commitment to an agent or seller outside of the “initial” PHA’s jurisdiction before the “receiving” PHA in the new jurisdiction has informed the family that they have been accepted into the receiving PHA’s Homeownership Voucher Program.

Before we begin the discussion of the Homeownership Voucher Program, let's review what we know about the basics of the unassisted home buying process, and consider briefly how the process will be affected by the addition of voucher assistance.

### FAMILY ELIGIBILITY

In the world of unassisted homeownership, the vast majority of home buyers have to “qualify” to buy a home since they need to qualify for a mortgage loan to finance the purchase. Factors that the bank or mortgage lender will take into account include the family's income and work history, its debts, and its record of repaying debts (*the credit history*). If these are satisfactory, the lender will generally approve the family's application for a loan that they can reasonably afford, and the unassisted home purchase process can proceed.

### COUNSELING

Many unassisted prospective home buyers – especially inexperienced, first-time buyers would benefit from the services of a qualified housing counselor. A housing counselor can teach families the basics of home buying and homeownership before they make any serious mistakes. However, most families who buy homes without assistance do

#### CONTRACT NEGOTIATION WITH A VOUCHER

The process of negotiating a price and executing a sales contract is substantially the same for a prospective home buyer with a homeownership voucher. Several contingency clauses must be added to the sales contract if they are not already contained in the agreement.

- Per 24 CFR § 982.631(4)(c)(2) there must be a provision that the buyer will arrange for a pre-purchase inspection of the dwelling unit by an independent inspector selected by the purchaser. The buyer may not be obligated to go through with the purchase if the results of the inspection are unsatisfactory to the buyer.
- The contract must also provide that the purchaser is not obligated to pay for any repairs. (*For the PHA to begin HAP payments, the home must also meet HQS as stated in 24 CFR § 982.631.*)
- The seller must certify that the seller has not been debarred, suspended, or subject to a Limited Denial of Participation (*LDP*) under 24 CFR § 24.

The PHA may establish additional requirements regarding the terms of the loan or its affordability to the family. If the family is not pre-approved or pre-qualified for financing, or if the PHA has not reviewed the terms of pre-approved or pre-qualified financing, it may be advisable to incorporate these requirements into the contingencies to the sales contract. These conditions should be included so that the buyer is not placed in the position of defaulting on (*breaking*) the sales contract, due to the PHA not approving the buyer's financing. These additional requirements must also be clearly spelled out in the PHA's Administrative Plan.

not search out housing counseling unless they are repeatedly turned down for mortgage loans – in which case they may seek the assistance of a credit counselor – or, if they have been successful in purchasing a home, but fall behind in their payments and are in danger of default. HUD-approved housing counselors provide credit counseling services and home buyer education to low- and moderate- income home buyers with or without homeownership vouchers.

### APPLYING FOR A MORTGAGE

Some unassisted home buyers begin the home purchase process by meeting with a lender to determine how much house, or loan, they can afford before they begin to search for a home in earnest. A lender will review the family’s finances and will pre-qualify the home buyer (*give the prospective home buyer an informed opinion about how much the family will be able to borrow*), or – better yet – pre-approve the home buyer for a loan up to a specified amount, based on documented and verified information about the family’s income, assets, and liabilities. In either instance, the home buyer obtains a letter of pre-qualification or pre-approval from the lender to show prospective sellers.

Other home buyers wait until they have found a home to apply for a mortgage loan. If the buyer is working with a real estate agent, the agent may be able to help guide the buyer to a receptive lender. Nevertheless, the buyer has the right to submit an application with any lender the buyer chooses. Generally, the buyer’s decision is based on comparing available loans to identify the best combination of interest rates and points (*1% of the total loan amount per point, paid up front to reduce the interest rate paid during the term of the*

#### PROPERTY INSPECTIONS WITH A VOUCHER

In a homeownership voucher purchase, two inspections are required: an inspection performed by an independent home inspector selected by the buyer, and an inspection conducted by the PHA to determine whether the house meets HQS. Any HQS deficiencies identified by the PHA must be corrected prior to the purchase of the home. The PHA may disapprove the home purchase based on these two inspections, e.g., extent of structural damage and major repairs. Helping the voucher home buyer negotiate necessary repairs with the seller is typically the role of the buyer’s agent, although in some instances the PHA may need to ensure that the work gets done. Setting aside a reserve for post-settlement repairs is not an option for the PHA or the voucher home buyer if the repairs are necessary for the unit to meet HQS. PHAS are encouraged to conduct the HQS inspection before the family spends money to hire an independent home inspector. Once the voucher holder has purchased the home, the PHA is not required to conduct annual HQS inspections. Some PHAs continue to perform an annual HQS inspection as a local option in the program. If they do so, the policy should be established in the Administrative Plan.

loan) offered by reputable lenders. In most cities, the real estate section of the weekend newspaper or the Internet is the best place to find out what rates and points are available.

When all of the buyer's information is verified, and the loan is approved, most lenders give the borrower the opportunity to "lock" the interest rate until the loan closing. If the interest rate is locked, fluctuations in interest rates will not affect the borrower's loan.

## FINDING A HOME



The prospective voucher home buyer may consider the same wide range of ownership options as families purchasing homes without voucher assistance: single-family homes owned in fee simple, condominiums or cooperative units in multifamily buildings or developments, or permanently-installed manufactured homes (*provided that the purchaser will own or have a long-term lease on the land for at least 40 years*). The homes may be existing homes or newly built homes, provided that the home was already under construction when the contract of sale is executed. Certain units built or rehabilitated through a "sweat equity" program may be eligible, as are units purchased pursuant to lease-purchase agreements. Deciding where to live and what kind of a home to live in is, for the most part, no different for assisted home buyers than for their unassisted counterparts.

### CLOSING/SETTLEMENT WITH A VOUCHER

The settlement process is no different for voucher homebuyers than for unassisted homebuyers. By this point, the hard work of preparing the voucher holder for home-ownership, working with the lender to incorporate the HAP payment into the lender's calculation of the family's borrowing capacity, and ensuring that the unit meets HQS is done. The PHA may continue to be involved in the closing or in the flurry of last-minute activities leading up to it. However, the PHA is not a party to the loan, and has no claim or lien against the title for the HCV homeownership funds.

Unassisted home buyers usually start out with a general idea of what they can afford to pay for a home, and look for homes within their price range. Initially, the housing search

probably consists of driving around affordable neighborhoods looking for “For Sale” signs, reading the classified ads in the local paper, and touring available homes on “Open House” days. Sooner or later, many prospective home buyers establish relationships with a real estate agent who assists them in finding a home that meets their needs and working through the purchase process. Having the assistance of a reputable agent knowledgeable about the local housing market can be a great help to the novice home buyer. Alternatively, the housing counselor may provide ongoing assistance to the home buyer. While in some instances buyers can save money by purchasing a home directly from the owner without using an agent, most home buyers benefit from the services of an experienced agent in estimating the market value of a home, negotiating a reasonable sales price, coordinating property inspections, obtaining financing, and establishing escrow accounts.

### CONTRACT NEGOTIATION

When an unassisted home buyer finds a home that he/she wants to buy, the next step is making an offer to the seller. The buyer and the buyer’s agent generally determine a reasonable price for the home based on recent sales of comparable homes in the area. The figure they arrive at may be lower than the seller’s asking price. If the seller is not willing to agree to the price or the terms offered by the buyer, the seller may respond with a counter-offer, may turn down the offer and keep the unit on the market and eventually sign an agreement with another prospective buyer.

The buyer’s offer is made in writing on a sales contract or purchase agreement – generally a pre-printed form that is filled in by the prospective buyer with the help of a real estate agent or a lawyer. The sales contract contains the names of the prospective buyers and sellers, the address and legal description of the property, the proposed price, down payment, loan amount, and the amount of the deposit. It also contains time limits for the seller to respond to the offer and for the buyer to get financing, close on the home, and move in. Finally, it contains any contingencies that must be met for the sales contract to remain in force. The prospective buyer signs the sales contract before it is submitted to the seller. If the seller accepts the offer and signs (*or ratifies*) the sales contract, the terms of the proposed contract are legally binding and the buyer is generally required to make a deposit (“*earnest money*”) into an escrow account. If the sales contract falls through due to contingencies not covered in the sales contract, the deposit is generally forfeited to the seller.

### PROPERTY INSPECTIONS

An unassisted home buyer is not required to have a home inspected, although many home buyers choose to do so to ensure that they are not purchasing a home with problems that are not readily apparent to the purchaser. Independent inspectors provide an unbiased

assessment of the physical condition of the property. They will inspect the foundation of the house, the interior and exterior conditions, the systems (*plumbing, heating and cooling, and electrical*), and prepare a written report. Based upon the inspector's report, the prospective homebuyer may terminate the sales contract (*provided that it contains an inspection contingency*), ask the owner to make the necessary repairs, or set aside money from the sale proceeds to have the work done after the sale, or decide to do the repairs following the purchase.

Local laws may also require inspections and/or certifications for potential hazards such as termites, radon, asbestos, or lead-based paint.



## CLOSING/SETTLEMENT

Closing or settlement day is the time that the bank gets the loan note signed, the seller gets the proceeds of the sale, and the buyer receives the title and keys to the new home. Prior to the closing, the buyer will have received a commitment letter from the bank confirming the amount and conditions of the loan, obtained homeowner's insurance, and satisfied any other requirements contained in the commitment letter. At the closing, the buyer pays the balance of the required down payment (*the full down payment agreed to minus the "earnest money"*) and closing costs that typically include loan fees, credit reports, appraisal fees, processing fees, mortgage insurance (*if required*), pro-rata reserves for insurance and taxes, settlement fees, attorney fees, title search and title insurance

fees, recording fees, local transfer fees, and any other applicable charges. The buyer's and seller's settlement costs are itemized on a form called HUD-1 (*shown in Appendix C*), which the buyer can review before the actual closing. In many cases, the buyer will bring a cashier's check to the closing for the balance of the down payment and closing costs that will not be covered by the mortgage loan.

The loan closing is generally attended by the buyer and the seller, their agents and/or attorneys, and a settlement agent or title clerk. The title clerk controls the flow of the paperwork and is responsible for recording the sale and the lien after the closing is complete.

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## **PILOT PROGRAMS & OTHER PROGRAMS**

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A number of PHAs were eager to move forward when HUD published the proposed rule in April 1999. The law provided HUD with demonstration authority that HUD exercised to allow 15 sites to conduct pilot homeownership programs under the proposed rule.

**These pilot sites and others were instrumental in establishing quality programs and cooperated in the development of this guidebook:**

- Housing Authority of the City of Los Angeles **CA**
- Colorado Department of Human Services **CO**
- City of Atlanta Housing Authority **GA**
- Idaho Housing and Finance Association **ID**
- Chicago Housing Authority **IL**
- Jefferson County Housing Authority **KY**
- Housing Authority of the City of New Orleans **LA**
- North East Community Action Corporation **MO**
- Lakewood Township Resident Assistance Program **NJ**
- Suffolk County Housing Authority **NY**
- Syracuse Housing Authority **NY**
- Montgomery County Housing Authority **PA**
- Metropolitan Development and Housing Agency **TN**
- Danville Redevelopment and Housing Authority **VA**
- Burlington Housing Authority **VT**
- Vermont State Housing Authority **VT**

By the time the final rule was issued in September 2000, approximately half of the approved pilot PHAs had homeownership programs underway, and several had families who had already purchased homes.

At the same time, the Neighborhood Reinvestment Corporation (NRC), a congressionally-sponsored nonprofit community development organization, made funding available

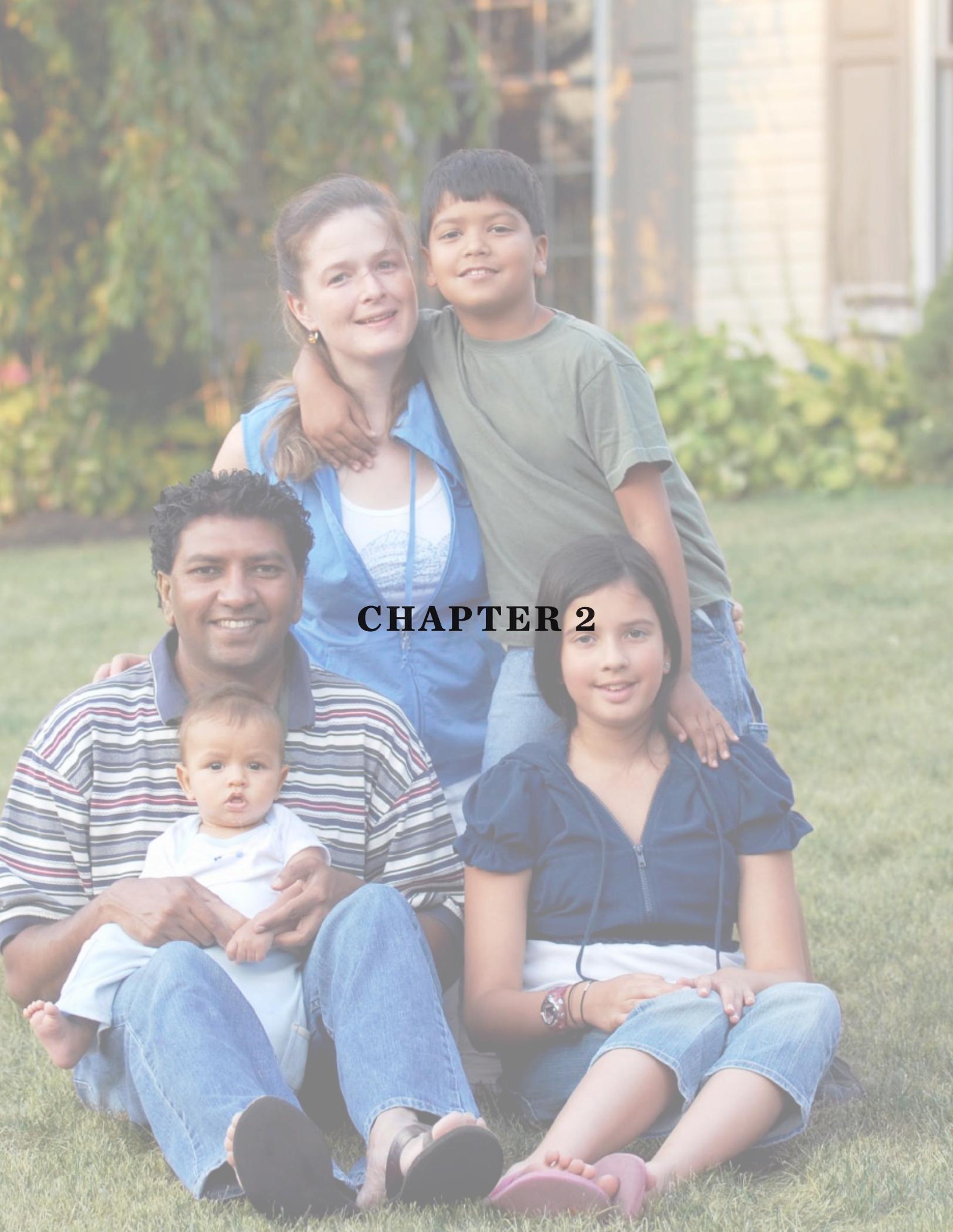
to a number of its local NeighborWorks® affiliates to provide technical assistance and capital funds for homeownership efforts under the voucher homeownership program. In 1999, NeighborWorks® organizations partnered with PHAs in Syracuse, New York; Suffolk County, New York; Nashville, Tennessee; and Burlington, Vermont, to develop four demonstration projects under what NRC dubbed the “Section 8 to Homeownership Program.” In early 2001, NRC funded 14 additional partnerships to expand the program to non-pilot sites. Some of the issues and examples in this guidebook have been drawn from the experience of the HUD pilot sites and NRC demonstration sites. These are included to inform and assist PHAs that are just starting out or redesigning programs. They are not intended as the last word on how programs must be developed because the flexibility of the program is intended to allow PHAs to make the final determination of what works best locally.

**As you read this guidebook, keep in mind that:**

- Although more than 4,000 families have actually purchased units through the Homeownership Voucher Program by October 2005, none have been in their homes long enough to anticipate every problem that may arise. PHAs and partners are still adjusting and learning how to best manage the local issues, conflicts, and resources.
- Several NRC sites that have completed sales and financed those sales at least in part with demonstration funds provided by NRC/NeighborWorks®. This option may not be available in some communities, and PHAs may have to operate their programs within the limits of conventional financing or identify other local partners and resources.







**CHAPTER 2**

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## HOMEOWNERSHIP VOUCHER BASICS

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The Homeownership Voucher Program is one of the most exciting developments in tenant-based assistance since the merger of the certificate and voucher programs. Under this program, many low-income families will have the opportunity to use Federal housing assistance that would otherwise be paid to a landlord as rent to purchase and build equity in a home of their own. Many observers believe that the program has the potential to help stabilize the lives of families who receive assistance, and contribute to the stabilization of their neighborhoods and communities. In this chapter, we will focus on the nuts and bolts of the Homeownership Voucher Program, setting aside for the moment the broader program picture of what will be required of PHAs who choose to offer this program. In the next chapter, we will look more closely at the factors a PHA should consider in making the local decision of whether to offer the homeownership option.

The Homeownership Voucher Program is more accurately described as the “homeownership option” in the Housing Choice Voucher (*HCV*) program. What is the difference between a program and an option? The primary difference is that a PHA administering a tenant-based voucher program has the option to allow families to use their voucher HAP assistance to purchase, rather than lease, a home, and families who have been determined eligible for voucher assistance have the option — if they meet certain additional criteria — to look for a home to buy, rather than lease. The Homeownership Voucher Program is not an independent program; rather it is part of the PHA’s Housing Choice Voucher Program. It is a “special housing type” permitted under the broad umbrella of the Housing Choice Voucher Program. There is no separate annual contributions contract (*ACC*) executed between HUD and the PHA for homeownership vouchers, nor are there any special voucher allocations earmarked exclusively for homeownership use.

True to its roots in the Housing Choice Voucher Program, the Homeownership Voucher Program is a “finders-keepers” program. By law, the subsidy is tenant-based assistance. Participating families have the primary responsibility for finding eligible units to purchase, and for securing financing. However, many PHAs that are operating programs have been very involved in helping families find mortgage loans, down payment grants and other subsidies. These efforts will be described later in this guidebook.

This chapter describes the basic requirements of the Homeownership Voucher Program: the process of selecting and qualifying families that wish to participate in the program, the housing search process, the home purchase, and the ongoing program activities that the PHA must perform during the term of the families’ homeownership assistance. At the end of the chapter, we have included a chart comparing key characteristics of the Homeownership Voucher Program with the more familiar rental assistance program.

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## HOMEOWNERSHIP VOUCHER PROGRAM REQUIREMENTS

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We have summarized regulatory requirements, as stated in 24 CFR § 982.625-982.643, applicable to the voucher homeownership program at each stage of the homeownership process. The regulations referenced herein are those issued by HUD.

### APPLICANT SELECTION

**Only families who are otherwise eligible to receive assistance under the Housing Choice Voucher Program may exercise the homeownership option. These may include:**

- Current voucher program participants who are eligible to end their leases and move under the PHA's policies.
- Families who have been selected from the PHA's waiting list for admission to the Housing Choice Voucher Program, and whom PHAs have determined — on the basis of their income, preference status, and any other homeownership selection criteria imposed by the PHA — to be eligible to receive a voucher.



### WORKING CLOSELY WITH FAMILIES

Knowing your families and their stability will help to avoid issues down the road. *Jefferson County Housing Authority KY* has a large voucher program and requires families to be current voucher participants for at least one year and in good standing before they are considered for the Homeownership Voucher Program. This local policy requirement for recruitment is consistently applied and contained in their Administrative Plan. To date, the Authority has no homeownership defaults, and the families work closely with the agency during difficult times. The front-end

time spent by staff with the participant leads to a working relationship with the family as they move into homeownership.

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Although PHAs can make the homeownership option available to applicants who have not previously received rental assistance per 24 CFR § 982.625(b), the applicants are selected from the PHA’s voucher program waiting list in accordance with the standard selection policies described in the PHA’s Administrative Plan. It is important to note that a PHA may not withhold available vouchers for use with a special housing type, or provide a selection preference on the basis of family eligibility and willingness to use the voucher for a special housing type. Specifically, a PHA cannot keep a separate applicant waiting list for just qualified homeownership eligible applicants. Also, a PHA may not provide a selection preference to applicant families on the basis of their interest in, or eligibility for, homeownership.

### QUALIFYING FAMILIES

In addition to the family’s basic eligibility for housing voucher assistance, families admitted to the Homeownership Voucher Program must meet certain requirements established by HUD as stated in 24 CFR § 982.627. They must qualify as “first-time home buyers,” meet income, employment, and other eligibility standards; and complete a homeownership counseling program required by the PHA. PHAs may also establish additional eligibility requirements, as described in the PHA Administrative Plan.

### FIRST-TIME HOMEBUYERS

Pursuant to 24 CFR § 982.627(b) the family must qualify as a first-time homebuyer, with the exception of cooperative (*co-op*) housing members who have already purchased shares in a co-op. A first-time homebuyer is generally defined as, “a family of which no member owned any present ownership interest in a residence of any family member during the three years before commencement of homeownership assistance for the family.”

**The definition explicitly extends first-time homeowner status to the following individuals or families, provided that they have no current homeownership interest in a residence:**

- A single parent or a displaced homemaker who, during the preceding three years, was



married and, while married, owned a home with his or her spouse, or lived in a home owned by his or her spouse.

- A family that includes a person with a disability, in which any member has owned a unit during the preceding three years, but for which the PHA determines that the use of the homeownership option is necessary as a reasonable accommodation to make the program accessible to the family.

No member of the family, including the two exception cases to the three-year rule listed above, may have any ownership interest in any residence at the time they are selected to participate in the homeownership option. The exception to this rule is the case of co-op members who have acquired shares in their co-op prior to being selected for homebuyer assistance.

### MINIMUM INCOME REQUIREMENTS

As stated in 24 CFR § 982.627(c), at the time the family begins receiving homeownership assistance, the adult family members of a non-disabled family who will own the home must meet collectively a minimum non-welfare annual income requirement that is not less than the Federal minimum hourly wage (*\$6.55 at the drafting of this guidebook*) multiplied by 2,000 hours (*\$13,100*). For a disabled family (*a family whose head, spouse or sole member is a person with disabilities*), the adult family members who will own the home must have an annual income that is not less than the monthly Federal Supplemental Security Income (SSI) benefit for an individual living alone multiplied by 12 (*in 2005, that monthly SSI benefit is \$579, resulting in a minimum income requirement of \$6948*).

### MINIMUM INCOME REQUIREMENTS & RULES

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It is important to remember that the special rules on minimum income eligibility only apply in determining if the family meets the minimum income eligibility requirement to participate in the homeownership voucher option. The PHA follows the normal income definitions and rules for the Housing Choice Voucher Program for all other aspects of program administration, such as determining family income for eligibility for admission to the Housing Choice Voucher Program, income targeting requirements, and rental or homeownership subsidy calculations. For example, welfare assistance is not disregarded in computing the amount of homeownership assistance.

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PHAs may establish minimum income requirements higher than the HUD standard for either or both types of families (*disabled and non-disabled*), based on factors such as local housing costs and/or the practices of local lenders. However, families that do not meet the PHA's local minimum income requirement shall nevertheless be considered to meet the income requirement if two considerations are met:

- The family meets the applicable HUD standard.

- The family demonstrates that the family has been pre-approved or pre-qualified for financing in an amount sufficient to purchase decent, safe and sanitary housing of modest design in the PHA’s jurisdiction.

The pre-approved or pre-qualified financing needs to meet any PHA requirements for financing in general, including the qualifications of the lender and the terms of the loan. *(PHAs should be especially aware of the possibility of predatory lending practices – or incomplete disclosure of the participant’s income to the PHA – if the amount of the pre-approval or pre-qualification appears excessive in relation to the participant’s capacity to pay).*

## HIGHER MINIMUM INCOME REQUIREMENTS AS A LOCAL OPTION

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To participate in the Burlington Housing Authority’s (BHA’s) voucher homeownership option in Vermont, families must have an income between 35-80 percent of Burlington’s median income. The City of Atlanta Housing Authority (AHA) Homeownership Program requires non-disabled families to have a minimum income of \$22,000.

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## MINIMUM EMPLOYMENT REQUIREMENTS

**In addition to meeting the income requirement and pursuant to 24 CFR § 982.627(d) one or more adult members of the family who will own the home must be both:**

- Employed on a full-time basis *(an average of not less than 30 hours a week.)*
- Have been continuously employed for the year prior to the beginning of homeownership assistance. The PHA may set its own policies regarding what it will consider to be continuous employment. The PHA may count successive employment during the year. The PHA may count self-employment in a business.

This employment requirement does not apply to an elderly or disabled family *(head, spouse or sole member is elderly or disabled)*. Also, the employment requirement does not apply to a family that includes a person with disabilities, if other family members are unable to work on a full-time basis because they are required to care for the person with disabilities, and the PHA determines a reasonable accommodation is necessary.

The PHA may not adopt any additional employment requirements for a family’s eligibility for participation in the Homeownership Voucher Program. However, the lender may have separate requirements that differ from the PHA’s minimum eligibility employment requirement. For example, some lenders may require 2-years of continuous full-time employment of a person on the mortgage.

## ENHANCED EMPLOYMENT REQUIREMENTS AS A PREFERENCE

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The Chicago Housing Authority's (CHA's) Choose To Own (CTO) homeownership program requires that participant families have been employed for a minimum 12 months continuously to qualify. However, CTO gives a preference to families who have been employed for 24 months or more.

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### NO PRIOR DEFAULT

As stated in 24 CFR § 982.627(a)(5), to be eligible to receive a homeownership voucher, the family may not have previously defaulted on a mortgage when receiving homeownership voucher assistance for any reason. This restriction applies for any family that includes an individual who was an adult member of a family at the time when such family received homeownership assistance and defaulted on the mortgage. For example, the restriction would not apply in the case where a person was a minor in a household that defaulted on a mortgage, but is now as an adult seeking homeownership assistance of behalf of his or her own family (*provided none of the adult members of original household that defaulted are also members of the individual's household*).

### LOCAL HOMEOWNERSHIP VOUCHER PROGRAM REQUIREMENTS

Except in those areas where HUD has established mandatory eligibility criteria, PHAs have the option to adopt their own policies limiting homeownership assistance to families or purposes defined by the PHA. For example, a PHA may elect to limit participation in the Homeownership Voucher Program to families who are current participants in the PHA's rental voucher program, or to families who are participants in or have graduated from a Family Self-Sufficiency (FSS) or Welfare to Work program.

A PHA may also limit the number of families who will be permitted to exercise the homeownership option, and may establish policies — such as prioritizing FSS graduates, first come/first served policies, or lottery systems — for selecting among eligible families who wish to participate. These selection policies are to be included in the PHA's Administrative Plan.

### EXPANDING THE HOMEOWNERSHIP OPTIONS

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The Housing Authority of the City of Los Angeles (HACLA) HCV program developed agreements with other agencies and HACLA Departments to offer housing choice vouchers for households involved in certain supportive services programs or facing displacement.

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**Households eligible for the homeownership option include:**

- Current HACLA HCV participants who are elderly or disabled.
- Current HACLA HCV participants who are not elderly or disabled and are enrolled in FSS or in compliance with their FSS Contract of Participation.
- Recent HACLA FSS recipients eligible for transitional supportive service assistance.
- Families in HACLA Public Housing who are participating on a ROSS Homeownership Supportive Services grant.
- Eligible applicant families certified as being displaced or about to be displaced by the action of a government agency or a school district that has an agreement with the HACLA.

**MEETING UNMET NEEDS WITH LOCAL REQUIREMENTS**

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The Idaho Housing and Finance Association (*IHFA*), which serves 34 of Idaho’s 44 counties out of four branch offices, decided to focus its homeownership program on HCV house holds where the head of household or spouse is disabled. This population, unlike those, for instance, in IHFA’s FSS program, did not have other avenues to homeownership open to them. Because this population often had low and limited incomes and many households were composed of one or two persons, IHFA needed to consider additional funding sources to help families meet down payment costs.

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**HOMEOWNERSHIP COUNSELING**

Families who wish to participate in the Homeownership Voucher Program must first attend and complete a homeownership counseling program required by the PHA per 24 CFR § 982.630.

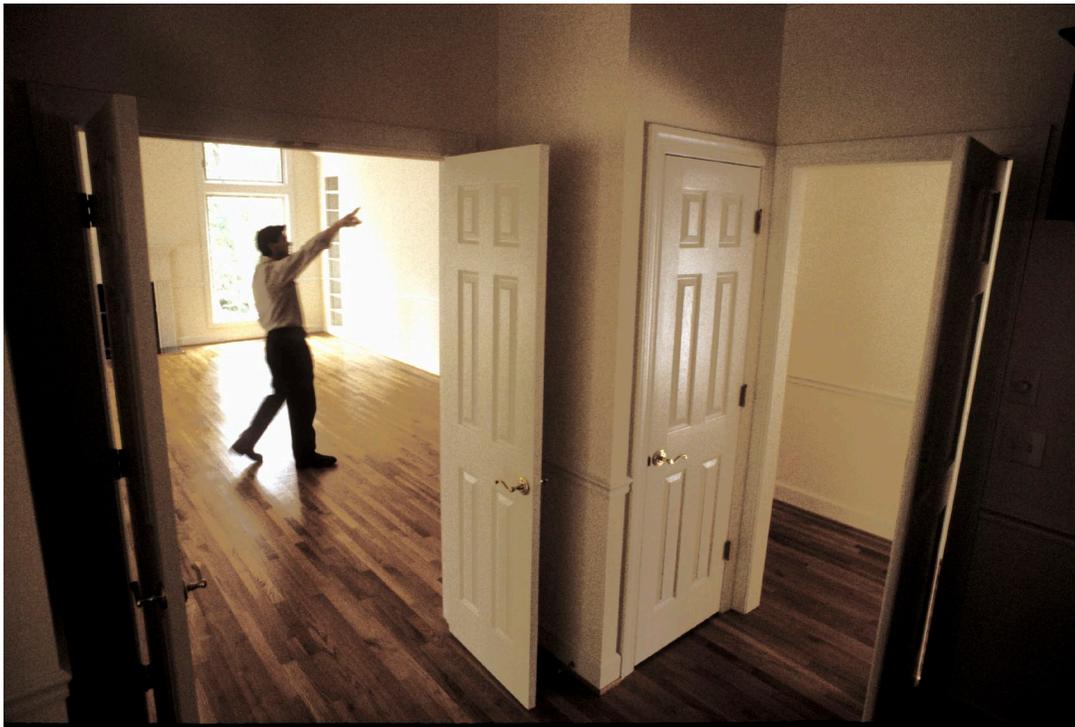
**The counseling program requirements may vary from PHA to PHA, and from family to family, but it will generally cover the following topics:**

- Home maintenance.
- Budgeting and money management.
- Credit counseling.
- Negotiating the purchase price of a home.
- Obtaining financing and loan pre-approvals.
- Finding a home.
- Advantages of purchasing in areas of low poverty concentration.
- Fair Housing, Fair Housing Lending, and local Fair Housing enforcement agencies.

- Information about the Real Estate Settlement Procedures Act (*RESPA*), State and Federal Truth in Lending laws, and ways to avoid predatory lending.

The counseling may be provided by the PHA, an entity retained by the PHA to do homeownership counseling, one or more local HUD-approved housing counseling agencies, or another local counseling agency. Generally, the homeownership services of the HUD-approved counseling agencies are free, or provided at a very modest cost to the PHA. If the PHA decides not to use a HUD-approved housing counseling agency, it should take steps to ensure that the counseling provided is consistent with HUD approved housing counseling programs.

Since the homeownership counseling component is a mandatory eligibility requirement



for homeownership voucher assistance, the family may not be charged either directly or indirectly by the PHA or the counseling agency for the cost of the counseling necessary to meet this requirement.

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## HOUSING SEARCH

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### ELIGIBLE HOUSING

Single-family houses, single dwelling units in a cooperative or condominium development, and manufactured homes that are permanently installed on land that will be owned by the family (*or where the family has the right to occupy the land for at least 40 years*) are eligible for purchase under the Homeownership Voucher Program. Units purchased under a lease-purchase agreement may be eligible for rental assistance prior to the actual sale, and for homeownership assistance after the unit has been sold to the family (*provided the family meets the homeownership eligibility requirements, was selected by the PHA, and has completed the pre-assistance homeownership counseling program at the time the family will assume ownership of the unit*).

Homeownership assistance may not be used to purchase a property that includes other residential or commercial space that will be leased by the homeowner. As indicated in 24 CFR § 982.62(a) the unit must be an existing unit or already under construction at the time the family enters into the contract of sale. (*For purposes of the Homeownership Voucher Program, HUD considers a unit to be under construction once the footers have been poured.*)

### HOUSING SEARCH & PURCHASE TIME LIMITS

A PHA may establish time limits for families that have been approved for homeownership voucher assistance to find a home, and also to actually complete the purchase of the property. These time limits may differ in length from the time limit provided to

a family to search under the rental program. If the PHA is allowing participants to use the voucher for homeownership, families who are already participating in the Housing Choice Voucher Program may continue to receive rental assistance while they search for a unit to purchase. If the PHA is allowing applicants to use the voucher for homeownership, at the conclusion of any PHA-established search period or the period allowed for the completion of the purchase, families admitted from the waiting list who have not found or purchased a unit may, at the PHA's discretion, may be given the option to receive a rental voucher or to be returned to the waiting list.

### **ADDITIONAL SEARCH TIME & LIMITS**

Families exercising their homeownership option under Housing Authority of the City of Los Angeles (*HACLA*) have 180 days to locate and make an offer on a home. Because the Los Angeles housing market is so expensive, the search process is often difficult. *HACLA* residents may have unrealistic expectations of what neighborhoods they can afford. They may work with three to four real estate agents during their housing search. Homeownership program staff discusses these expectations with homebuyers and can issue a second and even a third estimated HAP letter to allow participants additional time to find a home. Participants who do not successfully locate a home after two attempts must reevaluate their search strategy. Some must modify their own behavior, but others may have to accept that they do not qualify for a high enough loan amount. They may use their voucher to rent housing instead.

### **PORTABILITY**

Families in the Homeownership Voucher Program may use portability to purchase a home in another PHA locality only if the new or receiving PHA locality has a tenant-based Homeownership Voucher Program and is accepting new participants as stated in 24 CFR § 982.636(b). Families with homeownership vouchers do not have the right to exercise portability into a jurisdiction where the PHA does not have a Homeownership Voucher Program, or is not accepting new families into the program. As in the rental voucher program, the policies of the receiving PHA — e.g., with regard to admission to the Homeownership Voucher Program, pre-purchase and post-purchase counseling — apply to families who are permitted to exercise portability with their homeownership assistance. The receiving PHA decides whether it will bill the initial PHA or absorb the family into its own HCV homeownership program using available funding under its own ACC.

### **PHYSICAL CONDITION OF UNITS**

Units assisted under the voucher homeownership program must meet HUD's Housing Quality Standards (*HQS*) as identified in 24 CFR § 982.401 before the homeownership voucher assistance may commence. In fact, two inspections are required for a unit to

be approved for assistance: an HQS inspection, performed by the PHA's inspector, and a professional home inspection conducted by a qualified independent home inspector that is hired by and paid for by the family.

The HQS inspection determines whether the current condition of the unit is decent, safe, and sanitary. No unit can be approved for homeownership assistance unless it passes an initial HQS inspection. The PHA should complete the HQS inspection and advise the homebuyer of the results before the homebuyer spends money for an independent home inspection. In addition, the professional independent home inspector assesses the adequacy and expected life span of major systems, appliances, and other structural components. The PHA or the family may reject a unit on the basis of the independent inspector's report, even if the unit passes HQS. The PHA's Administrative Plan should describe the standards that the PHA will use for qualifying the independent inspector, reviewing of the independent inspector's report and approving (*or disapproving*) the unit.

### PHYSICAL CONDITION OF UNIT

In Chicago, the Chicago Housing Authority's (*CHA's*) Choose to Own (*CTO*) stipulates that homebuyer cannot purchase a home if the cost of needed repairs exceeds \$1,500. *CTO's* families are assigned a pro-bono attorney connected with partner Community Economic Development Law Project, who assists in a variety of ways, including negotiating repairs from the seller to allow families to buy homes. All repairs must be performed and paid for by the seller or another entity since the potential HCV homeowner cannot pay for the needed repairs to pass HQS.

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## HOME PURCHASE

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### CONTRACT (OR AGREEMENT) OF SALE

**24 CFR § 982.631(c) requires each participating family to submit a copy of the contract of sale to the PHA. The agreement must include:**

- The price and other terms of purchase.
- Provision for pre-purchase inspection by an independent home inspector chosen by the purchaser.
- Provision that the purchaser is not obligated to purchase the unit unless the inspection is satisfactory to the purchaser.
- Provision that the purchaser is not obligated to pay for any necessary repairs.
- Seller certification that the seller has not been debarred, suspended, or subject to a LDP under 24 CFR § 24.

A number of PHAs have found it helpful to develop their own addendum to the contract of sale to be used by the family to negotiate the necessary HUD requirements into the sales agreement. PHAs then distribute the addendum during the counseling period when going over the requirements of the program. These requirements are not generally covered by a standard contract of sale.

In addition, some PHAs include additional language, such as provisions that explicitly allow the PHA to inspect the unit, allow the family to terminate the agreement without penalty if the PHA disapproves the unit, and require that any repairs that the owner agrees to bring the unit into compliance with HQS will be completed prior to settlement. The



potential drawback of such an approach is that sellers may balk at agreeing to terms and conditions above and beyond those required in a standard contract of sale.

## FINANCING

In the Homeownership Voucher Program, the primary responsibility for securing the necessary financing rests with the family. The PHA is permitted and encouraged to partner and educate lenders in the community in order to assist families in obtaining financing. However, a PHA may not require a family to use a particular lender or lenders. The family

makes the selection, so long as the lender meets the qualifying criteria and conditions as set forth by the PHA.

When the participant has identified a lender and a loan product, the PHA may review the proposed financing to determine whether the lender and the terms of the loan meet PHA requirements.

**The PHA may adopt requirements concerning:**

- Qualifications of lenders (*for example, lenders shall be Fannie Mae approved, qualifying lenders must be regulated by a State or other governmental entity; a blanket prohibition on seller financing, or case-by-case approval of seller financing.*)

**Terms of financing, including:**

- Prohibitions on certain types of financing — such as balloon payment mortgages, interest only mortgages or adjustable rate mortgages
- Establishment of a minimum down payment or minimum homeowner contribution required from the participant’s personal sources
- Prohibitions against unduly restrictive provisions in the financing agreement (*such as penalties for pre-payment of the mortgage*)
- Restrictions on other debt secured by home (*such as second mortgages, home equity loans, etc.*)

The PHA may implement affordability protections into their program to limit how much a family may contribute toward monthly homeownership expenses. For example, the rental rule for the maximum participant contribution of 40 percent of Adjusted Income at the time of the initial contract does not apply to the HCV home-ownership option program. However, the PHA, as a local option to reduce the risk of default by the family, can establish a local policy on affordability and include the policy in the Administrative Plan. The PHA would then review the financing package to determine whether the mort-



gage is affordable to the family. In making this determination, the PHA may consider other family expenses, including food and clothing expenses, childcare, un-reimbursed medical expenses, homeownership expenses, and non-housing debt.

## RURAL PARTNERS TO MAKE THE PROGRAM WORK

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The Fayette County Housing Authority in Fayette County, Pennsylvania, is using partner's resources, such as, the Section 502 Rural Housing Loan Program and networking with Community Development Block Grant (*CDBG*) redevelopment agencies, the Fayette County Community Action Agency, a Community Development Corporation (*CDC*), and local lenders to provide homeownership opportunities in their slow growth, moderately priced affordable housing area in this rural Appalachian region of the United States.

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The policies and standards that the PHA will use in reviewing proposed financing packages must be described in the PHA's Administrative Plan and applied consistently as indicated in 24 CFR § 982.632(e).

## PARTNERS IN HIGH COST AREAS

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In Suffolk County, New York, the Community Development Corporation of Long Island found it necessary to partner with several public and private entities because of the high costs of housing in the area. Partnerships were established with the Fannie Mae Foundation, Citibank, Chase, NeighborWorks America, Roslyn Savings Foundation, Allstate, Liberty Mutual, Nationwide, Prudential, Travelers, and State Farm along with other entities to defray the costs associated with counseling, downpayment assistance, closing costs, and to provide other funds necessary to make the homeownership program work within their community.

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## ONGOING PROGRAM ACTIVITIES

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### HOUSING ASSISTANCE PAYMENTS

In the Homeownership Voucher Program, the housing assistance payment (*HAP*) is equal to the lower of the payment standard or the actual monthly homeownership expense for the unit minus the total tenant payment (*TTP*) per 24 CFR § 982.635. Monthly HAP payments can be paid either to the lender or directly to the family. If the assistance payment exceeds the amount due to the lender, the PHA must pay the excess directly to the family.

#### Homeownership expenses are:

- PITI (*principal and interest on initial mortgage debt incurred to purchase the home, taxes, and insurance for the property*)
- Mortgage insurance premiums, if required
- PHA utility allowances for the unit
- PHA-established allowance for routine home maintenance
- PHA-established allowance for major repairs of the unit and replacement of major systems and appliances
- Principal and interest on mortgage debt incurred to finance costs for major repairs, replacements or improvements for the home
- Land lease payments (*where a family does not own fee title to the real property on which the home is located, and provided the unit meets the requirements for such a purchase – home is on a permanent foundation and the family has the right to occupy the home site for at least forty years*)
- Condominium fees or homeownership association fees.

### ACCESSIBILITY MODIFICATIONS INCLUDED AS A HOMEOWNERSHIP EXPENSE

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If the family includes a member with disabilities, principal and interest on the debt incurred to finance the costs of making the home accessible for the family member may be included in the family's eligible homeownership expenses. The PHA must determine whether the inclusion of the expense is needed as a reasonable accommodation.

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### ANNUAL REEXAMINATIONS

Families who participate in the voucher homeownership program are required to complete annual and interim reexaminations in accordance with the PHA's voucher program policies identified under 24 CFR § 982.516.

Unlike the rental assistance program, the payment standard that is used at the annual reexaminations is the higher of the current payment standard that would otherwise apply to the family or the payment standard amount used for the family at the commencement of its homeownership assistance. This means that there is a floor payment standard, once the family has closed on a home under the program.

The key factor in determining the floor payment standard is to focus on the payment standard that was applicable at the time the initial homeownership assistance payment was calculated on the unit in question. The PHA establishes this amount at the commencement of the assistance by using the lower of the payment standard of the family unit size or the payment standard for the size of the home. The payment standard amount may go up for the family in the particular unit, but the payment standard will never drop below the initial amount that was applicable to the family when the first homeownership commenced.

For example, a family qualifies for a three-bedroom unit and buys a three-bedroom unit. The payment standard amount at the commencement for a three-bedroom unit is \$700. During the course of the year, the PHA reduced the payment standard to \$650. At the annual recertification, the PHA would continue to apply \$700 as the payment standard since the floor payment standard amount could be no less than the initial amount of \$700. By the next annual recertification the PHA has raised the payment standard to \$680. The PHA will continue to apply the floor payment standard of \$700. At the next annual recertification, the PHA has raised the payment standard to \$730. The PHA will now use the \$730 as the amount to be used, since it is higher than the floor amount of the initial payment standard.

Let's turn to another example of the application of the payment standard at the initial period, and the amount at an annual recertification. The two-bedroom payment standard at the time of commencement is \$600. The three-bedroom payment standard at the time of commencement is \$700. One year later the one-bedroom payment standard is \$520, two-bedroom is \$630, and three-bedroom is \$740. The family qualifies for a two-bedroom, but purchases a three-bedroom. The applicable payment standard at the initial commencement is \$600 using the two-bedroom payment standard that the family size qualifies under.

One year later, the family size increases and the family now qualifies for a three-bedroom voucher. The PHA uses the greater of the payment standard at commencement, or the applicable payment standard at the recent regular recertification. In this case, the family qualifies for a three-bedroom standard and the rate is \$740.

In the next example, the family qualifies for a three-bedroom unit, but purchases a two-bedroom unit. The applicable payment standard at the time of purchase is \$600. The PHA uses lesser of the unit size, or the family eligibility size at the time of the initial assistance – in this case, the unit size is the lesser of the two. One year later the family size decreases and now the family is only eligible for a one-bedroom voucher. The PHA uses the greater of the payment standard at the time of commencement of homeownership assistance. In this case, it would be \$600.

This basic provision is to give the lenders some assurances that the level of subsidy will not be reduced unless there is a corresponding increase in the family's ability to pay.

### TERM LIMITS ON ASSISTANCE

Unlike the rental assistance program, which provides assistance to families for as long as they remain eligible, the homeownership voucher has term limits on the family's receipt of homeownership assistance. These limits are located at 24 CFR § 982.634. For families who finance their purchase with a mortgage with a 20-year term or longer, the maximum term of the homeownership assistance is 15 years. For families with shorter mortgage terms, the maximum is 10 years.

The term limits do not apply to elderly or disabled families (*head, spouse or sole member is elderly or disabled*) at the time of purchase. As indicated in 24 CFR § 982.637(c)(2), in the case of an elderly family, the exception on term limits only applies if the family qualifies as an elderly family at the start of homeownership assistance. In the case of a disabled family, the exception on term limits apply if at any time during receipt of homeownership assistance, the family qualifies as a disabled family. Pursuant to 24 CFR § 982.637(c)(3), if during the course of homeownership, the family ceases to qualify as a disabled or elderly family, the maximum term of assistance becomes applicable from the date the homeownership assistance commenced. However, such a family must be provided at least 6 months of homeownership assistance after the maximum term becomes applicable (*provided the family is otherwise eligible to receive homeownership assistance*).

### TERM LIMITS ON ASSISTANCE – ELDERLY AND DISABLED FAMILIES

**As noted above, term limits on assistance do not apply to elderly and disabled families (*head, spouse, or sole member is elderly or disabled*). This exception applies to:**

- Elderly families who qualify as elderly families when homeownership assistance begins; and
- Disabled families who qualify at any time during receipt of homeownership assistance.

If a family ceases to qualify as an elderly or disabled family, the maximum term is effective from the date that homeownership assistance began. However, the PHA must give the family at least 6 months' notice regarding their change in status before terminating their homeownership assistance (*provided they are otherwise eligible*).

If a family receiving homeownership assistance sells one unit and purchases another unit, the term limit applies to the total term during which the family receives assistance. The applicable limit is based on the term of the mortgage used to purchase the first unit.

**DETERMINING WHETHER HOMEOWNERSHIP ASSISTANCE  
IS REQUIRED AS A REASONABLE ACCOMMODATION**

.....  
In the case where homeownership assistance is requested, the family demonstrates that the housing available to lease under the Housing Choice Voucher Program is not readily accessible to or usable by the family and the nature of the disability of the disabled family member makes such an accommodation necessary, the PHA will determine if an accommodation is necessary and reasonable on a case-by-case basis, based on the specific circumstances and individual needs of the person with the disability. The regulations at 24 CFR § 982.625(d) provide:

.....  
“ ... It is the sole responsibility of the PHA to determine whether it is reasonable to implement a homeownership program as a reasonable accommodation. The PHA will determine what is reasonable based on the specific circumstances and individual needs of the person with a disability. The PHA may determine that it is not reasonable to offer homeownership assistance as a reasonable accommodation in cases where the PHA has otherwise opted not to implement a homeownership program.”  
.....

**The following are some examples of circumstances in which a PHA might determine that homeownership is necessary as a reasonable accommodation:**

- A voucher participant who receives kidney dialysis three times a week has no car and transportation to and from the hospital where he receives treatment is unreliable and expensive. There are no suitable rental properties within walking distance of the hospital, but there are condominium units across the street that would be affordable to the participant with homeownership assistance.
- A voucher participant with Tourette's syndrome needs to find a detached single-family unit where her behavior will not disturb neighbors. In the PHA's jurisdiction, there are typically few, if any, single-family rentals, so the participant would like to use her voucher assistance to purchase a home.
- A voucher participant with multiple chemical sensitivities has severe reactions to substances commonly found in paint, floor coverings, cabinets, and countertops. The participant requests a homeownership voucher so that he can find a housing unit that does not make him sick.

In all of these examples, the PHA's decision would ultimately rest on its judgment of the validity of the request and the administrative burden involved in complying with the participant's request.

It is also noted that the family in the above cases would have to meet the eligibility requirements for the Homeownership Voucher Program, including attending and satisfactorily completing the pre-assistance homeownership counseling program.

## SUMMARY – RENTAL VS. HOMEOWNERSHIP ASSISTANCE

The following is a summary of the major provisions of the voucher homeownership program, showing how they compare and contrast with provisions of the rental voucher program.

<b>EXHIBIT 1.1</b>	<b>Comparison between Rental Voucher Assistance &amp; Homeownership Voucher Assistance</b>	
	<b>RENTAL</b>	<b>HOMEOWNERSHIP</b>
<b>Optional for PHA w/ Tenant-Based Program</b>	NO	Yes
<b>Program Funding</b>	Funding provided to support a variety of tenant-based housing types	No special funding or set-aside from HUD, PHA uses the current acc funds and allocation
<b>Applicant Selection</b>	Voucher waiting list, using pha's selection criteria	Voucher waiting list, using PHA's selection criteria, or current rental voucher participants
<b>Eligibility</b>	Income, other PHA screening criteria	Income, other PHA screening criteria plus • Mandatory hud requirements on minimum income, employment, etc. • Optional PHA requirements
<b>Initial Payment Standard</b>	90-110% of fmr, or higher or lower with hud approval	Same amount and criteria as rental payment standard at the commencement
<b>Subsidy Calculation</b>	HAP = lower of payment standard or gross rent minus ttp, annually adjusted to qualification of family or unit size	HAP = lower of payment standard or monthly homeownership expense minus ttp, annual adjusted to qualification of family or unit size, but at annual recertification, will not fall below the payment standard amount at the commencement of the homeownership assistance
<b>Participant Training</b>	Applicant briefing	Housing counseling
<b>Voucher Issuance</b>	Yes	NO. PHA may provide letter of good-standing or other indication family is eligible to use voucher assistance for homeownership
<b>Housing Search</b>	Family responsible for finding suitable unit	Family responsible for finding suitable unit and for securing financing
<b>Portability</b>	To any jurisdiction with tenant-based rental voucher program	To any jurisdiction with tenant-based homeownership program that is accepting new applicants
<b>Time Limits on Housing Search</b>	At least 60 days, or longer at PHA discretion	Time limits on finding and purchasing units set by PHA
<b>Participant Notice to PHA</b>	Request for Tenancy Approval	Proposed Contract of Sale
<b>Physical Inspection</b>	Initial HQS Inspection and Annual hqs required	Initial hqs inspection plus professional independent housing inspection required, Annual hqs is PHA option
<b>PHA Review of Cost</b>	Review of rent reasonableness always required	Review of rate and terms of financing may be required by the PHA
<b>40% Affordability Cap</b>	Applicable	Not applicable

Exhibit 1.1	<i>(continued...)</i> Comparison between Rental Voucher Assistance & Homeownership Voucher Assistance	
	RENTAL	HOMEOWNERSHIP
Failure to Find Housing – Current Participant	Rental assistance continues in current unit	Rental assistance continues in current unit
Failure to Find Housing – New Admission	Applicant re-applies when waiting list is open or is placed at the end of the waiting list	Applicant re-applies when waiting list is open. PHA policy may also permit offer of rental voucher or return to top of waiting list
Up-front Costs	HAP funds may not be used for security deposit	HAP funds may not be used for down payment and closing costs. <i>(PHAs will be permitted to implement a separate one-time down payment assistance grant program in the future.)</i>
HAP Contract	Between owner and PHA	No HAP Contract – Family signs Statement of Homeowner Obligations, PHA has no contract with the lender
Effective Date of Assistance	HAP begins on 1st day of HAP Contract ( <i>1st day of lease</i> )	HAP begins when family's first mortgage payment is due ( <i>assuming family has taken possession of the unit</i> )
Monthly HAP Payments	To owner	To family or to lender
Annual Reexamination of Family Income	Yes	Yes
Annual HQS Inspection	Required	Not required by HUD, but PHA may require
Time Limits on Assistance	None	10-15 years, depending on mortgage term – term limit does not apply to elderly or disabled families
Compliance with Family Obligations	Required as condition for continued assistance	Required as condition for continued assistance; PHA may establish additional post-purchase requirements for families
Eligible Housing Types	Apartments, co-ops, condos, single family, manufactured homes, etc.	Buyer can purchase single family, a condominium, manufactured homes, 1-side of a duplex, row house. Unit must be on a permanent foundation and owner must have rights to the land for at least 40 years
Recapture of HAP Subsidy	None	HAP assistance may not be recaptured; hud has eliminated this provision from the original regulations. Other funds that are not hap can still contain recapture provisions
Eligible Housing Expense	Rent and utilities, including pad rent and condo fee	Principle, taxes, homeowner's insurance, interest, utilities, maintenance escrow amount, replacement escrow, condo fees, land lease for 40+ years, etc.
Treatment of Home owned in Net Family Assets	Equity value of home included in determining net family assets	Equity value of home excluded from calculation in determining net family assets
Restrictions on Owners/Sellers	Family may not lease from owners who are suspended, debarred, or have LDP by HUD	PHA may have additional criteria for disapproval of owners Family may not purchase from an owners who are suspended, debarred, or have LDP by HUD.

A hand is shown holding a miniature yellow house with a grey roof and shutters, and a set of keys. The house is a two-story structure with a gabled roof and a small dormer window. The keys are gold-colored and attached to a silver ring. The background is a clear blue sky.

**CHAPTER 3**

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## PRELIMINARY PLANNING

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You've attended the HUD conferences, heard the official descriptions of the homeownership program, and your community has shown interest in the program. Maybe you've read or heard about some of the program designs developed under the pilot sites, read the HCV Assessment Program Report or talked to other PHAs about their successes. You've also read the program description in Chapter 1, and frankly, it all looks do-able.

Before you rush to recruit participants for your own homeownership program, we strongly recommend that you review the following suggestion and do the math!

**For the homeownership program to succeed in your locality, four basic elements are needed:**

- Bankable program participants.
- Affordable units.
- Willing lenders.
- Agency and partner capacity to pull it all together.

You can better prepare your agency and participants for success by laying some groundwork before taking the program public. The best place to start is with an assessment of the conditions necessary for successful voucher homeownership in your community and in your housing agency. Formal HUD approval is not required for a PHA to implement a homeownership program, although your PHA must meet certain HUD criteria that are used to demonstrate your capacity to administer a HCV homeownership program.

What if your agency has already committed to making homeownership available to voucher participants in your community? Do the needed math anyway. While you may find that conditions are less than optimal for starting a voucher homeownership program, it will help the PHA understand what additional resources may be needed for you to get ready. Further, you may be able to initiate some activities and gather partners that will give you a leg up when you are ready to start.

### BANKABLE PROGRAM PARTICIPANTS

The first requirement for a successful Homeownership Voucher Program is to have a sufficient number of eligible — and bankable — program participants. The PHA must determine whether there are enough program participants, applicants, and/or prospective applicants who meet their eligibility standards, and who are interested in purchasing a home.

## SUFFICIENT INCOME

The minimum income threshold for non-disabled families in the Homeownership Voucher Program is the equivalent of the income earned by a full-time wage earner working 2,000 hours annually at the Federal minimum wage. As this guidebook goes to press, the Federal minimum wage is \$6.55.

The wage that would be earned by a full-time worker, then, is:

$$\mathbf{\$6.55 \times 2,000 = \$13,100}$$

Here are some steps a PHA should take to identify potential program participants:

- Review your voucher program records to determine how many of your participants have at least \$13,100 in non-welfare income. This gives you a rough estimate of the number of current voucher participants who could potentially qualify for the homeownership option. If your agency has adopted or is considering a higher income threshold, use the higher threshold for your local determinations.
- If your agency collects data on the type and source of income for program applicants, you should review this data to see how many applicant families may also have the potential for homeownership.
- If you have a FSS program, you should examine the incomes and escrows of FSS participants. Families that have been participating in the FSS program for some time may have been working longer, and have higher incomes, than non-FSS families. Further, these families will often be good candidates for the program because they have escrow savings that can be used to assist with the down-payment and/or settlement costs generally required for the purchase of a home.
- Review your public housing residents' profile as a potential source for Homeownership Voucher Program participants. If your PHA is planning to do HOPE VI, demolition/disposition, or voluntary conversion, keep in mind that the Homeownership Voucher Program could provide an extremely attractive option for relocating families who meet the basic eligibility standards.



Other public housing residents may be interested, especially families who are paying flat rent (*who may be waiting for just such an incentive to move on*), and/or families who are participants in public housing FSS or the Family Investment Center. Using the standard

described above, review your public housing rent roll for families who are at or above the minimum required non-welfare income.

Keep in mind that voucher homeownership is a “finders-keepers” program, not an adjunct to your HOPE VI or public housing sales program. While homeownership vouchers can, in some instances, be used to purchase units developed under HOPE VI, the PHA should be sure that families understand that this is one of many possible choices in the selection of units. The PHA must avoid any potential conflict of interest and comply with the Homeownership Voucher Program regulations on PHA owner units. The program regulations require an independent agency to assume many of the PHA administrative functions in cases where units under consideration for purchase by homeownership voucher families are owned or controlled by the PHA.

### CREDIT ISSUES

**Many PHAs who have moved beyond the planning stages of a voucher homeownership program and begun selecting families for participation have found the following conditions:**

- Many otherwise eligible applicant families have unacceptable credit risk scores (*see Chapter 4 for a discussion of how to evaluate a family’s credit history*), and the family will require credit repair before they can qualify for a mortgage.
- Credit repair, and the process of reducing outstanding debts, could take as much as 18-24 months.

With hard work, dedicated counseling, and a commitment to obtaining homeownership, the majority of these families will eventually qualify for a mortgage loan. However, it does suggest that the lead-time for participation by many income-eligible families may be longer than expected, and the number of participants ready to move into homeownership from the initial data list may be lower than first anticipated by the PHA.

### LIMITING HOMEOWNERSHIP ASSISTANCE

PHAs can adopt additional requirements limiting homeownership assistance to “families or purposes” as defined by the PHA. For some PHAs, this represents an opportunity to link the Homeownership Voucher Program to other local initiatives — for example, to provide opportunities for families with special needs who are inadequately served in the rental market. For other PHAs, the authority to limit assistance to certain families provides a mechanism for limiting access to the program to families they determine to be most likely to succeed, reward families for full-time employment or participation and graduation from economic self-sufficiency programs.

For example, a number of PHAs have limited participation in the program – for the time being – to FSS participants, because they believe that these families are more highly motivated, generally are earning higher incomes, and can be more easily assisted through the process because of their closer working relationship with the counselors than other voucher assisted families. Some PHAs have based their decision to limit participation in the Homeownership Voucher Program to FSS families because the participants are able to access FSS escrow funds to meet down payment and closing costs.

Other PHAs have found that they have a broad base of non-FSS participants who are already working. The working participants have the financial capacity for homeownership, even though they have never participated in FSS. These PHAs have opened the program to non-FSS families as well. Some PHAs have given non-FSS families equal access to the Homeownership Voucher Program, but require all eligible families to have sufficient savings available to cover the up-front costs of homeownership. In considering limitations on family eligibility, PHAs should recognize that a number of lending institutions have developed loan products tailored to the needs of low-income homebuyers. The financial products will often be used to determine what families will need for additional resources, down payment, closing cost, and specific local eligibility criteria.

#### APPLICANTS

ADVANTAGES	DISADVANTAGES
Allows for a broader base of potential homeowners.	PHA has no history with the family and family’s performance under the program.
Provides an immediate incentive for applicants to work closely with the PHA.	PHA must provide a method to deliver the briefing to all families and provide an opportunity to use the voucher for homeownership.
Allows for a greater number of closings during each annual period.	Applicant families must complete several other complex steps before PHA can render homeowner assistance.
Provides an opportunity to enter into earlier lease-purchase agreements for potentially upward mobility families.	PHA must dedicate additional resources to manage larger pool, including those that want to participate, but are not currently eligible.
Provides a greater incentive to engage early into the FSS program.	PHA administrative funds are limited and partnerships also have limited capacity.
	Many applicants are not lender ready for the program.

## PARTICIPANTS

ADVANTAGES	DISADVANTAGES
PHA has already developed a working relationship with the family.	Pool of potentially eligible homeownership participants is narrowed.
Family understands the basic elements of the HCV Program.	Current participants may lack an interest in program.
PHA can establish other local participant criteria, including the participant must be in good standing or must be a participant for at least 1 year.	24 CFR § 982.630 requires the Homeownership Voucher Program requires that the family must first receive homeownership counseling, and some families may need a protracted period of credit counseling and/or repair and a longer-than-usual period for the family to find a home and secure a mortgage. The PHA should plan for these activities. <i>(Financial and workload management aspects of the Homeownership Voucher Program will be discussed in Chapter 3.)</i>
PHA and participant can take advantage of other programs administered by the agency, such as FSS, WTW, etc.	
Participants can complete the homeownership counseling process while being assisted in the rental program, thus giving the family a greater ability to save resources for homeownership.	
PHA will currently be utilizing the voucher and the family will transition the current voucher from the rental program to homeownership.	
PHA partners may already be working with the families on other issues, such as credit, savings, etc.	

### APPLICANTS OR PARTICIPANTS

Although program regulations make the homeownership option available to both current voucher program participants and applicants who have reached the top of the waiting list, many PHAs do not open the program to applicants. In part this is attributed to the applicants' lack of a "history" with the PHA and vice-versa, and little is known about incoming families. In large part, however, there are concerns about the present living conditions and eligibility of the applicant.

**The advantages and disadvantages of managing a program with applicants or limiting the program only to participants are as follows:**

#### INTEREST IN HOMEOWNERSHIP

The fact that a family qualifies for homeownership under HUD's eligibility requirements and any additional PHA standards does not necessarily mean that they are ready for, or interested in, homeownership. Homeownership may be the "American Dream" for many families, but for others the prospect of being tied to one place for more than a year or two, or having to assume maintenance repair costs, and additional homeownership responsibilities, is not that attractive. Before you decide to move forward with your Homeownership Voucher Program, you should determine how many potentially eligible families are actually interested in homeownership. Techniques can include polling current participants directly and/or airing your plans for a Homeownership Voucher Program

during the PHA plan process (*required*). Generally, most PHAs have found the majority of qualified voucher families do have a high level of interest in homeownership.



## AFFORDABLE UNITS

For a homeownership program to work in any locality there must be an adequate supply of affordable housing units for sale. A first step in evaluating the feasibility of voucher homeownership in your area is determining the level of housing debt that participant families can carry. In the Housing Choice Voucher Program, the payment standard determines the maximum monthly housing payment that families will be assisted under. One simple method for estimating how much families can pay to purchase a home is to calculate the mortgage amount with a monthly payment equal to the payment standard for the area 1.

The Local Initiatives Support Corporation (*LISC*) has developed single-family housing affordability analysis spreadsheets that allow PHAs to perform a more sophisticated analysis, allowing for the impact of alternative underwriting standards on the amounts families can borrow. These are available from the LISC Center for Homeownership, at [www.liscnet.org](http://www.liscnet.org).

The following calculation has been used by PHAs to get a rough estimate of the maximum amount families in their locality will be able to borrow when homeownership expenses equal the payment standard. Depending on the underwriting model used by the lender, treatment of the HAP, interest rates, and mortgage terms, the actual loan amounts may vary considerably. (*The financial models are described later in Chapter 6.*)

Affordable 3-Bedroom Sales Prices Proposed FY 2003 FMRs -30-Year Mortgage at 6.00%					
CITY	3 BEDROOM FMR	INSURANCE & TAXES	MORTGAGE INS.	P&I	LOAN AMOUNT
Albuquerque	\$925	\$149	\$53	\$572	\$95451
Atlanta	\$1236	\$192	\$76	\$818	\$136396
Baltimore	\$1117	\$176	\$67	\$724	\$120729
Boston	\$1680	\$253	\$109	\$1168	\$194852
Buffalo	\$777	\$129	\$42	\$455	\$75966
Chicago	\$1160	\$182	\$71	\$758	\$126391
Cincinnati	\$887	\$144	\$51	\$542	\$90448
Denver	\$1311	\$202	\$82	\$877	\$146271
Des Moines	\$841	\$138	\$47	\$506	\$84392
Detroit	\$964	\$155	\$56	\$603	\$100586
Hartford	\$962	\$155	\$56	\$601	\$100322
Houston	\$1042	\$165	\$62	\$665	\$110855
Indianapolis	\$736	\$124	\$39	\$423	\$70568
Kansas City	\$970	\$156	\$57	\$608	\$101376
Las Vegas	\$1150	\$180	\$70	\$750	\$125074
Little Rock	\$740	\$124	\$40	\$426	\$71095
Los Angeles	\$1167	\$183	\$71	\$763	\$127312
Memphis	\$867	\$141	\$49	\$526	\$87815
Miami	\$1116	\$176	\$67	\$723	\$120598
Minneapolis	\$1233	\$192	\$76	\$815	\$136001
Mobile	\$701	\$119	\$37	\$395	\$65960
Nashville	\$921	\$149	\$53	\$569	\$94925
New Orleans	\$896	\$145	\$51	\$549	\$91633
New York City	\$1289	\$199	\$80	\$860	\$143374
Omaha	\$814	\$134	\$45	\$485	\$80837
Philadelphia	\$1089	\$172	\$65	\$702	\$117043
Phoenix	\$1121	\$176	\$68	\$727	\$121256
Portland	\$1073	\$170	\$64	\$689	\$114936
Richmond	\$1084	\$171	\$65	\$698	\$116385
Salt Lake City	\$1036	\$165	\$61	\$660	\$110065
San Antonio	\$880	\$143	\$50	\$537	\$89527
San Francisco	\$2661	\$388	\$181	\$1943	\$324007
Seattle	\$1249	\$194	\$77	\$828	\$138108
St. Louis	\$853	\$140	\$48	\$515	\$85972
Washington DC	\$1360	\$209	\$85	\$916	\$152722
Wilmington	\$1022	\$163	\$60	\$649	\$108222

### STEP 1. CALCULATE AMOUNT AVAILABLE FOR PRINCIPAL AND INTEREST

- Calculate monthly allowances for homeownership expense, including the cost of:
- Utilities (*from your utility allowance schedule*)
- Property taxes (*for an average property in your community*)
- Home insurance (*typical*)
- Estimated allowances for maintenance and major repairs
- Do not include amounts for mortgage principal and interest (*P&I*). Subtract the total of the above from the PHA's payment standard. The result is the amount available for the payment of principal and interest.

### STEP 2. DETERMINE RANGE OF AVAILABLE MORTGAGE INTEREST RATES

- Review your local lender practices, newspaper, and/or the Internet to find out what mortgage rates are currently available in your community.

### STEP 3. CALCULATE AMOUNT OF MORTGAGE DEBT THAT STEP 1 PAYMENT WILL SUPPORT

- Locate a good mortgage loan calculator on the Internet that lets you enter the monthly payment and calculate the amount of the loan.

The following exhibit uses this method to estimate the amount that program families in a number of cities can borrow when homeownership expenses equal the payment standard. You should adjust to your local conditions.

The amounts shown are very rough cost estimates:

- Insurance \$600/Year Taxes \$1.25% of Value Utilities \$150/Month Mortgage Insurance 0.67% of Loan
- Exhibit 2.1 Affordable 3-Bedroom Sales Prices Proposed FY 2003 FMRs -30-Year Mortgage @ 6.00%

By changing the proposed term of the loan, and/or the interest rates, the amount that can be borrowed will increase or decrease. The following table shows the effects of increasing or decreasing the interest rate, and/or changing the term of the loan.

Exhibit 2.2		Effect of Changes in Interest Rate, Term Kansas City, MO P&I \$608		
RATE	15 YRS	20 YRS	30 YRS	
5.50%	79484.00	91715.00	105800.00	
6.00%	77346.00	88700.00	101376.00	
6.50%	75285.00	85819.00	97214.00	

**The actual amount that families can afford to spend will also be affected by:**

- Lender's treatment of HAPs in calculating allowable debt (*more on this in Chapter 6*).
- Availability of family resources for down payment, which lowers the amount to be borrowed.
- Availability of other resources to pay "points," which lowers the interest rate charged over the term of the loan.
- Availability of other resources to reduce the initial cost of the purchase, down payment assistance, deferred loan programs, cash grants, etc.
- The family's willingness to take on additional debt.

Once you have some idea how much families in your program will be able to borrow, you can determine whether there are units available in that price range. Review the real estate advertisements in your local newspaper, check out the Internet, and/or speak with local real estate agents about the housing available in your locality in the price range you have identified. If there is HQS compliant quality housing available within the price range, you already have the makings of a great program. If, on the other hand, the cost of a typical "starter" home in your area is well beyond what the payment standards can support for your area, do not despair.

**You will have to work a little harder to identify other available resources to either:**

- Decrease housing costs for program participants (*i.e., by working in partnership with local agencies or other nonprofit developers who are able to write down the cost of the units or provide assistance with other homeownership expenses*).
- Increase the amount that participants can pay (*i.e., with homeownership grants, down payment assistance programs, soft second mortgages, and other outside sources of housing funds*).

### INCREASING AFFORDABILITY WITH A LAND TRUST



The Burlington Community Land Trust (*BCLT*) in Vermont has been a critical partner in increasing the number of affordable homes available to Burlington Housing Authority (*BHA*) homeownership participants. *BCLT*, the first municipally-funded and now the largest community land trust in the Nation, acquires land and properties for sale as rental, homeowner, and co-op housing. To maintain housing affordability, when the land trust sells a property in its portfolio, it grants the purchaser long-term lease rights to the land. This lowers the cost of purchase, although it also slows the growth in equity. Since *BCLT* had to discontinue its \$25,000 down payment program in 2003, the majority of homes sold to *BHA* homeowners have been newly

acquired properties. Low-income homeowners tend not to sell because mainstream market prices are so high and it takes longer to build equity in a BCLT home. BCLT also retains first right of re-purchase to extend affordability over generations of homeowners.

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## **WILLING LENDERS**

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In the course of planning a Homeownership Voucher Program, the PHA should speak to as many lenders in the community as possible. Your goals will be to obtain input from lenders on adapting your program to the standards of your community, and to identify and recruit lenders who will be willing to work with families receiving home-ownership voucher assistance.

PHAs should also take the time to consult with your local homeownership counseling agencies. Often they will identify the lenders in your area that are willing to work with low-income families and special programs. Their experience with local lenders can save the PHA a lot of missteps in the early days of planning a homeownership program.

### **PERSISTENCE FINDS WILLING LENDERS**

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Although Housing Authority of the City of New Orleans' (*HANO's*) homeownership program began in May 2001, the Homeownership Department worked hard for a year to convince one of the many banks or mortgage lenders in New Orleans to partner with the program. The financial institutions' primary concern was accepting dual payments. HANO conducted many meetings and brought Fannie Mae into the process. Eventually, in May 2002, Dryads Bank joined the homeownership program and, a year later, building on Dryads' successful experience, Fidelity Homestead Lenders joined the program.

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### **FHA, FANNIE MAE AND FREDDIE MAC LENDERS**

Early on in the program, one of the largest obstacles to program families securing mortgage financing was the absence of underwriting standards — ground rules for determining the amount those families can borrow in a way that protects the interests of insurers and subsequent investors. Prospective lenders were uncertain how to underwrite loans supported in part by HAP assistance, and concerned that such loans will not be salable in the secondary mortgage markets. The secondary market now understands the program, and has been an ardent supporter of the program. The Federal Housing Administration (*FHA*) (*an office within HUD that insures mortgage loans*) and the Federal National Mortgage Association (*Fannie Mae*) and the Federal Home Loan Mortgage Corporation (*Freddie Mac*) (*Government-Sponsored Enterprises (GSEs)*) have adopted underwriting standards for mortgage loans originated by local lenders that will supply loans to families receiving homeownership voucher assistance. (*These are shown in Appendix A.*) A

good way to start searching for local cooperative lenders is to contact mortgage lenders in your community who originate FHA-insured loans, and/or use Fannie Mae-backed or Freddie Mac-backed loans. The FHA is a government mortgage insurance company.

Fannie Mae regional and Community Business Centers are also a good place to start. Fannie Mae does not make mortgage loans directly to the participating family, but instead buys mortgage loans on the secondary market. Fannie Mae does offer a choice of flexible mortgage options for low- and moderate-income borrowers of one-to four-family homes through local lenders. Contacts in Fannie Mae's regional and Community Business Centers are anxious to work with PHAs to help them identify and develop partnerships with local lenders. Find the office nearest to you at: **[www.fanniemae.com](http://www.fanniemae.com)**

The underwriting process and procedures for the primary and secondary housing financial market will determine how much the family can borrow. FHA has revised its underwriting criteria in the recently released mortgage letter 2005-32. FHA has monitored loan performance and examined alternative underwriting methodologies, and as a result, implemented the more flexible guidelines described below.

Mortgage lenders may now treat the monthly homeownership assistance payment as an “offset” to the monthly mortgage payment, i.e., reduce the payment by the amount of the homeownership assistance payment before dividing by the monthly income to determine the payment-to-income and debt-to-income ratios. More on the specific mortgage models will be covered in Chapter 6.

However, in order to use this procedure for qualifying the borrower, the homeownership assistance payment funds must not pass through the hands of the homebuyer, i.e., the homeownership assistance payment must either be paid directly to the servicing lender or placed into an account that only the servicing lender may access. If the homeownership assistance payment is made directly to the homeowner, that amount may only be considered as income in qualifying the borrower, in accordance with the instructions in mortgage letter 2001-20 which remain intact for qualifying borrowers whose homeownership assistance payment is not paid to the servicing lender. FHA believes these new underwriting guidelines will increase homeownership opportunities for those homebuyers who receive Section 8 monthly homeownership assistance payments while not increasing the risk of borrower defaults on the mortgage. Mortgage lenders are reminded to identify all HCV Homeownership Section 8 subsidized mortgage loans by entering “88” as the program identification code in the FHA Connection or functional equivalent. Specific questions by the lenders regarding the new position can be made to the local FHA Homeownership Center.

## STATE AND LOCAL HOUSING FINANCE AGENCIES



Several PHAs have negotiated or are in the process of negotiating financing agreements with their state Housing Finance Agencies (*HFAs*) – agencies already committed to meeting the needs of low- and moderate-income homebuyers. The Web site for the National Council of State Housing Agencies (*NCSHA*) has a directory of HFA member agencies in each state.

The address is: [www.ncsha.org](http://www.ncsha.org)

## ASSISTING FAMILIES WITH DISABILITIES

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The Colorado Department of Human Services Supportive Housing and Homeless Programs (*SHHP*), which provides tenant-based assistance to Colorado families with disabilities, was one of the first PHAs to complete sales under the homeownership voucher pilot program. Families were required to use lenders who were in turn working with the Colorado Housing and Finance Authority (*CHFA*), *SHHP*'s partner in the homeownership program. Under *CHFA*'s Home Access program for disabled homebuyers, families were able to secure first mortgage loans at a low (3 percent) interest rate, and also secure deferred second mortgages to help with down payment and closing costs.

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The National Association of Local Housing Finance Agencies (*NALHFA*) has a Web site, with a listing of city, county, nonprofit organizations, and private firms involved in financing affordable housing. Look for local members at: [www.nalhfa.org](http://www.nalhfa.org)

## STATE HOUSING FINANCE AGENCY AS A SECONDARY MARKET

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With Idaho Housing and Finance Association's (IHFA's) 40 vouchers disbursed through out the State of Idaho, local banks and mortgage companies were reluctant to market this small program. As the state housing finance agency, IHFA's Rental Assistance Department was able to work in partnership with their Residential Lending Department to develop a loan program that the lending community would adopt and market for the benefit of the HCV homebuyers. IHFA provided the lending community a secondary market to sell their loans to that removed risk from the loans, decreasing the difficulty of finding lenders for this small and more complicated loan program.

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### SAVINGS AND LOANS, AND CREDIT UNIONS

A number of PHAs have found "portfolio" lenders, who hold their own mortgage loans as an investment, to be more receptive to the program than lenders who anticipate problems reselling assisted mortgages on the secondary market. Review your local telephone directory for savings banks, and savings and loan associations (*S&Ls*) that may be interested in the program. Credit unions have also provided loans to families, although their lending is usually limited to credit union members.

### WORKING WITH CREDIT UNIONS

Although the Burlington Housing Authority (*BHA*) has worked with area banks, it says that the credit unions, because of their local commitment and knowledge, have been able to be more responsive to the program's and its participants' needs. The credit unions agreed to accept double monthly payments on BHA loans.

### COMMERCIAL BANKS

Finally, do not disregard the local bank the PHA uses or other commercial banks as a potential resource for program families. Several PHAs have helped families to secure mortgage loans from large commercial banks. Some of these institutions are ready and willing to work with voucher homebuyers.

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## COMMERCIAL BANKS

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The Community Development Corporation of Long Island (*CDCLI*) convinced four area banks to agree to process loan applications from Homeownership Voucher Program participants, and to contribute \$25,000 each to form a “loan-to-loss” reserve to reduce their losses in the event of a participant default. Each bank offers slightly different financial products and services to program participants. The participants choose the bank they prefer.

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All banks (*as well as savings and loans and credit unions*) are federally regulated institutions, and subject to the laws governing equal opportunity lending and the requirements of the Community Reinvestment Act (*CRA*). The Homeownership Voucher Program can be promoted to lenders as a vehicle for meeting their *CRA* goals. This may help the lender fulfill *CRA* requirements while the assisted family may also lower the risks generally associated with loans to unassisted low-income families. It helps to pre-educate yourself on the requirements of the *CRA* before you meet with prospective lenders. The list below may be of some assistance. Don't forget to also discuss the program with the bank or S&L where PHA funds are deposited.

### THE COMMUNITY REINVESTMENT ACT

The Community Reinvestment Act was enacted by Congress in October 1972 to encourage federally insured depository institutions to address the credit needs of their communities, and to prohibit banks from refusing to lend in low- and moderate-income communities – a practice known as redlining. Regulations issued by the Federal Financial Institutions Examination Council define low- and moderate-income areas as census tracts with median family incomes below 80 percent of the median for the metropolitan area.

The *CRA* followed two other Federal laws aimed at increasing credit flow in low- and moderate- income communities:

The Equal Credit Opportunity Act of 1974, which prohibits discrimination in lending.

- The Home Mortgage Disclosure Act of 1975, which requires institutions with assets over \$10 million to disclose annually key information about mortgage applicants and borrowers by census tract.

**The key requirements of the *CRA* are:**

- Federal banking regulators (*the Federal Reserve, Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency, and the Office of Thrift Supervision*) are required, as part of their periodic examinations, to assess the record of depository institutions in meeting the credit needs of the communities in which they are located. On the basis of the required periodic examinations, one of four

CRA ratings is assigned (*Outstanding, Satisfactory, Needs to Improve, or Substantial Non-Compliance*).

- Depository institutions must post in their offices a prescribed CRA notice and maintain a public file that includes information about the institution's CRA performance.
- The public may submit written comments on the institution's community lending record, which must be included in the institution's public file and considered by the regulator in evaluating CRA performance.

**Federal banking regulators are required to take CRA performance into account in determining whether to approve an institution's application for:**

- A Federal bank, thrift charter, or FDIC deposits insurance.
- Relocating a main office, or establishing or relocating a branch.
- Merging, consolidating, or acquiring the assets (*or assuming the liabilities*) of another regulated depository institution.

### **OUTREACH MATERIALS**

Some PHAs have developed professional-looking outreach materials that explain the operation of the program and provide lenders with contact(s) at the PHA who will provide additional information on the program. This can't hurt, especially if the information is given to families to pass along to prospective lenders unfamiliar with the program. However, a color glossy brochure will not generally replace the one-on-one contact and communication necessary to get the Homeownership Voucher Program off the ground.

### **KEEPING LOCAL LENDERS**

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To connect with lenders, the Chicago Housing Authority's Choose to Own (CTO) program, run by the CHAC, Inc., sent letters to representatives of community service-oriented banks in Chicago and held informational meetings on the homeownership program with those who responded. CHAC set up formal partnerships with the Federal Home Loan Bank, Fannie Mae, and Freddie Mac and has entered into agreements with private lending institutions Citibank, Harris Trust and Savings Bank, Marquette Bank, and Countrywide Home Loans.

These relationships thrive because the banks have committed specific loan officers to work with CTO clients. The loan officers, having devoted many hours to understanding the HCV and its homeownership option, are skilled at assisting CTO clients in successfully becoming homeowners. All but 1 in 114 CTO homeowners have taken advantage of partner lenders who are familiar with the voucher homeownership option and have developed attractive products for CTO families.

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## AGENCY CAPACITY

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**Homeownership Voucher Program regulations require PHAs to demonstrate the capacity to operate a successful homeownership program in one of three ways:**

- By establishing a minimum down payment requirement of at least three percent of the purchase price, and a requirement that at least one percent of the purchase price comes from the family’s own resources.
- By requiring that financing for the purchase of a home be provided, insured, or guaranteed by the State or Federal government, comply with secondary mortgage market underwriting requirements, or comply with generally accepted private
- By demonstrating in its Annual Plan that it has – or will acquire – the capacity to successfully operate a Homeownership Voucher Program.

However, beyond meeting one of these requirements, a PHA that proposes to operate a successful homeownership program must have – or acquire – the management capacity to do the required work with the program. PHAs who are considering the homeownership option should demonstrate some capacity to perform functions directly related to providing voucher assistance – determining applicant and/or participant eligibility, conducting HQS inspections, reviewing affordability, making HAP payments, and enforcing family obligations. Additional skills and capacities will also be needed to operate a Homeownership Voucher Program.

### DEVELOPING LOCAL PARTNERSHIP CAPACITY

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At the inception of its HCV homeownership program, Colorado Department of Human Services’ Supportive Housing and Homeless Programs (*SHHP*) marketed the homeownership option to its partner service agencies across Colorado. These partner agencies administer SHHP’s vouchers at the local level, and refer prospective candidates to SHHP’s HCV homeownership program. SHHP continues to market the program to potential homebuyers through its residential coordinators at these service agencies.

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Developing a successful homeownership program, for example, requires a certain level of planning, partnership development, capacity building, and the ability to continuously interact with a new array of local agencies and financial institutions. Implementing a homeownership counseling program requires the ability to counsel and educate low-income families in all aspects of locating, financing, purchasing and maintaining a home. The local PHA may have the management capacity inside the agency or must have the ability to identify local agencies qualified and willing to provide such counseling and education to program families. Providing pre-and post-sale support to program families requires a thorough understanding of the physical, financial, and legal aspects of purchasing and owning a home. The counseling will require a lot of one-on-one time. PHAs that expect

to succeed at homeownership must realistically assess their agency capacity to perform these additional functions, and/or be open to seeking outside partnerships to make the program work.

### MANAGING THE HOMEOWNERSHIP WORKLOAD

The homeownership pilots and early program administrators concluded that the startup phase of the voucher homeownership program is labor intensive. This is not unusual for any start-up program, but the PHA should be prepared to spend some time on the program in order to be successful. Tapping outside sources for help with homeownership activities allows the PHA to access the technical expertise and experience of other agencies and organizations in the community.

### WORKING IN RURAL AREAS

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North East Community Action Corporation (*NECAC*), a nonprofit community action, serves the eastern part of the State of Missouri through 12 branch offices. Each office has a homeownership counselor who has been trained to run the day-to-day program and also the housing counseling portion, lecturing and arranging for expert guest speakers. There is also a point person at the main office of *NECAC*.  
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Some PHAs, for example, have little experience with homeownership programs, and would internally need training before they could provide counseling to prospective homeowners. Many communities, on the other hand, have HUD-approved (*and funded*) housing counseling agencies that provide high-quality professional counseling services to prospective voucher and non-voucher homeowners at little or no cost to the families or the PHA. PHAs should evaluate resources available in the community before they expend money, time, and personnel to duplicating other available services.

Some services required by homeownership program participants are not so easy to find. For example, local agencies and organizations may have experience selling or financing units for low- and moderate-income homebuyers, but may not have worked with families with the very low incomes typical of the voucher program. For them, the voucher homeownership program may provide an opportunity to expand their client base, but it may also provide unexpected challenges. These may be areas, in the long run, where a collaborative approach will work better than either the PHA or the outside agency independently performing the program functions.

PHAs should work with local agencies and organizations to identify areas where strategic partnerships can work to the benefit of all parties, and further the goals of the PHA's Homeownership Voucher Program.

Finally, a PHA may ultimately determine that it has the desire, but not the capacity, to administer a homeownership program. If local circumstances are otherwise suitable for the implementation of a homeownership program, the PHA may consider using partnerships or contractual arrangements with experienced nonprofits to assist families using the homeownership option. The PHA may allow any, or all, of the counseling and pre-and post-purchase support activities to be performed by the partner or subcontractor. The PHA could, theoretically, limit its homeownership activities to verifying participant eligibility, making HAP payments, and enforcing family obligations over the term of the homeownership assistance. In any such arrangement, the PHA as HUD’s “contractor” would continue to have the primary responsibility and accountability for oversight on the subcontractor’s overall compliance with program requirements.

### MANAGING IN THE “OUT YEARS”

During the “out-years” (*once the family has purchased the home*), the workload per family can be expected to decrease while the earned administrative fees should increase. The PHA is still responsible for annual recertifications. The PHA is not required, but may have locally optioned and obligated itself for annual HQS inspections and the associated enforcement activities. Some families may sell one home and purchase another, but overall, it is expected that homeownership families will not move nearly as often as families in the rental assistance program. In short, the payoff for the PHA’s initial efforts in planning and early implementation of the program is rewarded in the out-years during which the administrative burden for the homeownership family is lower than a renter family. At the same time, the earned on-going administrative fee for the two programs remains the same.

### ASSIGNMENT OF STAFF

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Colorado’s Supportive Housing and Homeless Programs (*SHHP*) staffs the HCV homeownership program with approximately .75 full-time-equivalent program specialist. Additional HCV program staff assists with data entry and payment processing. SHHP uses a separate accounting division to address billing issues related to the program. SHHP Management Team provides program oversight. Staffing and operating costs are covered through administrative funds and HCV homeownership incentives provided by HUD. In addition, SHHP realizes in-kind resources for the program through partnerships with Colorado Housing Finance Agency, US Department of Agriculture/Rural Development, Colorado Housing Assistance Corporation, lenders, Realtors, service agencies, and other community-based entities.

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## MANAGING PHA PRIORITIES

Even the best jugglers can only keep so many balls in the air at one time. PHAs whose resources are already stretched to the limit may be wary of implementing new initiatives where they are simply unable to devote sufficient attention and resources.

### **These situations may include:**

- PHAs with low or failing Section 8 Management Assessment Program (*SEMAP*) scores.
- PHAs currently processing significant numbers of new vouchers, increasing utilization, increasing issuance in connection with public housing relocation, litigation, or other special initiatives.

A successful homeownership program can be a tremendous asset to a PHA and help meet local needs. A PHA should carefully plan so it is not overly diverting attention and resources needed to meet basic program requirements and/or obligations that may lead to failure on all fronts.

## INTERNAL SUPPORT OF THE AGENCY FOR THE PROGRAM

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Like many housing agencies, City of Atlanta Housing Authority (*AHA*) has one person handling the HVC homeownership program. For AHA this arrangement is successful because that staff person has reliable support from other AHA staff including the AHA administration, the housing counseling and legal departments.  
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## **CHAPTER 4**

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## HOMEOWNERSHIP VOUCHER PROGRAM MANAGEMENT

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Allowing voucher families to exercise the homeownership voucher option will certainly have both immediate and long-term effects on a PHA. The PHAs that have begun homeownership activities have found that the workload levels are hard to predict since these vary based on partnerships, experience of staff, and experience of partnerships, participant motivation, local lending conditions, and the housing market. Most PHAs agree that implementing the homeownership program is initially more labor-intensive than they expected, but the rewards for successful closings have also been greater than expected. In part, the programs are demanding because the planning, partnering and preparation must be done before the first family is ready to begin their housing search. The program is also new to the lending community, and the PHAs have found themselves involved in recruiting lenders to provide a full understanding of the financing aspects of the program.

### **An assessment of the lessons learned from PHAs participating in the NRC pilot program<sup>3</sup> observed that:**

- Voucher homebuyers generally have barriers to homeownership that include affordability with a very low income, significant credit issues, and irregular employment histories. “Almost every Voucher buyer,” noted the report, “is a “custom financing deal.”
- After a PHA has worked with the relatively few families in its voucher program who are mortgage-ready and can be easily assisted into homeownership, the next wave of buyers in the program may be 12 -18 months away from mortgage readiness.

Using Section 8 Vouchers for Homeownership: Early Lessons from Interim Rule Demonstration Sites. Neighborhood Reinvestment Corporation, September 2000.

A PHA considering implementation of a Homeownership Voucher Program needs to structure the program to keep qualified participants in various stages of moving steadily towards homeownership. By doing so, a PHA will help manage the energy and effort that will be required to implement and operate the program. It also provides a method to set reasonable expectations regarding how long it will take before the PHA sees the end result of a closing using HCV funding.

This chapter begins with the steps a PHA must take once it has opened its doors to homeownership. Additional details about these topics are provided in subsequent chapters.

In order to manage the program, a PHA must understand the homeownership terms, language, acronyms, and lingo. Appendix B provides a glossary of terms used in the home purchase process.

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## OUTREACH AND BRIEFING

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PHAs implementing a Homeownership Voucher Program may wish to discuss the Homeownership Voucher Program at voucher holders' briefings for admission to the Housing Choice Voucher Program. Even if the PHA has limited the program to current participants, the briefing is an excellent opportunity to pique the family's interest in the program as an incentive and future option. For some families, the possibility of homeownership may become an additional incentive to actively pursue FSS goals. The potential of homeownership assistance as a motivational tool should not be overlooked at this first formal meeting between the family and the PHA, or at subsequent encounters, such as recertification's, with the family.

If the PHA intends to make the homeownership option available to families from the waiting list, there are a couple of important factors to keep in mind. The Homeownership Voucher Program is a special housing type under the Housing Choice Voucher Program. HUD regulations provide that a PHA may not set aside program funding for special housing types or a specific special housing type. Consequently, a PHA may not provide a selection preference based on a family's willingness to use the housing voucher for homeownership, or bypass a family on the housing voucher waiting list to admit a family into the Housing Choice Voucher Program because of the family's eligibility for and interest in homeownership assistance. The PHA may offer an applicant that has reached the top of its waiting list the opportunity to receive assistance through the homeownership option, but may not require that the family do so as a condition of voucher issuance.

### NEW HOMEOWNERS ENCOURAGE APPLICANTS

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The most powerful part of the Montgomery County Housing Authority (*MCHA*) homeownership briefings—held every 6 months—is a 20-minute video where recent *MCHA* homebuyers talk about their experience going through program and being homeowners. New applicants are encouraged when they recognize former neighbors and hear about the program from their peers.

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For PHAs that require homeownership applicants to be current voucher participants, the annual reexamination may be a good time to inform the family about the homeownership program. If the PHA has developed program flyers to be included in the voucher holder's briefing packet, the same material can be distributed to current participants.

However, before families can make the decision to pursue homeownership, there are a number of questions that should be addressed about homeownership in general, the operation of the Homeownership Voucher Program, and their own ability to purchase and maintain a home. Rather than having prolonged independent one-on-one discussions with individual families about the program, several PHAs have found it effective

to hold periodic group homeownership “briefings” for families who express an interest in homeownership. These meetings can be used to provide in-depth information about the program, and to answer both general and individual questions that arise. The group meetings should probably include no more than 10-15 families to allow families sufficient opportunities to ask questions. If the demand for program information is such that there are more families than available briefing “slots,” the frequency of the meetings should be adjusted accordingly. PHAs implementing the program have found that briefing sessions are more effective in the evening or weekend, since many of the qualified families have adult working members.

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### **SELECTING HOMEOWNERSHIP PROGRAM PARTICIPANTS**

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If the PHA decides to limit the number of families that can participate in the homeownership program at any given time, the PHA simply suspends offering homeownership assistance at such time. This will occur when the number of families receiving homeownership assistance, in combination with the number of currently in the pre-assistance phase of the program, reaches the PHA limit. The PHA can always revise the policy, adjust resources to the program, adjust partnerships, or use other techniques depending on supply and demand. Remember, the program is flexible and many of these conditions are controlled at the local level.

### **NEW HOMEOWNERS MENTOR APPLICANTS**

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From members of its Homeowner’s Club, the Housing Authority of the City of New Orleans (*HANO*) is recruiting for a new mentoring program, where the members will serve as models of what is possible for participants still working their way through the homeowner ship program. While *HANO* staff is passionate about their jobs, participants may still, at times, feel as though they are being lectured to. Hearing the experience of a homeowner who was once in the same situation as they are now in boosts the confidence and resolve of voucher homeownership program participants.

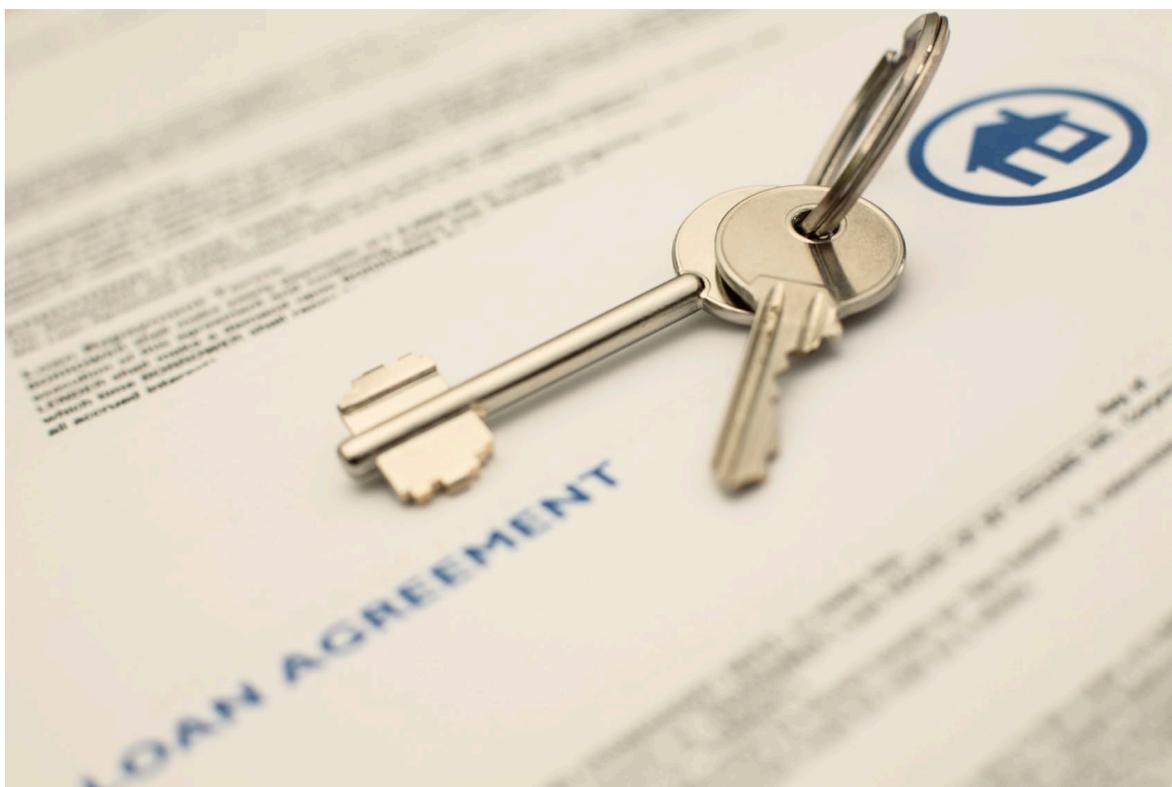
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## CREDIT CLEANSING

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Bankable mortgage credit is an issue that participants will be faced with, sooner or later. If a PHA is not reviewing the credit worthiness of potential participants, it may lead the PHA to believe that there are more families qualified for the program than are in fact ready for closing in the homeownership program. Many PHAs have reported that the largest single barrier to homeownership for voucher families is the families' credit history. The experience from many early sites has been that fewer than half of the families, who are otherwise qualified, can "pass" a mortgage lender's credit check. Further, PHAs have found that the process of credit "cleansing" frequently takes 12 -18 months or more. Rather than creating unrealistic expectations for families and the PHA at the application stage, it may be in everyone's best interests to conduct the credit check early in the evaluation of the family for the program.



Families can be instructed to obtain credit reports themselves (*one for each adult family member purchasing the home*), and provide these to the PHA when completing their homeownership application and information. Families can obtain a free credit report from each of the major credit bureaus each year. However, this free report will not include the current Fair Isaac Credit Organization (*FICO*) score. Alternatively, the family can provide the necessary information, their signature(s), and the fee to the PHA (*using a PHA-designed form similar to an income verification form*) and have the PHA or counseling agency directly obtain the report. Make sure that the request includes the family

member's full name, date of birth, Social Security Number, and present and past addresses. Generally, the fee for a credit report is between \$10 and \$30, and is paid for by the family.

Three of the most widely used credit bureaus are:

**EQUIFAX**

P.O. Box 740241 Atlanta, GA 30374  
(800) 685-1111

**EXPERIAN**

P.O. Box 2002 Allen, TX 75013-2104  
(888) 397-3742

**TRANS UNION**

P.O. Box 1000 Chester, PA 19022  
(800) 888-4213

The completed credit report will provide information about the family's credit accounts, balances, payments, and any bankruptcies, liens, and/or judgments. It will also provide a Fair Isaac Corporation (*FICO*) score based on the family member's past credit history. The score is expressed as a number between 300 and 800 and used as an indicator expressing likelihood of borrower default. PHAs should discuss the local scores being used by mortgage lenders in the area to determine a minimum score for their area. For example, the average FICO score for families in the Syracuse (*NY*) PHA's homeownership program was 550, but the PHA recognized that this lower score level required a harder "sell" on the program to the local lenders. Additional details about credit reports are provided in Chapter 5.

**CREDIT CLEANSING PARTNERS**

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Initially CHAC, which runs the Chicago Housing Authority's Choose to Own program required all participants to enroll in FSS to get ready for homeownership by saving escrow money, and improving educational or vocational skills, but so many participants had significant credit repair concerns that the FSS program became overburdened. CHAC had to seek out an additional service provider. Now, participants with credit concerns work with the affordable housing program of Association of Community Organizations for Reform Now (*ACORN*).  
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The information on the credit report can be used to determine whether the family is ready to be placed on the homeownership list, or whether the family should begin the credit cleansing process. The homeownership process can be restarted with the expectation that the family can re-apply for the program when necessary level of credit is achieved.

**If the PHA has agreed to partner with one or more housing counseling agencies, the PHA and its partners should decide the process it will use in the local area, such as, is it better for either:**

- The partner agency to provide credit counseling to a larger number of families, all of whom may not ultimately enter the Homeownership Voucher Program?
- Interested homeownership families to seek credit counseling from credit counseling agencies and, upon approval of meeting the minimum level, be referred to the counseling partner agency for continued processing into the homeownership program?

### **SCREENING AN OPPORTUNITY FOR HCV INCOME VERIFICATION**

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To use staff energy effectively, Housing Authority of the City of Los Angeles conducts the initial eligibility screening by telephone and only invites applicants to learn more about the program in person if the applicant is eligible for the program. When homeownership program intake staff sees income or employment information that differs from that on the family's most recent recertification, the application into homeownership program application goes on-hold. The family is instructed to contact their case worker first, update info, and then return to the homeownership program to be screened for eligibility. All applicants who are not accepted are sent a letter of interest that specifies steps needed to become eligible.

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### **HOUSING COUNSELING**

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Once a family has been selected for participation in the homeownership program, and verified that they meet all of the Federal and local requirements for participation, they must then complete a PHA-prescribed course of housing counseling pursuant to 24 CFR § 982.630. The substance of this counseling, and the issues surrounding the PHA's decision to conduct the counseling themselves or to out-source to counseling agencies will be discussed in Chapter 5. The focus in this section is to reconcile the diverse needs of the families receiving counseling with the PHA's need fulfill regulatory requirements and to move the process along. All this must be achieved while ensuring that families are fully prepared for the final steps in the homeownership process.

Whether the PHA is conducting the counseling, or someone else is performing the counseling, the PHA has the responsibility for determining what topics will be covered, and what level of effort is expected from the counselor and the family. Generally, the PHA will require attendance at a fixed number of individual or group counseling sessions, over a defined period of time. These expectations should be communicated to the family at the beginning of the counseling process.



Families failing to attend required sessions can be re-scheduled, if the counselor determines that reasons for the absence are valid. However, families who repeatedly fail to attend required housing counseling sessions, or fail to perform required activities, may be sending the message that they are not ready to deal with the demands of homeownership. The family still has additional obligations, such as, finding a home, securing a mortgage, completing the annual recertification's, caring for the property, and assuming the responsibilities of being a homeowner. The PHA's policies regarding families' participation in homeownership counseling, and the conditions under which truant families will be permitted to continue in the homeownership program, should be:

- Included in the PHA's Administrative Plan.
- Communicated clearly to participant families at the beginning of the counseling process.

### **CERTIFICATES OF COMPLETION FOR THE COUNSELING**

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The Community Development Corporation (CDC) of Long Island operates a homeownership program in Suffolk County (NY). Enrollment in the CDC's Homeownership Center is required for participation in the Homeownership Voucher Program. Families who complete the required counseling receive a "Certificate of Completion" which pronounces the family "mortgage ready."

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Standards and benchmarks can be particularly helpful when the counseling is provided by an entity other than the PHA.

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### ISSUING THE “VOUCHER EQUIVALENT”

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PHAs do not issue a “homeownership voucher” per se to families participating in the voucher homeownership program, even if these are admitted directly from the waiting list. Nevertheless, at the point when the family is ready to begin its housing search and before the PHA is ready to review a contract of sale from the family, certain ground rules need to be established.

Pursuant to 24 CFR § 982.629 PHAs may set a time limit for families to locate and purchase a home and/or require periodic reports on a family’s progress towards finding and purchasing a home. If the PHA has admitted families directly from the waiting list into the Homeownership Voucher Program, the PHA will have the same concerns that it has in the rental voucher program. These concerns include balancing the time needed by Family A to conduct a thorough housing search against the time that Family B must wait to receive assistance. Also, as with the rental assistance program, the PHA receives no administrative fee for an applicant family while the housing search is ongoing. Most PHAs find that the search and closing time for homeownership units takes longer than the housing search and lease execution time under the rental program.

If the PHA only selects homeownership program families from its current participant pool, the issues related to search and closing time are less critical. However, the PHA may still wish to control the time and flow of families using the program so that the PHA is not suddenly faced with more families in the process or under contracts of sale than it has available staff and resources. The PHA must ensure that families make a serious, concentrated effort within a certain time period to find a home, rather than possibly procrastinating over a long, undefined term that will only result in a loss of staff, participants, counseling partners, and local lenders.

### ESTIMATING THE HAP

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Like the rental program, the Montgomery County (PA) Housing Authority initially performs the estimated HAP calculation at the time the family qualifies for the homeownership program, based on the family’s TTP and the applicable payment standard. The estimated voucher amount is provided to the participant on a “Preliminary Review” form designed to be shared with a prospective lender. When the family finds a unit, the amount of the actual HAP is re-calculated using the actual costs for the proposed unit or the qualified payment standard, whichever is the lesser of the two. At that time, the PHA issues a “Certificate of Assistance” to the family, which the lender can use to determine the amount of the loan for which the family is qualified  
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In addition to the time limits for the housing search and/or the completion of the financing arrangements, the PHA may require periodic reports on the family's progress. All of this information, guidelines, and standards should be communicated to the family before they begin the housing search.

Many PHAs require the family to contact the lenders and be pre-approved for a loan before commencing their housing search. The benefit of involving the lender this early in the process is that the participant will be provided information on affordability caps and available loan products, and any remaining credit issues can be further discussed and resolved. While the lender calculates the family's mortgage payment based on the local lending criteria, the PHA will still calculate the family's HAP assistance.

**The HAP assistance is:**

- The lower of the payment standard or the monthly homeownership expense for the unit purchased by the family, minus
- The family's TTP.

Since the payment standard and the TTP are known in advance, the PHA can provide the family with an estimated or maximum HAP amount, to be used in presenting the program to sellers and/or lenders. Materials provided to families should explain how the HAP subsidy is calculated, and the impact on subsidy levels based on changes in the family's income, deductions, and composition. This can be a big selling point to lenders, who need to understand that the HAP subsidy will increase if the family's income goes decreases. Additional detail is provided in Chapter 6.

**HOMEOWNERSHIP PROGRAM AND UNDERWRITING  
QUALIFICATIONS DIFFER**

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Verifying that participants have adequate income or clean credit to enter the homeownership program does not always guarantee that they will pass underwriting qualifications or will qualify for a large enough loan to allow them to purchase a home. Some disabled families who have successfully completed the Idaho Housing and Finance Association program's counseling and other requirements, do not qualify for loans. Many of these one or two person families live near high-cost resort areas and may not qualify for a large enough loan to purchase a home. They will either need additional assistance or have to use their vouchers to rent units.  
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**REVIEWING THE CONTRACT OF SALE**

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Program regulations require that participating families — except for co-op members who have acquired membership shares prior to the commencement of homeownership



assistance — enter into a Contract or Agreement of Sale with the seller of the unit to be purchased by the family.

**The contract of sale is required to include:**

- The price and other terms of sale agreed to by the seller and the family (*a.k.a. the buyer*).
- A provision that the buyer will arrange for a pre-purchase inspection of the dwelling unit by an independent inspector.
- A provision that the buyer is not required purchasing the unit unless the inspection is satisfactory to the buyer.
- A provision that the buyer is not obligated to pay for any necessary repairs.
- Certification that the seller has not been debarred, suspended, or subject to a limited denial of participation under 24 CFR.

Although there is no specific regulatory requirement for a provision in the contract of sale allowing the PHA to inspect the unit, and to disapprove the family's purchase if the unit does not pass HQS, some PHAs also require that these conditions be negotiated into the body of the contract or attached as an addendum. This is because the PHA is required to perform an initial HQS inspection on the unit before any assistance can be rendered.

## LOCAL PROVISIONS IN THE CONTRACT OF SALE

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Prior to beginning the housing search, families and real estate agents sit down at the Atlanta Housing Authority's (AHA) to read over and agree to both the HUD contract of sale and AHA's additional contract stipulations.

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### **These contract stipulations include:**

- Generally, homes may not be older than 10 years.
- The contract must be reviewed by AHA's in-house legal department and, if approved, reviewed again following signing.
- After the contract is signed, the AHA voucher homeownership counselor conducts an assessment of the prospective neighborhood. If the counselor suspects that the area suffers from high drug or crime activity, AHA will take photos of this activity and recommend that the family cancel the contract. If the family chooses to continue with the sale, they will not be covered under the program and will not receive the HAP.

Some PHAs provide a sample addendum to the family before they begin their housing search. The addendum includes the required provisions and other local requirements, and the PHA advises the family that the addendum — or the wording of the addendum — needs to be negotiated into the contract. PHAs should stress the importance of including the provisions in the contract. If the required provisions are not included in the original contract, and the seller is not willing to modify the contract, the family runs the risk of having the PHA disapprove the contract, and losing the “earnest money” deposited with the seller's agent. It is critical that the family (*and the family's real estate agent*) understand the importance of not signing a contract of sale unless the necessary conditions are included (*either the seller has accepted and included the language provided to the family by the PHA or the PHA has reviewed and approved the proposed contract of sale before the family signs the contract of sale*).

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## INSPECTING HOMEOWNERSHIP UNITS

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The Homeownership Voucher Program requires two inspections of properties: an initial HQS inspection conducted by the PHA; and an independent professional home inspection conducted by an independent inspector selected by the homebuyer. The HQS inspection focuses on the current condition of the unit (*i.e., is the unit's present condition decent, safe, and sanitary and therefore eligible for voucher assistance*) while the independent inspection goes beyond the as-is condition to review the longer term conditions by assessing the adequacy and remaining life span of major systems, appliances, and other structures. In Chapter 8, we discuss the inspections in greater detail.

In managing the homeownership program, PHAs need to instruct participants about the requirements for these two inspections. Depending on the market and the PHA, it may be possible (*and is certainly preferable*) for the PHA to conduct its HQS inspection prior to the family entering into the actual contract of sale. If that is the case, the HQS inspection must be conducted within a few days to ensure the family has an opportunity to make an offer on the home in a timely manner. In any event, the PHA needs to ensure the timeliness of the HQS and independent inspection. This will ensure that the homebuyer and the PHA have adequate time to use the information gathered in the inspections, and that the sale is not jeopardized by delays in obtaining or processing the inspections.

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## REVIEWING THE FAMILY'S FINANCING DOCUMENTS

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Although PHAs are not required to review and approve the families' financing, many have chosen to do so, and HUD strongly recommends that PHAs establish financing requirements for their programs. HUD further recommends the PHA review the proposed financing against its requirements. Under program regulations, PHAs are permitted to establish requirements regarding qualifications of the lenders, the terms of the proposed financing and whether the financing is affordable for the family (*see Chapter 2*).

The PHA's review of the family's proposed financing differs in two key aspects from its review of proposed rents under the rental assistance. First, there is no requirement for the PHA to review the reasonableness of the sale price of the unit. Instead, PHAs are encouraged to review the financing, which normally will include an appraisal report.

Second, there is no regulatory affordability cap in the homeownership program comparable to the 40 percent cap in the rental assistance program. The PHA may adopt an affordability policy as a local program option, but is not required to do so by HUD.

## REVIEWING UNDERWRITING QUALIFICATIONS

Los Angeles is not alone in finding that homeowners on tight budgets—especially disabled homeowners on unchanging budgets—find the costs of homeownership sometimes more than they bargained on, even with counseling. This issue is particularly severe in areas where homeowners may be faced with sharply rising costs. These costs may cause mortgage payments to take an ever-increasing amount from homeowner incomes. In some cases, voucher program homeowners are now paying up to half of their income for housing, leaving less for medicines and other necessities.

Housing Authority of the City of Los Angeles (*HACLA*) is working with lenders to develop more realistic underwriting standards, which mirror *HACLA*'s and make allowances for additional items such as maintenance and reserves. While a change in under writing would decrease the amount

of loan a family would qualify for—thus decreasing the chance some families would find a home at all—it would also decrease income overburden that might cause a family to lose a home later.

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It is important to keep in mind that the PHA is reviewing the reasonableness of the entire financing package, not just the individual pieces. If the financing package consists of a first mortgage and a second mortgage, for example, or two mortgages plus the requirement for a substantial down payment and/or other miscellaneous loans and grants, the PHA must evaluate the entire financing package and its conditions as stated in 24 CFR § 982.632. Material provided by the family should include all documents provided to the family by the prospective lender, and information about other resources that the family will use to complete the purchase.

The factors that the PHA will use to review the reasonableness of the financing package must be described in the PHA's Administrative Plan. On the one hand, the PHA should be wary of adopting standards that may unreasonably restrict the financing options available to program families. On the other hand, the PHA will want to ensure that the standards effectively protect families from predatory lending practices (*see information on Predatory Lending*) and allow families to retain adequate resources for periodic maintenance and necessary repairs.

- Factors that the PHA may wish to incorporate into its plan include:
- The type of loan proposed. This would include, for example, any prohibitions, limitations, or review requirements on adjustable rate mortgages, balloon mortgages, interest only mortgages, or seller financing.
- The qualifications of the lender. Program regulations prohibit the purchase of a home from a seller that has been debarred, suspended, or subject to a limited denial of participation by HUD. The PHA may wish to require, at a minimum, that the proposed lender(s) meet the same criteria. To demonstrate their capacity under 24 CFR § 962.625, PHAs can require that financing for the purchase of a home under the program be provided, insured, or guaranteed by the State or Federal government; comply with secondary mortgage underwriting requirements; or comply with generally accepted private sector underwriting requirements. Qualified lenders could be held to these standards and products.
- The family's equity in the property. The PHA's review of the financing package should allow the PHA to confirm, if required, that the financing package meets any PHA requirements regarding the family's down payment and/or amounts required to be paid from the family's own resources.
- The interest rate, points, or other fees associated with the loan. As part of the loan application process, the lender is required to provide the borrower with a Federal Truth in Lending Statement that tells the borrower what the loan will actually cost. The information that the lender is required to provide includes the Annual Percentage Rate (*APR*) — the real rate of the loan, including points and fees — and other information about the terms of the loan. The PHA should compare the interest rate that the family will pay with prevailing rates and fees available from prime lenders

in the local area. Although there are several Internet sites that purport to list the best deals in your locality, the most reliable source of information about available

PREDATORY LENDING PRACTICES	... CAN BE AVOIDED BY
Lending to borrowers who lack the ability to repay.	<b>Working with a HUD-certified housing counselor to determine how much loan the borrower can afford.</b> Some predatory lenders make loans based on the borrower's equity in the home, even when they know the borrower can't afford the monthly payments. If the borrower defaults, the borrower loses the home and the accumulated equity.
Charging excessive interest rates and fees that are not commensurate with the risk involved.	<b>Knowing the borrower's credit history.</b> Never accept a lender's statement about the borrower's credit history without reviewing the credit history for mistakes and inaccuracies.
Including additional products such as credit insurance in loans.	<b>Being wary of lenders pushing single premium credit insurance.</b> Credit insurance pays off a specific debt – in this instance, mortgage debt – when the borrower is unable to do so. Single premium credit insurance is collected up front at closing, and payments for the premium and interest are added to the borrower's monthly mortgage payment. Some predatory lenders mislead borrowers into believing that credit insurance is required to approve the loan, or that the insurance is in effect for the entire term of the mortgage when it typically covers only the first 5-7 years.
Misrepresenting the terms and conditions of loans.	<b>Having a housing counselor or lawyer look over the loan documents before closing on a loan.</b> Predatory lenders may misrepresent certain loan terms and conditions, which may lead to higher costs for the borrower in the long run. The following are often not discussed, not explained, misrepresented, or can be payment techniques with dangerous strings attached: Prepayment penalties are assessed against a borrower who repays the loan before the end of the term. Such provisions may prevent a borrower from refinancing the loan at a lower rate. Adjustable rates often look attractive because of low "teaser" rates. Be sure that the borrower knows when and by how much the interest rate can increase, how high the interest rate can go, and what the borrower's monthly payments will be at the higher rates. Balloon payments allow the borrower to make interest-only payments for a fixed period of time ( <i>typically 5-7 years</i> ), and then require the borrower to pay off the loan in its entirety. Most borrowers must refinance to make the balloon payment, and may be required to pay high interest rates, points, fees, and closing costs to do so. Mandatory arbitration clause requires the borrower to waive the right to sue the lender if s/he is the victim of unscrupulous lending practices. The borrower should never be asked or required to sign blank documents or documents with blank spaces.

local mortgage rates is generally the local weekend newspaper or local lenders.

- Any unreasonably restrictive loan terms, including restrictions on prepayment of the loan amount, prepayment penalties, inclusion of high credit insurance premiums, or other demand features.

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## PREDATORY LENDING

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Predatory lending generally refers to imposing unfair and abusive loan terms on borrowers, using aggressive sales tactics, and/or taking advantage of inexperienced borrowers' lack of understanding of complicated transactions.

Sometimes the term “predatory lender” is erroneously used interchangeably with “subprime lender,” although the two are not necessarily the same. Subprime lenders are lenders who make loans to higher risk borrowers, typically those with impaired credit, at higher than prevailing mortgage interest rates. The ranks of so-called sub-prime lenders do include reputable financial institutions that adjust for risk, many of which also make “prime” loans to qualified borrowers. Unfortunately, subprime lenders also include some unscrupulous lenders.

To alleviate predatory lending as part of the Housing Choice Voucher Homeownership Program, HUD created a Memorandum of Understanding (*MOU*) which establishes a partnership between the Federal Deposit Insurance Corporation (*FDIC*) Community Affairs Program and the United States Department of Housing and Urban Development. The Partnership promotes and establishes a financial education program for residents of public housing and participants in the Housing Choice Voucher Program, which includes the homeownership option.

**The purpose of the partnership is to assist lower income persons and families in public housing:**

- Enhance their money management skills
- Create positive banking relationships, and
- Achieve economic self-sufficiency

The FDIC and HUD partnership links low-income individuals and families to financial education, and self-sufficiency programs through the FDIC **Money Smart** financial education curriculum vehicle.

Recognizing the importance of financial education, particularly for persons with little or no banking experience, the FDIC created Money Smart, a training program to help adults outside the financial mainstream enhance their money skills and create positive banking relationships. Financial education fosters financial stability for individuals and for entire communities. The more people know about credit and banking services, the more likely they are to increase savings, buy homes, and improve their financial well being. The Money Smart curriculum helps people build financial knowledge, develop financial confidence, and understand banking services.

Families in the homeownership program should have completed a credit cleansing process with a qualified housing counselor prior to beginning their housing search. In general, they should not find it necessary to resort to using subprime lenders (*who charge substantially higher interest rates*) to obtain a mortgage loan. The HUD/Treasury study of predatory lending found that minority and low-income homebuyers were more likely to

use subprime lenders even if they qualified for prime rate loans. The PHA should ensure that voucher families are aware of the differences, and have access to prime lenders.

Subprime lending has increased rapidly during the 1990s. On the one hand, the growth in subprime lending expands borrowing opportunities for those who would not otherwise qualify for a conventional — or perhaps any — mortgage. On the other hand, the higher interest rates associated with subprime loans create a greater payment burden for the borrower. The rise in subprime lending has also been associated with an increase in predatory lending practices.

**The following is a summary of the most common practices associated with predatory lending, and the actions the PHA and/or the prospective borrower can take to avoid them:**

The PHA is permitted to set policies regarding the amount of debt families can afford. The PHA should recognize that lenders also have policies — their underwriting standards — that will generally not allow families to borrow more than they are (*or should be*) able to repay. The PHA's assessment of what families can pay should consider the anticipated cost of utilities and provision for a reserve for maintenance and replacement. The lender's assessment usually does not consider these amounts in their affordability calculation. However, the lender's affordability assessment includes the family's other, non-housing debts, while the PHA's assessment may or may not. As a result, in most instances the lender's assessment of what the family can afford to pay will be slightly different from, but not totally inconsistent with, the PHA's assessment.

If the PHA finds a large discrepancy between the amounts of the proposed loan and what the PHA calculates the family can afford, the PHA should not overlook the possibility that the family may have provided more “complete” information to the lender than to the PHA. PHAs have found that usually early sharing of information between the PHA, lender, and counseling agency works best. All parties have consistent and complete information on the family profile. PHAs have developed the necessary release forms with the potential homeowners to avoid conflicts with sharing information among partners and lenders. If incomplete, the PHA may reasonably ask the family for copies of the application form and/or verification documents submitted to the lender. Avoiding this kind of early discussion or deciding after the fact what actions to take in the case where a family has violated family obligations may damage communication between the partners. Early communication on reporting income before a pending contract of sale is a strong argument for encouraging or requiring families to get pre-approval or pre-qualification for their mortgage loan.

The PHA's review of the proposed financing should be conducted as soon as possible after receipt of the loan documents, so that the family is able to meet required deadlines.

The PHA may wish to develop a checklist for its review, to ensure quality control on all items requiring review, and to document the reviewer's findings. If the PHA is unable to approve any part of the financing package, this should be noted on the review checklist, and communicated to the family in writing. The notice to the family should be specific as to why the proposed financing was rejected and the issues that need to be addressed.

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## **REPORTING REQUIREMENTS**

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All PHAs that administer tenant-based rental assistance program – whether or not they also administer a public housing program – are required to develop and maintain two key documents:

- A PHA Plan, which provides a comprehensive overview of the locality's needs, resources, goals and objectives for all of the PHA's programs.
- A Housing Choice Voucher Program administrative plan that describes the PHA's discretionary policies relating specifically to the voucher program.

The Administrative Plan and any revisions of the plan must be formally adopted by the PHA Board of Commissioners or other authorized PHA officials.

Chapter 10 provides a detailed description of the areas in which the PHA's Agency Plan and Administrative Plan must be modified to address the requirements of the voucher homeownership program.



**CHAPTER 5**



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## PROVIDING HOMEOWNERSHIP COUNSELING

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Homebuyer education and counseling programs have experienced rapid growth in recent years as part of the concerted effort by Federal, State, and local governments; nonprofit community organizations; and others in the housing industry to expand homeownership opportunities for low-and moderate-income households. Homebuyer education and counseling for first-time homebuyers provides both before and after assistance on purchasing a home, helps enhance the success of individual homebuyers, and prevents mortgage defaults. In general, the goal of homebuyer education and counseling is to ensure that homebuyers are prepared for homeownership and are mortgage-ready when they seek available lenders. Homebuyer counseling and education is an integral component of the voucher homeownership program.

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### WHAT HUD REQUIRES

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24 CFR § 982.630 requires that before a family receives assistance under the homeownership voucher option, the family must participate in and satisfactorily complete a Housing Counseling Program approved by the PHA. The PHA (*or the PHA's counseling partner*) may not charge the family for the counseling, or otherwise pass on any of the cost for counseling the family.

**PHAs have wide latitude in designing the counseling program and in designating counseling providers. 24 CFR § 982.630 suggests a variety of topics to be included in the housing counseling:**

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

## LOCAL COMMITMENT TO POST-PURCHASE COUNSELING

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Jefferson County Housing Authority has established counseling partnerships with Louisville Urban League and Housing Partnership to do both pre- and post-homeownership counseling. The housing authority strongly believes in post-purchase counseling and further requires the family commit in writing to the homeownership counseling process for the life of the mortgage. In addition to the basic required counseling program, the housing authority stresses to the family that this program provides a method for buying a valuable asset. The families are counseled to look in neighborhoods where that asset will appreciate and build equity, thereby providing them the opportunity to break the cycle of poverty.

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Again, these topics are suggestions, and the regulation allows PHAs to adapt the content of the homeownership counseling to local circumstances and the specific needs of participating families. If the PHA or the PHA partner conducting the counseling is not a HUD-approved counseling agency, HUD recommends that the PHA ensure that its counseling program is consistent with the homeownership counseling provided under HUD's Housing Counseling Program.

HUD encourages PHAs to consider offering post-purchase counseling and locally determine if families should be required to participate. Several PHAs are using post-purchase counseling in an effort to curtail mortgage default and to maintain open communication with the participant. For example, some PHAs have created release forms that allow lenders to notify the PHA in the event a monthly payment is late. This early intervention allows PHA staff to contact the family immediately to ascertain the issue and provide assistance. A PHA can also assess the need for post-purchase counseling at the time of annual recertification.

- Post-purchase Assistance in the Homeowner's Club

Homeowners expand and deepen their commitment to homeownership together as part of Housing Authority of the City of New Orleans' (*HANO's*) Homeowner's Club, open to all New Orleans residents who have purchased housing through a HANO program. The majority of members are HCV recipients. As part of the Club, HANO homeowners hear speakers from local utilities on energy conservation, the police and fire departments on safety and security, and Home Depot and Lowe's on gardening, landscaping, and home maintenance. But more importantly, Club members can share experiences, challenges, and solutions as new homeowners.

Post-purchase forums conducted by the PHAs or counseling agencies are taking on many forms as the program expands into all areas of the county. Some general themes arise in the post counseling sessions. These include sessions on the following:

- How to treat the interest and taxes on the Federal tax forms as a homeowner.
- Common repairs in the home and ways to save money.
- Do-it-yourself workshops on plumbing, electrical, tile, painting, and yard maintenance.
- Additional skill training to increase potential revenue for the homeowner.
- Post-purchase predatory lending practices by credit card companies and home equity loans.
- Ways to save on utility bills.
- How to read your mortgage payment statements.

Some PHAs require the participant to attend sessions on a monthly or quarterly basis. Others use monthly newsletters, flyers, workshops, recognition dinners, or other creative forums to continue communication with the family after the closing. Most PHAs that require the post-purchase program include this as a homeowner obligation agreed to in writing by the participant. All PHAs that require post-purchase counseling include it in the PHA Administrative Plan.

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### **FORMAT FOR HOMEOWNERSHIP COUNSELING**

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While there is a fair amount of variation in the counseling provided by different agencies, most use a combination of group and individual sessions. In fact, in its guidelines to PHAs working with NeighborWorks® organizations, the NeighborWorks America (*formerly known as Neighborhood Reinvestment Corporation or NRC*) recommends a combination of group, individual, and peer group sessions to maximize the support given to potential homebuyers.

PHAs that have implemented programs typically begin the counseling process with a group session, lasting from 2-8 hours. This session provides a broad overview of the home purchase process, voucher program requirements, basics of obtaining a mortgage, the pros and cons of homeownership and the roles played by real estate agents, home inspectors, lenders and other parties in the purchase. Following the group sessions, counselors typically meet individually to determine the readiness of the participant to purchase a home. Those deemed more “purchase ready” are then directed to short-term counseling focused on the nuts and bolts of a home purchase (*identifying a real estate agent, working with home inspectors, step-by-step instructions for the purchase process, and discussion of specific mortgage products*). Families requiring more intensive preparation are directed to in-depth, long-term assistance that usually focuses on credit repair, budgeting, and long-term planning for homeownership. Follow-up counseling is usually a combination of individual and group sessions.

## **FLEXIBLE HOURS FOR THE PROGRAM**

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Since employment is a requirement for participation in the program, most counseling sessions are scheduled for evenings and weekends to accommodate the work schedules of program participants. For example, the Neighborhood Housing Services of the Inland Empire, a NeighborWorks organization providing homebuyer counseling for the San Bernardino (CA) program, offers its classes from 6 a.m. to 8:30 p.m. Monday through Friday and from 9 a.m. to 5 p.m. on Saturdays.

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Peer group discussions are another potential format for counseling. These sessions offer the opportunity for families to share experiences with others pursuing home-ownership, and new participant families can learn from the experiences of others in similar situations.

## **COMBINATION OF INDIVIDUAL AND GROUP SESSIONS**

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The Syracuse Housing Authority has found both individual and group counseling for participants work the best. Group counseling involves general topics such as home maintenance, budgeting and money management, credit counseling and credit repair, financing programs and other generally required topics. Individual counseling then focuses on budget and credit issues that are specific to the family. Individual counseling may also include housing choices, money management, or working with Realtors on specific issues in neighborhoods where the family is trying to acquire a home.

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## **WHO SHOULD PROVIDE THE COUNSELING?**

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Homeownership counseling can be provided in-house by PHA staff, or by outside agencies working in partnership with the PHA. Outside agencies should either be HUD-approved counseling agencies or should provide counseling that is consistent with the requirements of HUD's Housing Counseling Programs. A PHA will want to consider several factors in deciding whether to conduct the training in-house or through an outside organization. First, providing the counseling in-house will require a substantial commitment of PHA time and resources. Even though many examples of curricula are available, a PHA will still need to spend time adapting a curriculum for its program, as well as — since many agencies invite real estate agents, lenders, or housing inspectors to present at the sessions — arranging for outside speakers, preparing a PHA staff person to lead the sessions, preparing materials for the sessions, and coordinating the invitation and attendance of interested participants. In addition to the planning time, the homebuyer education classes should be provided on an ongoing basis, most likely twice or more per month. Staff will need to be available for individual follow-up sessions. These sessions are sometimes scheduled in the evening or on the weekend to accommodate working participants and maximize the number who can attend. Staff will also spend time documenting and monitoring the participant's readiness for mortgage approval.

## IN-HOUSE RESOURCES FOR COUNSELING

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Montgomery County Housing Authority (*MCHA*) has set up its own pre-purchase counseling module with four sequential workshops and a fifth settlement refresher held at the critical time. Partnering agency Consumer Credit Counseling Services (*CCCS*) handles budgeting and credit, with group and one-on-one appointments. Freddie Mac conducts the Fair Housing Workshop, and also covers predatory lending. A former Realtor, the MCHA homeownership program counselor takes participants through an 18-step checklist in the How To Buy workshop, from pre-approval through settlement. MCHA Maintenance and Facilities staff offers a home maintenance workshop. The fifth workshop is a one-on-one meeting, conducted as an applicant nears settlement. MCHA has another opportunity to discuss the procedure from closing and beyond.

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By contrast, the HUD-approved counseling agencies are funded by HUD to develop and provide the type of counseling required for the program. They can usually provide the counseling to the PHA at no cost. Depending on the availability of counseling agencies in the PHA's community, engaging an outside counseling agency may be the more attractive option.

Aside from the staff and resources needed to establish and operate a counseling course, it is wise to consider whether someone on the PHA staff has the qualifications to be an effective counselor. The counselor will be responsible for leading the group sessions and for working individually with families pursuing homeownership. The counselor should have a strong background in training and group leadership, as well as a substantive knowledge of the local real estate market, and home financing and purchasing. It is also extremely helpful if the counselor has working relationships with local lenders, agents, home inspectors, and other professionals in the purchase process. These working relationships help facilitate arrangements for speakers and expert consultation. If your agency has someone with these types of skills, then you may want to provide the training in-house.

## USING PARTNERS FOR COUNSELING

The Chicago Housing Authority's homeownership program partners with four agencies with strong community ties to provide pre- and post-move counseling. These agencies include Latin United Community Housing Association, Neighborhood Housing Services of Chicago, Rogers Park Community Development Corporation, and Spanish Coalition for Housing. Through a Request for Qualifications process, CHAC selected these agencies based on their proven expertise in working with low-income housing, ability to serve Spanish-speaking clients, and geographically diverse neighborhood locations. Pre-counseling includes 8-10 hours of classroom work and also one-on-one counseling in HUD's suggested topics.

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## SELECTING A COUNSELING AGENCY

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Should you decide to retain an outside agency, there are many good ones that can assist you. HUD funds housing counseling agencies throughout the country providing homeownership education and counseling for the voucher program.

A listing of HUD-funded counseling agencies throughout the country can be found on HUD's Web site, at: [www.hud.gov](http://www.hud.gov). Click on **Talk to a Housing Counselor** under **At Your Service**

In selecting a counseling agency and training program, it is important to consider the particular needs of your voucher participant group. Many of the participants in the Homeownership Voucher Program will not only be first-time homebuyers, but they will be first-generation homebuyers. Such families may have had little direct contact with homeowners, and may require a great deal of assistance to understand the home purchase process. These families may need greater credit and budget counseling in order to qualify for a home mortgage.



Many counseling providers have adapted their standard curriculum to offer lengthier sessions and more intensive training in order to respond to the in-depth education and additional support voucher homebuyers may need. Since the counseling agencies do not necessarily have an in-depth knowledge of the voucher program, some PHAs maintain a presence at the group sessions, or are placed on the agenda to address specific questions that arise regarding the Homeownership Voucher Program.

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**WORKING WITH PARTICIPANTS WHO NEED  
CREDIT REPAIR ASSISTANCE**

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Problems associated with either a lack of credit history or poor credit scores are by far the most common reasons for more intensive, longer-term counseling. Credit repair counseling typically begins by obtaining an individual’s credit report and reviewing the information contained in the report. First-time, low-income homebuyers often need help deciphering the details of their credit reports, and may lack a fundamental understanding of the impact of past credit problems on their ability to obtain a mortgage.

While there are many credit bureaus, we have listed the three most widely used— Experian National Consumer Assistance Center; Equifax; and Trans Union, LLC— with addresses and phone numbers in Chapter 4. Each credit bureau uses different forms so the reports vary from one bureau to the next. In addition, accounts listed with one bureau may not necessarily be listed with another. To obtain a full picture of an individual’s credit situation, it is important that all three bureaus be accessed when obtaining a credit report. This can be accomplished by requesting a “merged,” “three repository,” or “full mortgage” credit report. Reports from multiple credit bureaus include basic identifying information. These include the applicant’s name, address, Social Security number, and information about the applicant. Most reports also include information about previous addresses and employment information.

**METHODS TO DEAL WITH CREDIT ISSUES**

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Because of the credit issues and underwriting criteria that families will experience as they try to become homeowners, the Lucas Metropolitan Housing Authority reviews the family’s credit information before they are scheduled for the homeownership counseling sessions. If the family has serious credit problems, they are referred to the credit counseling agencies or case managers that will work with the families to address this issue. Sometimes the process to repair damaged credit will take two years or longer. By reviewing and repairing credit issues early, the agency’s and partners’ resources are maximized; making sure families interested in the program can qualify for a loan and homeownership assistance when a qualified unit is found in the neighborhood.

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While the format of credit reports may differ, all include information about outstanding collections, revolving loans, or installment credit. Revolving loan information will include a list of companies that have loaned the applicant funds, account numbers, size of the credit limit, dates the accounts were opened and closed, and date of “last activity.” The reports give details about the repayment terms, amount currently owed, status of payments made, and the past due amount, if any. For collection accounts, the name of the agency holding the collection is listed, with the account number. The collection agency is hired

by the creditor to collect the payments that are due, and there is usually some flexibility in arranging terms for repayment with these agencies. Collections information may contain a designation of the type of account (*revolving credit, installment credit, open, mortgage, or line of credit*).

Credit reports typically show public records regarding claims made against the individual, including type of claim, name of the court, docket number, plaintiff name, and amount of the judgment, date reported, and date paid. Credit reports identify the names of companies that have accessed the credit report (*inquiries*), as well as subscribers, those having their account information listed with the bureau.

Credit scoring is provided at the end of the credit report. Credit scores are used to determine whether the applicant is considered a good credit risk. The score is based on a computer model developed from examining the past credit histories using a database involving thousands of people. A credit score attempts to predict the future performance of individuals based on their past credit actions. The factors taken into account in deriving the credit score include:

- Payment history.
- Amount owed.
- Length of credit history.
- Taking on more credit.
- Types of credit in use.

Once the basic information regarding credit status is reviewed and discussed with program participants, the counselor and participants will develop a strategy for resolving any outstanding debt. If necessary, a monthly spending plan will result in clearing up outstanding payments, thereby improving the credit score. It is important that families not approach a mortgage lender until the credit history and credit score are assessed, and corrective actions are taken. Families are likely to require guidance and support as the credit resolution plan is put in place. A credit resolution plan is more likely to be successful if it is based on a realistic monthly budget, and if the participant has an accurate, honest understanding of their monthly patterns of expenditures.

Participants may be very reluctant to communicate with creditors, but counselors advise the client that this is a crucial first step to resolving problem credit. Effective homebuyer counselors can provide sample letters used to communicate with creditors in developing payment plans. These letters and follow-up help to resolve errors on credit reports, and close old accounts to prevent them from causing continued damage to credit scores. Some counseling agencies may refer participants to specialized credit counseling agencies for credit repair assistance. It is not uncommon for resolution of credit problems to take a

year or more. When planning for homebuyer education and training, PHAs should be prepared for a significant number of participating families needing to engage in long-term credit counseling.

In addition to previous credit problems, some families may not have an extensive credit history. This can also result in a low credit score. In such cases, counselors can assist families into developing a record of non-traditional credit by working with landlords, childcare providers, utilities, insurance companies or other monthly providers that can document a history of on-time payments to establish good credit.

### USE THE EXISTING TOOLS IN THE MARKET

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Why reinvent the wheel? The Fannie Mae Foundation has some excellent publications on credit issues that can be downloaded or ordered for free mail delivery from their web site at: [www.homebuyingguide.org](http://www.homebuyingguide.org). *Knowing and Understanding Your Credit*, published by the National Endowment for Financial Education (NEFE) contains tips on gathering information or records, correcting errors, reading credit scores, steps families can take to correct credit issues, reducing expenses and increasing income, and establishing a credit history if the family currently does not have one.

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### DEVELOPING THE COUNSELING CURRICULUM

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HUD-approved agencies have standard curricula for providing homebuyer counseling which may or may not need to be adapted for the Homeownership Voucher Program. The Neighborhood Reinvestment Corporation (NRC) recommends that the curriculum be based on one of the following:

#### REALIZING THE AMERICAN DREAM MANUAL: A WORKBOOK SERIES FOR FIRST-TIME HOMEBUYERS.

This curriculum is a joint effort of the American Bankers Association, the National Foundation for Consumer Credit, and the NRC. A trainer's version and student's version are available. The trainer's version contains exercises, teaching tips, handouts, and transparencies. The sections of the workbook are: 1) Are You Ready to Buy a Home?; 2) Budgeting and Credit; 3) Shopping for a Home; 4) Getting a Mortgage Loan; 5) Keeping Your Home and Managing Your Finances; 6) Managing Your Home's Energy: Improving Quality and Controlling Cost; and 7) Maintaining Your Home: Tips for New Homeowners.

<p><b>NeighborWorks Campaign for Homeownership</b> 108 North Cayuga St. Ithaca, NY 14850 (607) 273-8374</p>
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**FASTRACK TO HOMEOWNERSHIP.** This curriculum is used by the Chattanooga Neighborhood Enterprise (*CNE*) organization, operating in conjunction with the City of Chattanooga to assist first-time homebuyers. For more information, call CNE at (423) 756-6201 (*this is not a toll-free number*).

**Keys to Homeownership.** This curriculum is based on a publication previously developed by Fannie Mae, called *Guide to Homeownership*. *Keys to Homeownership* can be ordered from the National Foundation for Credit Counseling, by calling (732) 578-4652 (*this is not a toll-free number*), or see **www.nfcc.org**.

**Other resources are available from the NeighborWorks®**

**Campaign for Homeownership, including:**

- Homebuyer Education and Counseling: a Start up Guide
- The Homebuyers Club: A Group Leader’s Manual
- Home Ownership Workshop Administrator’s Guide
- How to Buy a Home in the United States
- Building a Better Credit Record
- What are Credit Scoring and Automated Underwriting
- Financial Fitness Education for Potential Homebuyers: A Start-up Guide for NeighborWorks® Organizations
- Annotated Bibliography for Financial Fitness Education

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## **MONEY SMART: BUILDING KNOWLEDGE, SECURITY, CONFIDENCE**

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### **AN ADULT EDUCATION PROGRAM**

The Federal Deposit Insurance Corporation (*FDIC*) recognizes the importance of financial education, particularly for people with little or no banking experience. That’s why FDIC created Money Smart, a training program to help adults outside the financial mainstream enhance their money skills and create positive banking relationships.

Financial education fosters financial stability for individuals and for entire communities. The more people know about credit and banking services, the more likely they are to increase savings, buy homes, and improve their financial health and well-being. The Money Smart curriculum helps individuals build financial knowledge, develop financial confidence, and use banking services effectively. Banks and other organizations, including PHAs and housing counselors, interested in sponsoring financial education workshops, can use the Money Smart program.

The FDIC encourages banks to work with others in their communities to deliver financial education and appropriate financial services to individuals who may be unfamiliar with the benefits of having a relationship with an insured depository institution. The Money Smart program can help banks fulfill part of their CRA obligations to help meet the credit needs

of their entire community, including areas of low-and moderate-income. When a bank's CRA performance is reviewed, the institution's efforts to provide financial education and other retail services area positive consideration.

**Money Smart can be obtained by mail, fax, or via the FDIC Web site.**

**Federal Deposit Insurance Corporation**  
550 17<sup>th</sup> Street NW Washington, DC 20429  
Attention: Money Smart Order Desk,  
PA-1730-7070-B  
fax: (202) 942-3098 [www.fdic.gov](http://www.fdic.gov)



FDIC staff is available to provide technical assistance and to help facilitate partnerships among interested parties.

### **THE MONEY SMART TRAINING PROGRAM FORMAT**

The Money Smart program is a set of 10 instructor-led training modules covering basic financial topics. The subject matter begins with a description of deposit and credit services

offered by banks and moves progressively to topics such as choosing and maintaining a checking account, the mechanics of budgeting, the importance of saving, homeownership, and how to obtain and use credit effectively. Each training module includes a comprehensive guide for instructors, a take-home booklet containing highlights, and resource material for class participants. The instructor guides have everything necessary to begin teaching the program right away — easy-to-follow cues and script, overheads, and interactive class exercises.

The booklets for participants are provided in a camera-ready format so that the PHA can reproduce them as needed. The Money Smart program is designed to consume about 60 minutes of classroom time per module. A few topics, such as the module covering checking accounts, are longer. The FDIC provides the Money Smart curriculum to interested parties free of charge. A limited number of copies will be available to each party; however, the materials are easily reproduced and have no copyright restrictions.

**The Money Smart training modules include the following:**

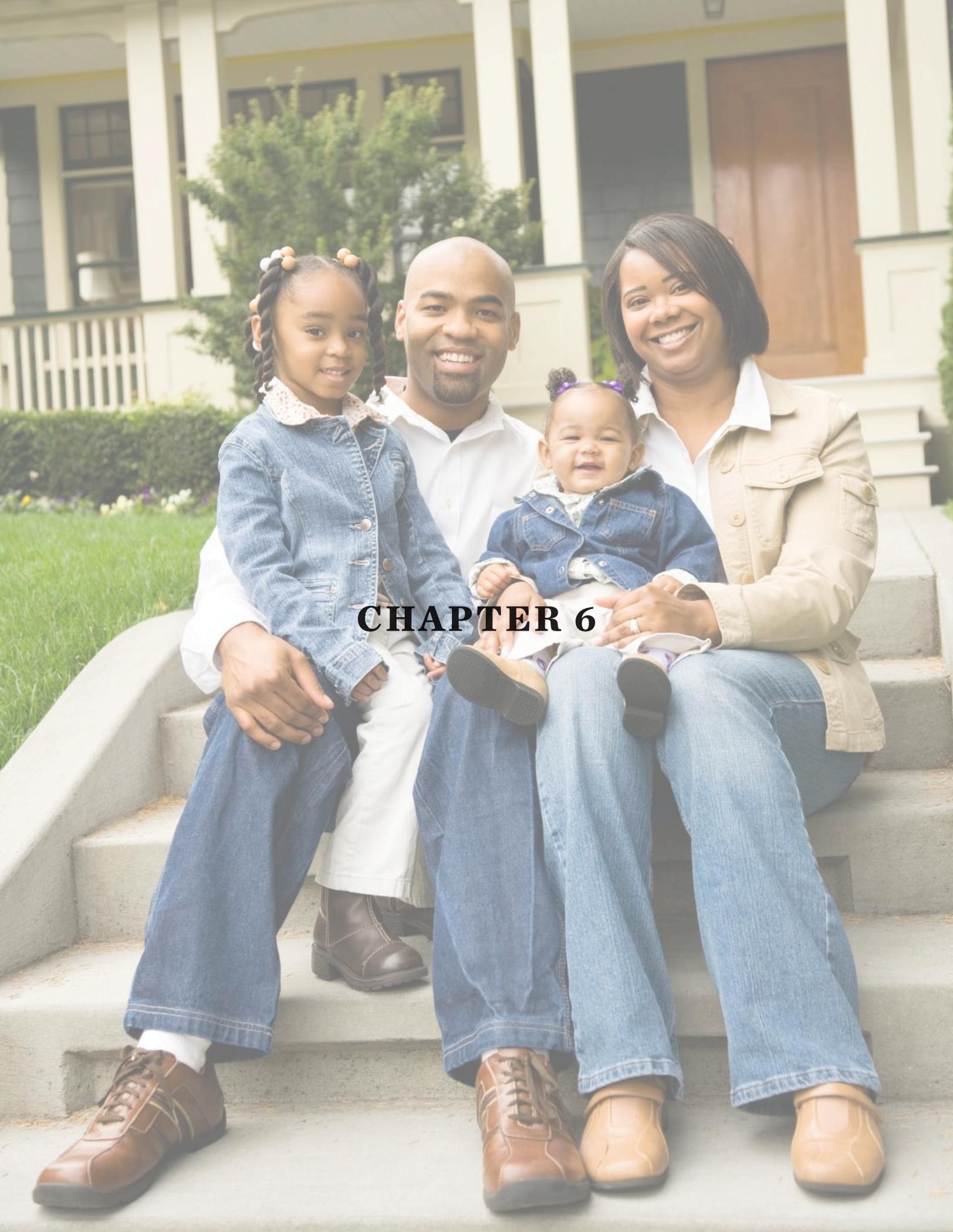
- Bank On It—an introduction to bank services
- Borrowing Basics—an introduction to credit
- Check It Out—how to choose and keep a checking account
- Money Matters—how to keep track of your money
- Pay Yourself First—why you should save, save, save
- Keep It Safe—your rights as a consumer
- To Your Credit—how your credit history will affect your future
- Charge It Right—how to make a credit card work for you
- Loan to Own—knowing what to borrow before you buy
- Your Own Home—what homeownership is all about



The modules can be presented in any order or combination, depending upon the interest and knowledge level of the audience.

## CONSISTENT HOMEBUYER EDUCATION STATEWIDE

The nonprofit Idaho Partners for Homebuyer Education, Inc., created by Idaho Housing and Finance Association, partners with local institutions to offer consistent homebuyer education program throughout the State. The nonprofit has developed a homebuyer curriculum covering all aspects of homebuyer preparation, purchase and settlement, and the homeownership experience. Idaho Partners for Homebuyer Education partners trains local institutions, such as the Community Action Partnership and College of South Idaho to conduct the training in their own communities.



**CHAPTER 6**



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## **FINANCING THE HOME PURCHASE**

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Although families are ultimately responsible for securing their own financing, the complexity and unfamiliarity of the program typically requires that PHAs engage in lender outreach and education. PHAs are typically involved in identifying and cultivating lenders who are willing to work with the program. PHAs will be collaborating with lenders to develop financing models that accurately reflect the family's increased borrowing capacity, partnering with agencies and organizations that provide loans or grant funds to qualified families and working with the organizations and participants to achieve the home purchase. This chapter examines the financial models that have evolved allowing families in homeownership programs across the country to purchase homes.

As lenders become more knowledgeable about the Homeownership Voucher Program, credit-worthy families in the program will begin to find financing on their own. Over time, the PHA will not need to intervene as much in putting together the financing package. However, PHAs are finding that each deal (*financial package*) is unique, and they remain involved in the process with each family.

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### **THE FINDERS-KEEPERS FINANCING MODEL**

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Under the simplest scenario of voucher homeownership, participant families complete their required homeownership counseling and are pre-approved/pre-qualified for financing, find a unit, secure financing, and return to the PHA with a contract of sale and an approved mortgage loan. In this situation, the PHA now has all the information needed to calculate the family's HAP payment, and needs little more. The lender, the agency — if any — insuring the loan, and/or the secondary investor who will purchase the loan once

settlement has been made, determines how the HAP is figured into the loan. The PHA's responsibility is to review the proposed financing to determine whether the lender meets the PHA requirements regarding lender qualifications, whether the terms of the loan are consistent with PHA requirements, and whether the loan amount is affordable for the family in accordance with any afford-ability standards adopted in its Administrative Plan. Once this has been established, the PHA will direct the HAP to the lender (*or servicing agent*), or the participant.

However, PHAs are generally more involved in the process than this ideal scenario suggests.

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## LENDER RECRUITMENT

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One reason that PHAs have become involved in the financing process is that lenders are unfamiliar with the housing voucher program and the homeownership option. While a handful of pilot programs began in late 1999 and early 2000, most PHAs were unable to implement the Homeownership Voucher Program until the publication of the final rule in September 2000. As of this writing, there are over 300 PHAs that have successfully written Administrative Plans, or completed sales transactions and are making homeownership assistance payments on behalf of program families. The early implementation experiences and successes of these “pioneer” programs are serving as best practice models to build on.

CHAPTER 2 covered lender recruitment. Remember that if a mortgage loan will be insured by a government agency— Federal Housing Administration (*FHA*), Department of Veterans Affairs (*VA*), or Rural Housing Service—the borrower's qualifications must conform to the underwriting standards of the agency insuring the loan. Similarly, if a lender intends to sell the loan on the secondary mortgage market, the borrower must meet the underwriting standards of the secondary market institutions: Fannie Mae, Freddie Mac, and/or the Government National Mortgage Association (*Ginnie Mae*). As of this writing, FHA, Rural Housing Service, Fannie Mae, Freddie Mac, and Ginnie Mae have issued underwriting standards for voucher homeownership loans. However, at the local level, lenders may still be unfamiliar or cautious about exploring this new opportunity.

**Apart from unfamiliarity, the potential lender sometimes raises the following concerns about the Homeownership Voucher Program to the PHA:**

- Participants have lower incomes than the families who are generally approved for mortgage loans. True. However, the family receives a monthly subsidy, up to

maximum time period for non-disabled/non-elderly families, to assist the family in meeting its homeownership expenses, including the monthly mortgage payment.

- The continuation of voucher assistance is conditioned upon the families' compliance with program requirements unrelated to their financial obligations under the mortgage loan. True, but families also have a vested interest in ensuring they comply with the rules of the program, receive extensive pre-counseling, and receive additional eligibility screening for participation in the program.
- Families whose incomes increase will receive reduced subsidies, and may become ineligible for further assistance. True, but the increase in income means the family has the financial resources to cover homeownership expenses without the subsidy. Unlike an unassisted family, if the family's income decreases, the family's subsidy will increase, providing the lender with less risk of a default. This reduced risk does not exist for unassisted families that the lender may have within their portfolio.
- Voucher assistance for many families will terminate before the end of the loan term. Yes, but in many cases, even if the family income has not increased to replace the loss of subsidy, the family should be in a position to refinance the remaining debt and afford the new monthly mortgage payment.
- The lender may have concerns or the inability to service two separate payments for the monthly mortgage payment. PHAs, participants and lenders have solved this issue by using the following techniques: (a) The PHA can make the payment to the family, eliminating the two separate payments. (b) The PHA can make the monthly check out to the lender, but send it to the family. The family then sends both payments in the same envelope ensuring that the full monthly mortgage amount is received at the same time. (c) A limited access account is established to which the family can deposit, but not withdraw. The PHA and the family both deposit their share of the monthly mortgage payment in the account, which is then electronically swept by the lender on an agreed upon date for the monthly mortgage payment. (d) The PHA and participant send the payment to a servicer, and the servicer, in turn, makes a single payment to the lender.

The regulations provide the following conditions should the HAP exceed the amount due. If the homeownership assistance payment exceeds the amount due to the lender, the PHA must send the mortgage payment to the lender and send the excess directly to the family.

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## FINANCING MODELS

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How does the lender take the subsidy into account when underwriting the loan or preapproving/pre-qualifying a family for a mortgage amount? The following are descriptions of models that have evolved based on experiences at a number of program sites. It is important to note that the secondary market (*FHA, Fannie Mae, Freddie Mac, and Ginnie Mae*) have specific underwriting guidelines outlined in Exhibit A.

There are several models used in the housing choice voucher homeownership option program.

**The basic models that we are highlighting below reflect FHA’s, Fannie Mae’s, Freddie Mac’s or other secondary markets’ criteria:**

- Housing Assistance Payment as Income (*Gross-up Income Model*)
- Housing Assistance Payment as Offset
- Two Mortgage Model
- Home Choice for the Disabled

The specific guidelines should be viewed as the first options for lenders that have developed into the program. These guidelines have also changed as the program continues to evolve and expand nationally. For example, FHA recently accepted the “offset” model for the treatment of HAP under certain conditions. Previously, FHA only recognized HAP under the “gross-up” income model. For an individual loan, it is the lender, not the PHA that will ultimately decide what standards to use in evaluating the family’s loan application. It is not necessary for all lenders in a community to use the same underwriting standards, or for any lender to use the same standard for all families. For instance, by rigidly restricting the agency or lender to only one of these models, the PHA can effectively disqualify program participants from taking advantage of opportunities afforded to them by the multiplicity of lenders and lending products in any market.

Restricting the family’s choices to lenders who agree to use the PHA’s preferred underwriting formula also runs contrary to the intention of HUD. HUD believes that, in the long run, flexibility on the part of PHAs on treatment of the subsidy will open the program to more lenders, and stimulate competition in the market. This in turn will make financing easier and more affordable to many more future program families.

#### **TREATMENT OF HOMEOWNERSHIP ASSISTANCE BY THE IRS**

PHAs may need to let new homeowners know about the rights and limitations of the HAP when used as recipient income in the mortgage process. Although landlords in the rental assistance program do receive 1099-MISC form on their HAP payments, voucher homebuyer recipients do not receive a 1099-MISC form. The HAP payments do not count toward their income for tax purposes. On the other hand, if HAP is included as part of the mortgage payment, and therefore according to the IRS, homeowners cannot legally deduct 100% of property taxes or interest from their Federal tax return. The PHA should never offer tax advice, but should make relevant information clearly available to their homeowners.

**The information Montgomery County Housing Authority (MCHA) sends program participants annually for tax preparation includes:**

- How much assistance a family has received over the calendar year.

- What amount of the assistance was in utility, repair and replacement costs?
- IRS explanation of allowable and non-allowable deductions under the HCV homeownership option program.
- IRS's informational letter of August 28, 2001, discussing tax rules.

The following gives greater information on the four basic models used in the program.

#### **MODEL 1 SINGLE MORTGAGE MODEL – AS INCOME (GROSS-UP MODEL)**

In this model, underwriters consider the HAP as an additional source of income when determining how much a voucher homeownership program participant can borrow. Since the HAP, unlike other income sources, is not taxable, underwriters inflate (or “gross up”) the HAP by 25 percent and add it to other income sources to derive total gross income. Underwriters then use qualifying ratios, usually in the range of 28 to 30 percent of gross monthly income, to determine the monthly principal, interest, taxes, and insurance (*PITI*) payments that the participant can afford, and thus the total loan amount that the participant can borrow given the interest rate and other terms of the lending products being used.

The HAP as income model can be used in single - or multiple - mortgage transactions. In some multiple-mortgage transactions using the HAP as income model, the subordinate mortgages are smaller, short-term, low-interest, deferred loans. In other cases, the second mortgages are sizable; lower-interest loans amortized over 30 years, or zero-interest forgivable loans.

Under the HAP as income model, the participant's contribution toward the mortgage is usually capped at 28 to 30 percent of income plus the grossed up HAP. The participant's contribution toward the *PITI* payment will therefore be less than the 28 to 30 percent cap. Thus, under this model, participants should generally face lower payment burdens than under other models. Payment burdens will increase slightly with increases in income, but because payment burdens start out relatively low in the HAP as income model, these increases in burden would generally not be a problem for the borrower.

A related advantage of this model is that lenders may be more willing to make loans to program participants. Lenders may view this approach as less risky than the other two models because there is less reliance on the HAP for paying the mortgage. Finally, lenders are using this model in working with various non-taxable income sources, and so it may be relatively easy for them to consider the grossed up HAP as another income source.

The major drawback to the HAP as income model is that it has the least buying power of the three models. As the Table of Comparative Models shows, the HAP as income model

results in the lowest borrowing power. Note that the payment burden will be the same for both the HAP as offset and the two-mortgage model, and is equal to the underwriting ratio.

As the comparative model table shows, the HAP as income model is clearly a trade-off between lower costs for the borrower (*and therefore lower risk of default*) and less purchasing power.

PHAs that are using the HAP as income financing model have done so at the preference of the lenders in their communities. Throughout the country, some of the PHAs that achieved closings have been most successful in gaining the support of a range of lenders using this model. In addition most lenders using FHA loan products have expressed a preference for the HAP as income model, following the guidance HUD issued in September 2001, stating that the HAP “may be treated as income in determining the homebuyer’s qualifying ratios” for FHA insured mortgages. FHA has recently revised its position and now also accepts the HAP as offset under certain conditions. Local lenders will need to be reeducated by PHAs on this matter.

Some PHAs’ decision not to treat the HAP as an income source when determining participants’ qualifying ratios may be driven partly by lenders, who did not view the HAP as a guaranteed source of income and were reluctant to develop new loan products (*that they might not be able to resell on the secondary market*) to serve program participants. In addition, staff at some PHAs and partner organizations have not wanted to encourage dependency on the HAP by making it part of the monthly mortgage payment. One of the reasons for this decision is because participants may be able to qualify for mortgages without the assistance of the HAP in some areas where the cost of owned housing is low

Example 1	Single Mortgage, HAP as Income	
The following example shows how the PHA and lender calculate what the family can pay, and how much the family can borrow. The calculation, and those that follow, are based on the family’s making the largest possible loan with the resources available to them.		
<b>FAMILY’S ANNUAL INCOME</b>	<b>\$22,000</b>	
<b>FAMILY’S MONTHLY INCOME</b>	<b>\$1,833</b>	
<b>VOUCHER PAYMENT STANDARD</b>	<b>\$800</b>	
<b>CALCULATION</b>	<b>PHA</b>	<b>LENDER</b>
Monthly Adjustments to income	-(113)	+ \$355 (\$284 x 1.25)9
Monthly Adjusted Income	\$1,720	\$2,188
Qualifying Ratio	30%	28%
Family Can Pay	\$516	\$613
HAP	\$284	—
Taxes & Insurance	— —	(\$125)
Principal & Interest	—	\$488 to Lender
1st Mortgage	—	\$69,793
Family Payment	—	\$488
PHA Payment	—	\$0 to Lender \$284 to Family
2nd Mortgage	—	—
Family Payment	—	—
PHA Payment	—	—
Total Loan(s)	—	\$69,793

and there is ample stock available. They do not need the more aggressive models that put the participant at a higher level of risk.

Let's examine the "gross-up" model by applying some numbers. If the up front housing cost to income ratio is 28 percent (*typically, ratios range from 28- 31 percent*), only 28 percent of the HAP payment will effectively increase the amount of the loan for which the family is qualified. A \$200 HAP payment, for example, will increase the family's monthly payment by \$56 a month, and — for a 7.5 percent loan — will increase the family's buying power by \$8,009 over the life of a 30-year loan. The balance of the HAP payment will offset the family's other costs — insurance and taxes, utility payments, and reserves for maintenance and/or major repairs, and other non-housing debt — which may be as high as 36-50 percent of the family's gross income at the "back end."

Again, the family has an annual gross income of \$22,000 and an adjusted annual income of \$20,640. Their monthly HAP payment is \$284.

Since the lending institution considers the HAP as additional income, the \$284 is added to the family's monthly gross income for use in calculating the family's allowable monthly payment. Because the family pays no tax on its HAP "income," the actual amount of the HAP is "grossed up" to make the treatment of the HAP income comparable to the treatment of earned income. In this example, this gives the family a total monthly income of \$2,188 for underwriting purposes.

<b>Example 2</b>		<b>Single Mortgage, HAP as Additional Mortgage Payment</b>	
Based on their monthly gross income, and an income-to-loan ratio of 28 percent, the family is able to pay \$513 of their own income and \$284 in HAP payments — for a total of \$797 — toward the monthly PITI. When \$125 is deducted to cover the cost of taxes and insurance, the family is still able to pay \$672 for principal and interest, and can afford a loan of \$96,108.			
<b>FAMILY'S ANNUAL INCOME</b>		<b>\$22,000</b>	
<b>FAMILY'S MONTHLY INCOME</b>		<b>\$1,833</b>	
<b>VOUCHER PAYMENT STANDARD</b>		<b>\$800</b>	
<b>CALCULATION</b>	<b>PHA</b>	<b>LENDER</b>	
Monthly Adjustments to income	(\$113)	—	
Monthly Adjusted Income	\$1,720	\$1,833	
Qualifying Ratio	30%	28%	
Family Can Pay	\$516	\$513 + \$284 (HAP) = \$797	
HAP	\$284	—	
Taxes & Insurance	—	(\$125)	
Principal & Interest	—	\$672	
1st Mortgage <sup>11</sup>	—	\$96,108	
Family Payment	—	\$388 to Lender	
PHA Payment	—	\$284 to Lender	
2nd Mortgage	—	—	
Family Payment	—	—	
PHA Payment	—	—	
Total Loan(s)	—	\$96,108	

## NOT GROSSING UP HAP INCOME

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In the loan application, HAP is counted part of the City of Atlanta Housing Authority (AHA) family income, but is not grossed up. While HAP may last 15 years, some families' growing incomes may PHase them out of the program earlier. Whether they are in the program 15 years or less, this more conservative financial approach decreases the shock that families might feel when the HAP payment stops and they must pay their entire mortgage payment.

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### MODEL 2: SINGLE MORTGAGE – HAP AS ADDITIONAL MORTGAGE PAYMENT (OFFSET)

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

As with the HAP as income model, the HAP as offset model is being used in financing transactions that include just one mortgage as well in transactions that include multiple mortgages. In the multiple-mortgage transactions using the HAP as an offset model, the subordinate mortgages are usually low-interest deferred loans or zero-interest forgivable loans, and other down payment assistance is used.

The main benefit of the HAP as offset model is that it maximizes buying power by using 100 percent of the HAP to offset PITI costs. As shown in the Table on Comparative Buying Power, the HAP as offset model results in largest loan of the three models. The increase in buying power that the HAP as offset model offers over the two-mortgage model results from the fact that the HAP is typically devoted to a 10-15-year term mortgage in the two-mortgage model rather than a mortgage with a term of 30 years in the offset case.

Payment burdens are higher in the HAP as offset model than in the HAP as income model, but they are still constrained by the lender's qualifying ratio (*usually between 28 to 30 percent of gross monthly income*). A minor drawback to this model is that lenders are less familiar with financing mortgages in this fashion. Most lenders consider this model somewhat aggressive, as it maximizes buying power and provides little additional cushion for covering housing and other costs beyond that implied by standard payment burdens. However, this model is being used in high cost areas with rapidly increasing housing prices. FHA now recognizes the offset model under certain conditions.

## PAYMENTS DIRECTLY TO HOMEBUYER

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Because most banks and mortgage companies do not accept double payments on a single mortgage, Lakewood Township Resident Assistance Program (*LTRAP*) in Lakewood, NJ, sends its portion of the housing assistance payment directly to the homebuyer family. The family is responsible for making the mortgage payment.

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PHAs that have closings have had participants purchase houses using the HAP as offset model. In most cases, the model was chosen based on the preference of the lending institutions. Generally the choice of the model is driven explicitly by housing market conditions, lender's requirements, and PHA's policies. PHAs using the model are sometimes adding affordability caps to the Administrative Plan. In certain areas of the country, the cost of owned housing — relative to the voucher payment standard and the incomes of voucher program participants — is such that many participants simply would not have been able to purchase without using the full HAP as a direct offset to the monthly mortgage payment. In these areas, HUD's guidance on treating the HAP as income for FHA-insured mortgages is no longer an obstacle. HUD has recognized these issues and recently relaxed the FHA provision to recognize this model.

Under this option using FHA insurance, the borrower's HAP is applied directly to the PITI, and the housing debt to income ratio is calculated on the "net housing obligation" of the borrower. When this option is used, it must be coupled with (1) ratios of 28/36 for all Section 8 mortgages using PITI reduction, regardless of the mortgage product chosen by the borrower, and (2) direct deposit of the monthly HAP payment into a dedicated, limited access account established by the lender and/or mortgage servicer.

## AUTOMATIC WITHDRAWAL AND DIRECT PAYMENT

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Lenders strongly prefer receiving the mortgage payment in a single payment. To facilitate this payment process, Chicago voucher program homebuyers must sign up for automatic withdrawal at settlement. Each month CHAC wires the Chicago Housing Authority HAP into the homebuyer's checking account prior to the date when the lender sweeps out a single payment, consisting of both the HAP payment from CHAC and the homebuyer's portion of the payment.

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Let's look at some numbers using the offset model. A \$200 HAP payment applied directly to the loan can — over the course of a 30-year, 7.5 percent loan — increase the family's buying power by \$28,604. However, the risk is that the termination of the additional payment at the end of the term of the family's voucher assistance — 15 years before the end of the loan term — may leave the family without the necessary resources to keep up their monthly mortgage payments.

This risk can be lowered to some extent by reducing the term of the loan. If, for example, the loan term is reduced to 20 years, the family is still eligible to receive up to 15 years of HAP payments, and is required to pay the full amount of the loan without assistance for five years only. If the term of the loan without HAP payments in the following example were reduced by 10 years, however, the maximum amount that the increase in the family's buying power would be reduced to \$12,691. Alternatively, the family might consider re-financing at the conclusion of the term of the voucher assistance to lower their monthly payment, taking advantage of more favorable interest rates and/or the possibility of a longer term for repayment.

As previously indicated, under this model, the HAP payment can be made directly to the lender, or — more commonly — be placed in a restricted account along with the participant's payment to be “swept” as a single (*usually electronic*) payment to the lender.

### **BUY DOWN OF HAP PAYMENT**

When qualifying a North East Community Action Corporation (*NECAC*) family for a house payment, Missouri lenders must consider temporary assistance for needy families, employment status and/or other income permissible in the HCV rental assistance. However, the actual HAP may be used as a direct reduction or “buy down” of the house payment and not as a source of income. Thus, HAP increases affordability and also counts toward the cost of the house.

The two-mortgage model is a variant of the HAP as offset model in that the two-mortgage model also applies 100% of the HAP towards paying down the mortgage. However, in the two-mortgage model, the HAP is used to determine and pay towards the second mortgage while the borrower's income is used to determine and pay towards the first mortgage. In programs using the two-mortgage model, underwriters first qualify the borrower for a first mortgage by basing monthly PITI payments on participant's income alone, using typical qualifying ratios, usually in the range of 28 to 30% of gross monthly income. Program staff then underwrites the second mortgage by using the HAP as the resource for monthly payments. A nonprofit, such as Neighbor Works organization, or a state housing finance agency usually holds the second mortgage for a term no longer than the term of the HAP (*usually 10 to 15 years*). Because the HAP is being used to pay off a loan amortized over a shorter time period than the 30-year terms of typical first mortgages, the two-mortgage model has somewhat less buying power than the HAP as offset model as shown in the Table on Comparatives.

The two-mortgage model has both benefits and drawbacks. Perhaps the main benefit is that it lowers the risk associated with the possibility that the HAP may expire before income has increased enough to eliminate the need for the HAP. Because the term of the second mortgage is never longer than the term of the HAP, when the HAP is terminated after 15 years, the

second mortgage has already been paid off. It also reduces the risk for the first mortgage lender, who is making a loan based solely on the participant's own income, and thus should encourage private market lenders to participate in the program. Another benefit from the perspective of the non-profit organization staff is that servicing the second mortgage keeps them involved in the purchase and in touch with program purchasers over time. The principal drawback of this model is that by limiting the HAP payment to a 15-year mortgage, it does not maximize the amount of financing that the borrower can obtain. However, it does support more financing than the HAP as income model (*as does the HAP as offset model*).

PHAs around the country are currently using the two-mortgage model. At these PHAs, the choice of model was driven primarily by the availability of second mortgage financing through the PHAs' partnership with local nonprofit organizations. These nonprofit organizations may have received funding from Neighbor Works America or some other source for the second mortgage loans, and have the possibility of reselling the loans to their parent organization. The PHAs not partnering with nonprofit financial lending organizations have not found lenders willing to make second mortgage loans below market rates based on the full amount of the HAP.

Example 3	Two Mortgage Model Mortgages	
Another advantage of this model is that the use of a second mortgage will reduce the amount borrowed on the first mortgage. If the resulting loan-to-value ( <i>LTV</i> ) ratio of the first mortgage is 80 percent or less, private mortgage insurance will not be required. Let's take a look at some numbers using the two-mortgage model.		
<b>FAMILY'S ANNUAL INCOME</b>	<b>\$22,000</b>	
<b>FAMILY'S MONTHLY INCOME</b>	<b>\$1,833</b>	
<b>VOUCHER PAYMENT STANDARD</b>	<b>\$800</b>	
	PHA	LENDER
Monthly Adjustments to income	- \$1,360/12	—
Monthly Adjusted Income	\$1,720	\$1,833
Qualifying Ratio	30%	28%
Family Can Pay	\$516	\$513
HAP	\$284	—
Taxes & Insurance	—	\$125
Principal & Interest	—	\$388
1st Mortgage <sup>11</sup>	—	\$55,490
Family Payment	—	\$388
PHA Payment	—	—
2nd Mortgage	—	\$31,597
Family Payment	—	—
PHA Payment	—	\$284
Total Loan(s)	—	\$87,087

### BRIDGING THE GAP WITH A SECOND MORTGAGE

If, after qualifying for the first mortgage, homebuyers need additional assistance to bridge the gap between the amount that they can afford at their current income level and the home purchase price, Chicago's Choose To Own participants may apply for a 15-year second mortgage from CHAC partner Neighborhood Housing Services (*NHS*) at a below-market-interest rate. This second mortgage is paid by CHAC through the HAP and limits the homebuyer's housing costs

for the 30-year first mortgage to an amount that the family can afford. Assistance may also be provided by the Federal Home Loan Bank, Illinois Housing Development Authority, or the lender.

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In this model, the primary lender uses conventional underwriting standards, and has no greater than average exposure because the amount of the loan is by definition no more than the family can afford to repay. In fact, the first lender's risk is lower than in many conventional mortgage transactions because the loan-to-value ratio of this loan is reduced.

The second loan typically requires a lender sympathetic to the program because:

- It at least initially relies entirely on payments from an unconventional source — the family's HAP.
- The second lender is agreeing to place himself in a second or subordinate position.

The model only works; however, when the second lender is willing to assume all or most of the risk, and has a source of funds for direct loans to program participants under this model, the HAP payment is generally made directly to the second lender. Over time, the line between the income sources supporting the two loans will blur. If the family's income increases, the HAP will decrease and the family will pay part of the second mortgage from its own funds. If the family's income decreases, the HAP will increase and can be used to pay a portion of the first mortgage.

**In this situation, the amount of the HAP that exceeds the monthly mortgage payment is paid to the family or to the mortgage lender.**

- 28% of the participant's monthly gross income (\$513) is available for a first mortgage. For a fixed rate 30-year mortgage at 7.5%, this will support a loan of up to \$55,490.

In this example, this payment has been structured to include principal, interest, and the full amount required for taxes and insurance (*PITI*).

At an interest rate of 7% (*lower than the first mortgage because the term of the loan is shorter*) over a 15-year term, the monthly HAP payment of \$284 will support a second loan of \$31,597. The \$284 HAP payment is made directly to the second mortgage lender.

The two loans combined allow the family to borrow a total of \$87,087.

#### **ADDITIONAL MODELS:**

There are a few variations of the three basic models for disabled families, and the new down payment assistance model. The down payment assistance model cannot be implemented until funds are made available for the implementation.

## PITI DEDUCTION OPTION FOR HOME CHOICE BORROWERS (DISABLED FAMILIES)

For HomeChoice borrowers (*for disabled families*) who use the HAP deduction from PITI, the qualifying ratios are 28/50. HomeChoice qualified voucher assistance borrowers are limited to 28% of their non-HAP income for PITI, and may go up to 50% for their total debt ratio. Borrowers receiving SSI (*non-taxable income*) may gross up their earned income by 25%. The 50% total debt ratio must be used in conjunction with a budget-based worksheet.



## DOWNPAYMENT ASSISTANCE MODEL

As of this time, PHAs cannot implement the down payment assistance portion of the HCV homeownership program. When authorized to implement, a PHA may provide a single down payment assistance grant for a participant who has received tenant-based or project-based rental assistance in the Housing Choice Voucher Program. The down payment assistance grant must be applied toward the down payment required in connection with the purchase of the home and/or reasonable and customary closing costs in connection with the purchase of the home. If the PHA permits the down-payment grant to be applied to the closing costs, the PHA must define what fees and charges constitute reasonable and customary closing costs. However, if the purchase of a home is financed with FHA mortgage insurance, such financing is subject to FHA mortgage insurance requirements, including any requirements concerning closing costs.

There is a maximum down payment grant allowable with the regulations. A down payment assistance grant may not exceed twelve times the difference between the payment standard and the total tenant payment. The down payment assistance grant shall be paid at the closing of the family's purchase of the home. For each down payment assistance grant made by the PHA, HUD will pay the PHA a one-time administrative fee in accordance with the regulations.

Should the family wish to revert back to the rental assistance program, a family that has received a down payment assistance grant may apply for and receive tenant-based rental assistance, in accordance with program requirements and PHA policies. However, the PHA may not commence tenant-based rental assistance for occupancy of the new unit so long as any member of the family owns any title or other interest in the house purchased with homeownership assistance. Further, 18 months must have passed since the family's receipt of the down payment assistance grant.

A PHA may not offer down payment assistance under the regulations until HUD has published a notice in the Federal Register that funding is authorized and the PHA can begin implementation.

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### **ADDITIONAL FACTORS AFFECTING AMOUNT BORROWED**

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In the interest of focusing on the differences between these underwriting models, we have eliminated from our calculations certain items that will routinely be considered by lenders in their processing of mortgage loan applications. These items include the limits on the back-end debt (*ratio*), downpayment, mortgage insurance, and settlement cost.

**The PHA should also take this into consideration when calculating affordability: In determining loans and affordability, the PHA should also consider the following:**

- **LIMITS ON BACK-END DEBT OR BACK-END RATIO:** The models above are all based on analysis of the family's front-end housing debt, the amount that the family will be required to pay monthly for principal, interest, taxes, and property insurance. The qualifying front-end ratio is generally 28% of the family's gross income, as shown in the examples. However, keep in mind lenders also look at the family's total debt – including installment loans (*auto loans, college loans, and any other fixed payment loans*) and revolving debt (*primarily outstanding balances on credit cards*) in determining how much the family can afford to borrow. This debt will be used in the lender's calculation of the back-end debt limit, the total monthly housing and non-housing debt that a family can afford to carry. The qualifying back-end ratio is typically limited to 36-50% of the family's monthly gross income.
- **DOWN PAYMENT:** The examples above are intended to show the amounts that families can borrow under various scenarios. A cash down payment will increase the amount that the family can afford to pay for their home. Simply stated, if the family can borrow \$70,000, and can make a cash down payment of \$5,000, the family can

purchase a home valued at \$75,000. Many mortgage loans require a down payment, generally at least 3% of the purchase price of the home. Some loans further require that the family contribute a portion of the down payment from their own resources.

- **MORTGAGE INSURANCE:** Mortgage insurance is generally required by lenders for loans with a LTV ratio of more than 80%. Although the family pays for mortgage insurance, the insurance actually protects the lender in the event that the family defaults on the mortgage loan. If the FHA is insuring the loan, the cost of the mortgage insurance is 1.5% of the loan amount at closing, plus a monthly fee at 0.5% on a 30-year mortgage. The VA and Rural Housing Service also have mortgage insurance programs, as do private insurers. If the family is required to secure private mortgage insurance, more stringent underwriting requirements may be used and/or a larger down payment may be required. In these cases the mortgage insurance premiums may be sometimes lower than with government insurance. Annual premiums for mortgage insurance vary, but 0.5% of the amount borrowed is not atypical. For a \$75,000 loan, this would add \$31 a month to the purchaser's housing expense.

If the family is able to make a down payment of at least 20% of the purchase price of the home, the requirement for mortgage insurance may be waived. When the family has paid the loan balance (*principal*) down to 80% or less of the appraised value of the home, many lenders will permit the family to cancel the mortgage insurance.

- **SETTLEMENT COSTS:** All home purchases are subject to settlement costs, which include financing and other fees, escrows, and reserves that the buyer is required to pay at settlement. Settlement costs can easily increase the buyer's costs to acquire the home by \$1,000-\$2,000. These amounts effectively reduce the amount that a family is able to pay for a home. Under the Homeownership Voucher Program, settlement costs are considered a pre-purchase cost and may not be subsidized by the monthly assistance payments. Accordingly, settlement costs may not be amortized and rolled into the mortgage, and therefore the loan amount may not exceed the purchase price in a purchase using voucher home-ownership funds.

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## ADDITIONAL RESOURCES FOR PARTICIPANT FAMILIES

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So far, our financial models have looked at financing packages involving only the family's resources and the HAP payment. As discussed in Chapter 2, in some localities these two resources alone are insufficient for the purchase of a home in the area. To transition low-income families into homeownership in high-cost areas, additional funding is needed.

Many Homeownership Voucher Programs work because the PHAs and/or their partners are able to obtain additional funding to fill the gaps between the purchase price and loans after the family's income and HAP payments were exhausted.

Some of the "enhancements" that are used include:

- **BELOW-MARKET RATE SECOND MORTGAGE:** Participants in the homeownership program at the Nashville (TN) Housing Authority use the two-mortgage model. The first loan (*mortgage*) is at conventional rates provided by local lenders, and second

loan (*mortgage*) is at below-market interest rates provided by Affordable Housing Resources (*AHR*), the local NRC affiliate. AHR is funding the loans with grants from NRC and other sources, including below-market rate lines of credit from local lenders and FannieMae. The rates on the 10-15 year second mortgage are below those of traditional market for second mortgages in the area.

- **BELOW-MARKET RATE FIRST MORTGAGE:** The Burlington (*VT*) Housing Authority obtains first mortgages for program participants from the Vermont Development Credit Union (*VDCU*), which in turn uses a state housing finance agency loan product with an interest rate one% below the prime market rate. The state housing finance agency buys the mortgage from VDCU after origination. (*VDCU also uses a matched savings program for participants' down payment and closing costs.*)
- **DOWN PAYMENT & CLOSING COST ASSISTANCE GRANTS:** Buyers in the Long Island (*NY*) CDC's homeownership program are getting below market rate second mortgages through another NRC-supported revolving loan fund, and are also able to access down payment and closing-cost assistance from the Federal Home Loan Bank's First Home Club, and Suffolk County's HOME program.
- **DEFERRED PAYMENT SECOND MORTGAGE:** The Syracuse (*NY*) HA uses the two-mortgage model, and has obtained deferred second mortgages, grants and other subsidies to assist with down payment and closing costs. The PHA has a large FSS program, and has found that FSS participants, who have accumulated large escrow balances, have been able to use them for down payment and settlement costs. In some cases, the FSS participant has been able to achieve homeownership and bypass the voucher homeownership assistance altogether.
- **SPECIAL SECONDARY MARKET MORTGAGES:** The Colorado Department of Human Services, which provides voucher assistance for families with disabilities, found that local lenders were hesitant to accept monthly mortgage payments from two sources. The agency prevailed upon the state housing finance agency to use bond funds to set up a Home Access program for disabled families that would buy the loans from the lenders. The program provides a first mortgage at 3%. The agency uses a single-mortgage model with the HAP payment added to the family's payment, but has also arranged for second mortgages of up to 10% of the value of the home for down payment assistance, with funds provided by the Federal Home Loan Bank and the U.S. Department of Agriculture (*USDA*).

For those without Internet access, or who prefer their information in print format, there is ample information about the process of buying a home and obtaining a mortgage at local bookstores.

**A few popular home buying guides that we have found both informative and easy-to-read are:**

**HOME BUYING FOR DUMMIES**

by Eric Tyson & Ray Brown.  
IDG Books Worldwide, Inc., 2001.

**THE COMPLETE IDIOT'S GUIDE TO BUYING AND SELLING A HOME**

by Shelley O'Hara and Nancy D. Lewis. ALPHA Books, 2000.

**THE EVERYTHING HOMEBUYING BOOK**

by Mark Weiss & Ruth Rejnis.  
Adams Media Corp., 2003.

## GAP FUNDS FOR DISABLED HOUSEHOLDS

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Disabled homebuyers may face additional income limitations. Chicago's grant programs, which specifically assist these families in closing the gap between income and financing (*and other closing costs*), have helped CHAC go to settlement on homes with 18 families with disabilities. Persons with developmental disabilities or mobility impairments may qualify for up to \$12,000 and for an additional \$8,000, coordinated for the city by a community services organization, Community Option Service, Inc. CHAC also has an in-house fund of up to \$5,000 for modifications to make a unit appropriate or accessible for people with disabilities. One participant, for instance, had a lift installed for her son.

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These are only a few examples of creative solutions that PHAs, working in partnership with State, local agencies, and lenders, have been able to develop. These and other examples are how agencies have been able to help families purchase homes, especially in higher-cost areas. If the calculations for the home sale in your area exceed the amounts that assisted families can afford, networking with other local government agencies, nonprofit housing service organizations, and lenders is critical in the development of a workable and successful program.

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## BRUSHING UP ON THE MORTGAGE LOAN PROCESS

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PHA staff may benefit from a refresher on the mortgage lending process so they can respond to participant queries. If reading thus far has reminded you how much you don't know or have forgotten about obtaining a mortgage, there are some excellent Internet resources that provide comprehensive information on mortgage lending.

There are also online mortgage loan calculators that can be used to calculate various financing scenarios for program participants. Some of the better available sites on the Internet are:

- **[www.hud.gov/buying](http://www.hud.gov/buying)** A staple of the HUD Web site, but less frequently used by PHAs, this is a veritable smorgasbord of links to information on the aspects of buying and financing a home.
- **[www.ginniemae.gov/ypth](http://www.ginniemae.gov/ypth)** This is also a great site, with lots of useful links. The focus is on financial aspects of homeownership, and includes a link to their "Affordability Calculator" for FHA, VA, and conventional loans.

## IDA DOWN PAYMENT ASSISTANCE

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**HOUSING AUTHORITY OF THE CITY OF NEW ORLEANS (HANO) voucher program homebuyers must put down at least 1% of their own funds on the property.** Beyond that, HANO can help them take advantage of a variety of down payment assistance programs. HANO itself offered an Individual

Development Account (*IDA*) , where the Housing Authority would match a participants' \$1,000 with an additional \$4,000. Funds for that program are currently in limbo. In addition, the City of New Orleans offers several different down payment assistance programs. Finally, depending on the loan-to-debt ratio, NHS will approve a small loan to put toward down payment.

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**CHAPTER 7**

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## HOUSING CHOICES

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While the single-family detached house on a fenced lot may at one time have been the American dream, families today have different options and different dreams. Families in urban centers may be looking for compact row homes convenient to transportation, or high-rise co-op units with sweeping views of the skyline. Rural families are finding that newer manu-

factured homes offer all the amenities of traditional “stick” construction — without the lead-based paint — at affordable prices. The Homeownership Voucher Program provides opportunity to the family to choose the type of housing that best meets their needs.

This chapter is intended help PHAs understand the differences between the various types of homeownership units available to program families, and to prepare the PHA to help families through the process of purchasing a home.

### **The types of housing that families participating in a Homeownership Voucher Program may choose include:**

- Single-family houses
- Condominium units
- Cooperative (*co-op*) units
- Site-installed manufactured housing
- Units currently under a lease-purchase agreement
- PHA-owned or substantially controlled units, if certain conditions are met

Under the Homeownership Voucher Program, all of the above are eligible housing types. A PHA that has offered families the homeownership option cannot refuse homeownership assistance for any of these housing types.

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## COMMON ELEMENTS

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**Pursuant to 24 CFR § 982.628, regardless of the type of housing the family selects, the following conditions apply to the program:**

- The unit must be purchased for occupancy by the owner or by persons with an ownership interest in the unit. In a co-op unit, for example, the homeowner does not

own the unit outright, but has an “ownership interest” in the unit (*homeownership voucher owner-occupied*).

- The unit must be a single- (*or one-*) family unit or a one-unit property that provides housing for only one family. This includes semi-detached homes, row homes, or one-family units in condominium or co-op buildings or developments, as long as they provide housing for only one family. It does not include, for example, duplex or triplex properties in which the owner occupies one unit and rents the other available space to help pay the mortgage or earn additional income.
- The unit must meet HUD’s housing quality standards (*HQS*) at the time the unit is purchased. This precludes the purchase of a “fixer-upper” that does not meet the *HQS*, even if the family is able to obtain a mortgage covering the cost of acquisition and rehabilitation. The family may wish to make improvements to the home after purchase, and the PHA may include the cost of financing for major improvements in the family’s monthly housing expense, but at the time of the unit purchase, it must meet the minimum *HQS*.
- The unit must exist or already under construction at the time family enters into the contract of sale. HUD considers a unit under construction once the footers have been poured.
- The unit should be either owner-occupied or vacant at the time the contract of sale is executed. While HUD regulations do not expressly prohibit the purchase of units occupied by a renter at the time of sale, HUD recommends that PHAs do not allow families to enter contracts on such units unless the PHA is willing to assume relocation expenses for the existing tenant under the Uniform Relocation Act, if necessary.

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## ONE UNIT PROPERTY

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A one-unit property within the context of the program regulations, provides living space for one family, and is built on land owned by the family (*or the family has the right to occupy the land for at least 40 years*). The unit may be a detached unit, a semidetached or twin unit, a townhouse, or a row home. The characteristic that distinguishes this unit from a co-op or a condominium is that the family is purchasing the unit and the land on which the unit is built. These units are commonly owned in fee simple, a legal term for the form of homeownership in which the house and property (*land*) are owned by a single person or family.



### BUYING A SINGLE-FAMILY HOME

Single-family units are generally sold on the open market. The seller is typically represented by a real estate agent that advertises the property, shows the home, and handles the sales transaction for the seller. The seller’s agent may list the home with a Multiple

Listing Service, so that other real estate agents can access information about the home and pass it along to prospective buyers.

The seller with the help of the agent establishes the asking price for the unit. The asking price is generally based on the prices for recent sales (*comparables*) in the same area, and/or what the seller thinks the seller can get for the unit. Sales prices are negotiable between the seller and the prospective buyer until the contract of sale is executed.

## FINANCING

In a fee simple purchase, the purchase price includes the cost of the “real property and improvements” (*i.e., the land and the home*). The title to the property is transferred to the purchaser at settlement, subject to liens placed by the mortgage lender(s) who provide the funds used to purchase the unit.

## HOUSING EXPENSES

After purchasing the unit, the buyer is responsible for all expenses associated with the purchase, use, maintenance, and repair of the unit.

### **The purchaser’s monthly payments include:**

- Mortgage payment(s). The payment on the first mortgage generally includes amounts to be credited to PITI. If the family is required to take out mortgage insurance, the mortgage insurance premium will also be included in the family’s mortgage payment. If the family has taken out a second mortgage on the property, monthly payments on the second loan generally consist only of principal and interest payments.
- Utilities. In a single-family house, the homeowner is responsible for the payment of all utilities. The PHA provides a utility allowance for the family, using the same utility allowance schedule that it uses in the rental program. If the unit is not connected to a municipal water or sewer system, there is no monthly (*or quarterly*) charge for water and sewer, but the PHA may still provide an allowance for water and sewer. This is because there will be utility expenses associated with the well and septic system.
- Routine maintenance of the unit, repairs, and replacement of major building systems and components. The homeowner is responsible for the costs associated with routine maintenance of the unit, and the repair or replacement of major systems or appliances. In determining the monthly homeownership expenses for purposes of calculating the monthly homeownership assistance payment, the PHA must provide allowances — similar to a utility allowance — that would in theory be used by the family to establish reserve(s) for maintenance and/or for repairs and replacement. The PHA does not have to require the family to make deposits into a reserve account, or to maintain a reserve. However, as a PHA option, it may require maintenance of a reserve for repairs as a condition of continued assistance. If the PHA adopts such a policy, it must inform the participant of the obligation and be included in the Administrative Plan and Statement of Homeowner Obligations.

- Principal and interest on debt incurred to finance major repairs, replacements or improvements for the home. If a member of the family is a person with disabilities, such debt may include debt incurred by the family to finance costs needed to make the home accessible for such person, if the PHA determines that allowances of such



costs as homeownership expenses are needed as a reasonable accommodation so that the homeownership option is readily accessible to and usable by such person, in accordance with 24 CFR Part 8.

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### **CONDOMINIUM UNITS (OR PLANNED UNIT DEVELOPMENTS)**

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Condominiums are single-family units held under a form of homeownership in which the purchaser buys a one-family unit in a multi-family building or development. The “unit” that the buyer purchases actually consists of the living space enclosed by the exterior walls of the units, including interior partitions, cabinets, appliances and fixtures. The exterior walls of the unit – including the roof, plumbing and wiring – and the common areas and grounds, are owned and maintained collectively by the condominium owners through a condominium association. The owner of a condominium unit pays a monthly fee to an association to cover the cost of exterior and common area maintenance and repairs.

#### **BUYING A CONDOMINIUM**

During construction and initial occupancy, condominium units are generally offered for sale by the developer. Existing condominium units are generally sold on the open market, in much the same way as single-family homes. The seller determines the asking

price for the property, usually with the assistance of a real estate broker. However, the condominium association must generally approve the buyer.

The contract of sale for a condominium unit is similar to the contract typically used for the sale of single-family units. However, by agreeing to purchase the condominium unit, the purchaser is also agreeing to be a party to the master deed for the building or development, and subject to the bylaws of the condominium association and the association's "house rules." The contract of sale should include a contingency clause allowing the family and the PHA to review these documents, and to cancel the contract of sale if the terms of the document are unacceptable.

## FINANCING

Financing the purchase of a condominium is also similar to financing the purchase of a single-family home. The family takes out an individual mortgage loan for the purchase of the unit. Most lenders will make inquiries into the financial condition of the condominium association before they approve a loan. Many lenders provide prospective condominium purchasers with a questionnaire for the condominium association to complete. Some lenders require families purchasing condominium units to make higher down payments than families purchasing single-family units, particularly for condominium units in buildings or developments in which more than 60 percent of the units are occupied by renters, rather than homeowners.

The lender will typically include the monthly condo fee in the borrower's monthly mortgage payment, along with the principal, interest, taxes, and insurance.

## HOUSING EXPENSES

- The monthly and periodic costs to the purchaser of a condominium unit include:
- Monthly mortgage payments for the purchase of the unit (*principal and interest*).
- Taxes on the unit, and contents and personal liability insurance for the unit.
- Condominium fees for the management and maintenance of common areas. The actual cost of these fees may be included in the homeownership expense calculations of an assisted family's homeownership expense.
- Utility expenses. The PHA provides a utility allowance for the family, using the same utility allowance schedule that it uses for families receiving rental assistance.
- Maintenance and repair costs for the unit interior. The PHA must establish allowances for routine maintenance of the unit and for repairs and replacements of appliances and fixtures.
- Principal and interest on debt incurred to finance major repairs, replacements or improvements for the home. If a member of the family is a person with disabilities,

such debt may include debt incurred by the family to finance costs needed to make the home accessible for such person, if the PHA determines that allowances of such costs as homeownership expenses are needed as a reasonable accommodation so that the homeownership option is readily accessible to and usable by such person, in accordance with 24 CFR Part 8.

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## COOPERATIVE UNITS

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Cooperative units are single-family units in multifamily buildings or developments owned by a co-op association. Families who reside in the units have an equity interest in the property in the form of shares in the co-op association.

**Residents pay a monthly fee to the association that is used to pay expenses for the building or development including:**

- Monthly mortgage payments
- Utility, maintenance and repair costs
- Taxes and insurance
- Management expenses

## RENTING A CO-OP UNIT

PHAs are authorized (*under 24 CFR § 982.619*) to provide rental assistance to families who live in — and own shares in — co-op housing. (*Co-op housing is considered to be a “special housing type,” in the rental voucher program and its use is optional for the PHA.*) The rental voucher assistance is paid on behalf of the co-op shareholder under a HAP contract between the co-op association and the PHA. The amount of the rental assistance is based on the monthly co-op fee and any utilities paid by the co-op shareholder. The rental assistance does not make any allowance for the family’s costs to purchase co-op shares, or to repay loans made to purchase co-op shares.

PHAs that do not elect to offer the homeownership option may still provide rental assistance to co-op shareholders, and PHAs that do offer homeownership assistance may provide rental assistance to co-op shareholders who are not homeownership program participants. The rules for calculating the HAP subsidies for families who occupy co-op housing under the rental section of the program regulations remain the same, and the PHA is still required to inspect the units annually for HQS.

## BUYING A CO-OP UNIT

A family moving into a co-op unit purchases membership shares in the association or corporation. By owning membership shares, the family has the right to live in the unit

and to participate in the management of the co-op. This is known as a “proprietary lease,” or a co-op occupancy agreement. The cost of a share, and the amount of the monthly fee, is generally proportional to the size of the unit. The association holds title to the co-op development, and there is no title transfer of the unit to the family.

When the family moves out of a co-op unit, its shares are sold, and the family’s equity in the co-op is returned to the family. As sellers, they may realize some appreciation in the value of their membership share, subject to the terms of the association’s corporate charter. The co-op association sells their shares in the co-op, and the association sets the share price.

There is no contract of sale for a co-op unit, but — like a condominium unit — there are documents that the family and the PHA should review. These include the proprietary lease document and the bylaws of the co-op association.

## FINANCING

At one time, families purchasing shares in co-op buildings or developments were required to pay cash or take out personal loans. Now they are able to get co-op loans with terms and conditions similar to mortgage loans, although the interest rates are often somewhat higher. Co-op loans are available through traditional lenders. They can be sold on the secondary mortgage market and/or insured by FHA.

If a family does take out a loan to purchase co-op shares, the lender will typically include the monthly co-op fee in the borrower’s monthly payment, along with the principal and interest.

## HOUSING EXPENSES

**The monthly and periodic costs to the purchaser of a co-op unit include:**

- Debt service on loans used to purchase co-op shares.
- Monthly co-op fees. These cover the co-op association’s mortgage payments (*principal and interest*), taxes, maintenance and repair costs, and management expenses. The actual cost of these fees is included in the calculations of the family’s homeownership expense.
- Utility expenses for any utilities paid directly by the shareholder. The PHA provides a utility allowance for the family, using the same utility allowance schedule that it uses for families receiving rental assistance.
- Contents and personal liability insurance for the unit. Maintenance and repair/replacement costs for the unit that is the responsibility of the shareholder under the co-op occupancy agreement. The PHA must include allowances for routine

maintenance of the unit and for repairs and replacements of appliances and fixtures in its calculation of the family's homeownership expense.

- Principal and interest on debt incurred to finance major repairs, replacements or improvements for the home. If a member of the family is a person with disabilities, such debt may include debt incurred by the family to finance costs needed to make the home accessible for such person, if the PHA determines that allowances of such costs as homeownership expenses are needed as a reasonable accommodation so that the homeownership option is readily accessible to and usable by such person, in accordance with 24 CFR Part 8.

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### **SITE-INSTALLED MANUFACTURED HOUSING**

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Site-installed manufactured housing refers in the regulation to manufactured housing installed on a permanent foundation. The land on which the manufactured unit is permanently installed may be owned, purchased by the family, or may be land that the family has the right to occupy for a period of at least 40 years. If owned, the land can be held in fee simple, or the family can have an ownership interest in the land as a member of a manufactured home pad co-op. These co-ops are becoming increasingly popular in some areas as a way for manufactured home owners to combat skyrocketing pad rental costs. If the family does not own the land, land lease payments can be included in the family's homeownership expenses.

### **BUYING A SITE-INSTALLED MANUFACTURED HOME**

In some areas of the country, developers are using manufactured housing in the same way they use prefabricated housing, as a lower-cost alternative to traditional "stick" construction. The developer purchases and subdivides the land, installs the infrastructure, and installs the homes. The manufactured home and the property (*land*) are sold and resold in fee simple.

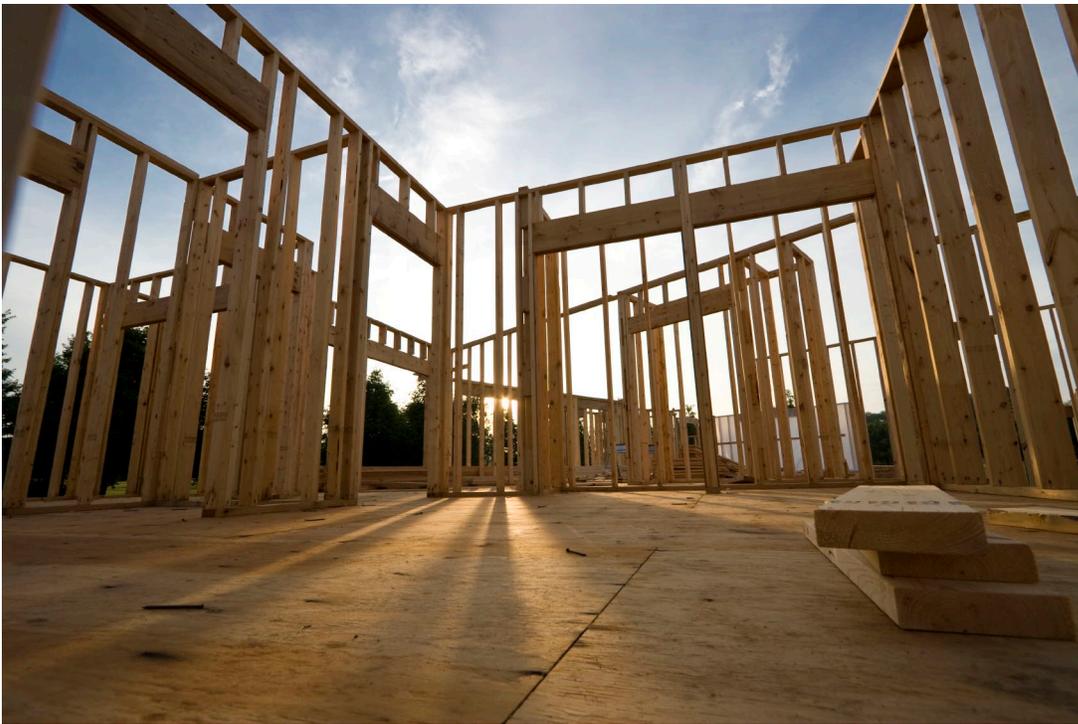
However, in some cases, a homebuyer separately purchases the land and the manufactured home. If the necessary infrastructure — water and sewer (*or more often well and septic tank*), and electricity — is not already in place, the homebuyer also pays for site improvements, which can be an additional \$10,000 - \$12,000 to the cost of the home.

Voucher families may not purchase a new unit unless it is existing or under construction at the time the contract of sale is executed. Therefore, since at the time of the contract

for sale, the home is not installed on a permanent foundation and/or the family does not own or have rights to the land for 40 years that the structure is residing on, the family may not purchase a home in this manner.

## FINANCING

In the past, mortgage financing was not available for the purchase of manufactured housing, and families purchasing manufactured homes were required to pay cash or take out short-term personal loans. FHA-insured loans under Title I are still available for the purchase of mobile manufactured homes (*i.e.*, “mobile stock” built on a chassis and not permanently sited). (*These do not qualify for voucher homeownership assistance.*) However, lenders are now willing to provide mortgage loans to families purchasing site-installed manufactured homes on permanent foundations, although many limit these loans to “double-wide” units that are comparable in size and amenities to site-built homes. FHA



Title II insurance is available for the purchase of these units, the land, and the cost of site improvements up to the applicable appraisal limits. The Rural Housing Service also provides mortgage loans at extremely favorable terms for site-installed manufactured housing in rural areas.

## HOUSING EXPENSES

After purchasing the manufactured housing unit, the family is responsible for all expenses typically associated with the purchase and maintenance of a single-family home. These include:

- Mortgage payment for the purchase of the unit
- Property taxes or the monthly pad co-op fee, if applicable
- Home insurance
- Utilities
- Routine maintenance of the unit, and repairs and replacement of major building systems and components

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### UNITS WHERE HOMEOWNER WILL NOT OWN THE UNDERLYING REAL PROPERTY (*LAND*)

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As discussed in the context of manufactured homes, families may purchase units where the family will not own fee title to the real property on which the home is located. These can include units in land trust networks, if certain conditions are met. In such a case, the homeowner must have the right to occupy the site for a period of at least 40 years, and the home must be on a permanent foundation. Under these types of purchases, any land lease payments must be considered as a monthly homeownership expense for purposes of determining the homeownership assistance payment.

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### LEASE-PURCHASE AGREEMENTS

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A lease-purchase agreement is a purchase option under which the family leases a unit from an owner prior to purchase. The family initially pays rent for the unit, and typically some sort of homeownership premium – an additional amount for the value of the lease-purchase right, and/or extra monthly payments to accumulate a down-payment or reduce the purchase price of the unit.

An assisted family living in a rental unit under a lease-purchase agreement is eligible to receive rental assistance for the unit under the voucher program. The amount of the homeownership premium is excluded from the contract rent for the purposes of determining the reasonableness of the rent and calculating the family's HAP. The lease-purchase agreement itself is not considered a "present homeownership interest" in the property, and does not preclude the family's future participation in the voucher homeownership program.

In order to convert rental voucher assistance into homeownership assistance at the time the family will become the homeowner, the family must meet the eligibility criteria for homeownership assistance at the time they are ready to assume title to the property, not when they enter into the lease-purchase agreement. A family could, for example, enter into a lease-purchase agreement, later qualify for homeownership, sign up for homeownership counseling while they still receive rental assistance, and then move forward with the purchase of the unit.

### **BUYING A LEASE-PURCHASE UNIT**

When a family living in a rental unit under a lease-purchase agreement is determined eligible for participation in the homeownership program, the family enters into a contract for sale with the owner. If the unit and the financing are approved, the family's rental assistance is terminated, the unit is purchased, and homeownership assistance begins.

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### **SALE OF PHA-OWNED (OR SUBSTANTIALLY CONTROLLED) UNITS**

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A family may purchase a unit owned or substantially controlled by the PHA. Such units could include former public housing units that are now for sale, homeownership units in a HOPE VI development, or units independently developed or acquired by the PHA. For instance, in the case where a family wishes to purchase a unit that needs rehabilitation and would be otherwise ineligible for the program, the PHA could choose to purchase the property, make the necessary repairs, and then sell it to the family. In order for a PHA-owned unit to be eligible, however, certain conditions must be met.

First, since the Homeownership Voucher Program is a tenant-based program and the PHA may not limit a family's choice of eligible units or steer families to particular units, the PHA must inform the family, both orally and in writing, that the family has the right to purchase any eligible unit. The PHA must ensure that the family, without PHA pressure or steering, has freely selected the PHA-owned unit.

Secondly, to avoid real or perceived conflict-of-interest issues, the PHA must obtain the services of an independent agency (*just as it would do in the case where a family wishes to rent a PHA-owned unit*).

**The independent entity must perform the following homeownership administrative functions instead of the PHA:**

- Conduct the HQS inspection and any follow-up inspections.
- Review the independent inspection report.

- Review the contract of sale.
- Determine the reasonableness of the sales price and any PHA provided financing.

The PHA should keep in mind that all requirements of the Homeownership Voucher Program apply to the sale of PHA-owned units, including unit eligibility and the fact that the unit must be existing or under construction at the time the family enters into the contract of sale.





**CHAPTER 8**

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## PHYSICAL STANDARDS REQUIRED FOR HOMEOWNERSHIP UNITS

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The Homeownership Voucher Program requires two inspections of a unit a family wishes to purchase: the HQS inspection conducted by the PHA, and an independent professional home inspection conducted by an inspector. The home inspector is selected and paid for by the prospective homebuyer.

Why are two inspections required? In part, the requirement is a reflection of the different focus of the two types of inspection. The HQS inspection focuses on the current condition of the unit — whether the unit in its present condition provides decent, safe, and sanitary housing for the family.

The focus of the independent professional inspection takes a longer view of systems and life spans. The job of the independent inspector is not only to report on the current condition of the unit, but also to evaluate the adequacy and remaining life span of major systems, appliances, and other structures. This information will help the family to understand what the long-term costs of owning the unit will be, and decide whether the purchase price makes sense in the context of such information; it also provides a basis for determining whether the family's resources will be sufficient to maintain the units in good condition as necessary repairs on systems are needed.

For example, suppose that the family is considering the purchase of a quaint older home, built in the 1920's, and retaining many of the original features. Under the HQS criteria, the unit is required to have hot and cold running water in the bathroom and the kitchen. The HQS inspector will turn on the faucets, and if hot water comes out of the hot water spigots and cold water out of the cold-water spigots, the unit satisfies the HQS. An independent housing inspector will also determine whether the unit has hot and cold running water, but will also look at the age and condition of the plumbing and the hot water heater. If the independent inspector finds that the unit's hot water heater is one of the "original features" that contribute to the quaintness of the house, he will evaluate its condition and give the family some indication as to how long it will be before the water heater has to be replaced. In some cases, this could be an expensive undertaking.

A unit to be assisted under the voucher homeownership program is required to be in compliance with the HQS at the time the assistance begins. If the HQS inspector identifies deficiencies in the unit, the family and the PHA must work with the seller to ensure that necessary HQS repairs are completed before the unit is sold.

The PHA (*or the family*) may also turn down a unit based on conditions identified by the independent inspector.

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## THE CONTRACT OF SALE

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Homeownership Voucher Program regulations require that the contract of sale between the seller and the prospective buyer provide for pre-purchase inspection of the proposed unit by an independent housing inspector.

**This provision, commonly referred to as a “contingency clause,” must stipulate that:**

- The buyer will arrange for a pre-purchase inspection by an independent inspector selected by the buyer.
- The buyer is not obligated to buy the unit, if the results of the independent inspection are unsatisfactory to the buyer.
- The buyer is not required to pay for any necessary repairs.

### ASSISTING PARTICIPANTS DURING REVIEW OF THE CONTRACT OF SALE

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The Chicago Housing Authority’s CHAC has developed a partnership to offer participants in the Choose To Own program an extra legal edge in their negotiations. The Community Economic Development Law Project assigns pro-bono attorneys to participants when a contract of sale is accepted. CTO participants pay a \$125 processing fee. With participants, the attorneys review contract rights and responsibilities. That attorney assists from the inspection process through settlement. CHAC makes an ongoing effort to keep the partnership strong by conducting attorney training meetings when new corporations join the project or by offering refreshers on the homeownership program and grant opportunities.

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Although program regulations do not require that the contract of sale contain language regarding the PHA’s HQS inspection, the PHA must inspect the unit to satisfy program requirements. Some PHAs have developed an addendum or rider to the standard Contract of Sale explicitly providing for an inspection by the PHA, and the unit to be HQS compliant as a condition of sale.

### ADDENDUM TO THE CONTRACT OF SALE

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The Benicia Housing Authority has developed an addendum for families’ contract of sale. The family is given a copy of the addendum before they begin their housing search. By providing the required language to the family and the seller before the contract of sale is signed, the PHA avoids delay and confusion when a unit is being processed for potential assistance.

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## SCHEDULING THE TWO INSPECTIONS

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A physical inspection by a professional housing inspector can cost as much as \$200-\$400. The cost is the same whether or not the family ultimately purchases the unit. For this reason, many PHAs have adopted the practice of conducting the HQS inspection before the family hires the independent inspector. The HQS inspection is free for the participant, and can identify conditions that will cause the PHA and/or the family to reject the unit. If the PHA or the family decides, on the basis of the HQS inspection, that the repairs needed are too extensive or too costly, the family need not go forward with a professional inspection. In some markets, the HQS inspection can be conducted before the family has even submitted an offer on the house.



The Contract of Sale usually establishes the time period in which the required inspection by an independent inspector must be scheduled. In order to complete both inspections within the time allowed, the PHA should try to schedule its inspection prior to the signing of the contract of sale, or as soon as possible after the contract of sale has been signed. Remember, in many cases, the seller will want the process to move very smoothly and quickly. If, after the HQS inspection, the family decides to go forward with the purchase, this will allow sufficient time to schedule the second, independent inspection, and allow adequate time to review and act on the inspector's findings.

## SCHEDULING THE TWO INSPECTIONS

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Montgomery County Housing Authority (*MCHA*) conducts the HQS inspection as soon as the agreement of sale is presented and approved by MCHA. If the property cannot meet HUD inspection requirements or the seller refuses to repair the HQS violations by settlement, the family may not go forward and hire the services of an independent inspector. MCHA reviews the independent inspection report to assure the property can be approved and includes the buyer in this review process to resolve any repair needs.

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**Since most homebuyers lack additional funds for major repairs, these are handled three primary ways:**

- Seller agrees to make repairs prior to settlement.

- Seller agrees to pay the cost of repairs at settlement and repairs are made immediately thereafter.
- Cost of repairs is added into the mortgage via special mortgage financing.

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## THE HQS INSPECTION

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The HQS inspection should be conducted in accordance with the requirements of 24 CFR § 982.401. Inspection items will include both the Federal housing quality standards, and any additional local standards that are used in the administration of the rental assistance program. These additional provisions must be incorporated into the agency’s voucher Administrative Plan.

### DEFICIENCIES NOTED DURING THE INSPECTION

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If deficiencies are found during the HQS inspection, the Montgomery County (PA) Housing Authority faxes a deficiency notice to the seller’s agent, listing the repairs that must be completed for the unit to pass. The seller and/or the agent are given five business days to notify the PHA in writing as to whether the seller intends to make these repairs – at the seller’s expense, prior to settlement. If the seller elects to make the repairs, the PHA’s inspector conducts a follow-up inspection prior to settlement to verify that the required repairs have been made. If the seller does not intend to correct the violations, the contract of sale is terminated and any deposit that the participant family has given to the seller is returned.

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If no deficiencies are found, the PHA should notify the family promptly so that the independent inspection can be scheduled. If deficiencies are found, the PHA should notify the family of that fact. The seller must then be contacted to see if the seller will correct the HQS deficiencies prior to settlement. If the seller is unwilling or unable to make the necessary repairs, the family will need to look for another unit.

### FLIPPING

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Property flipping is a widespread predatory sales practice that preys especially on inexperienced, first-time homebuyers. Flipping occurs when an unscrupulous investor buys a house cheap, obtains a fraudulent appraisal, and then immediately re-sells (*flips*) it to an unsuspecting homebuyer at an inflated price. Often when the homebuyer moves into the home, they find that major repairs are needed.

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**Warning signs of flipping include:**

- The seller trying to rush the buyer through the home purchase process.

- The seller offering to provide financing, or to finance any amounts the mortgage company will not cover.
- The seller offering to make repairs after the house is sold. To avoid being the victim of flipping, the homebuyer should:
- Find an independent home inspector for the required inspection, rather than using one recommended by the seller.
- Use his/her own real estate agent, and avoid dealing directly with the seller's agent.
- Consider obtaining an independent appraisal of the home's value.
- Be sure that any promised repairs are completed before the loan closing.

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## ENVIRONMENTAL REQUIREMENTS

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In addition to the HQS requirements described above, homeownership program regulations, as stated in 24 CFR § 58.6, require that the PHA conduct a limited environmental review to determine whether the unit is located in:

- A special flood hazard area identified by the Federal Emergency Management Agency (*FEMA*). If the unit is located in such an area, the PHA cannot approve the purchase of the unit unless the family can demonstrate prior to settlement that it has obtained flood insurance for the property. If a unit is purchased in a special flood hazard area, maintaining flood insurance is a required condition for continuing assistance to the family.
- The coastal barriers resource system. The PHA cannot approve the purchase of a unit located in the coastal barriers resource system with voucher homeownership assistance.
- A civil airport runway clear zone and/or a military airfield clear zone. The PHA may approve such a purchase, but must provide written notification to the buyer that the unit is located in an airport runway clear zone or an airfield clear zone. The notification must advise the buyer: 1) what the implications of such locations are; and 2) that the property may, at a later date, be acquired by the airport operator. The buyer must sign a statement acknowledging receipt of this information, as described under 24 CFR § 58.6.

Your local planning agency, Community Development Block Grant agency, or your State Department of Community Affairs may be able to provide the information you need about hazard areas in your jurisdiction.

**Flood maps for your community can be ordered through FEMA's map service center.**

- **FEMA MAP SERVICE CENTER**  
P.O. Box 1038 Jessup, MD  
20794-1038  
Tel (800) 358-9616  
Fax (800) 358-9620

- Visit the FEMA Web site at [www.msc.fema.gov](http://www.msc.fema.gov) for listings, prices, and a printable order form.

Contact your HUD field office directly for assistance in identifying coastal barrier resource systems and/or airport runway clear zones in your jurisdiction.

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## THE INDEPENDENT PROFESSIONAL HOUSING INSPECTION

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Program regulations, 24 CFR § 982.631, require that units proposed for purchase under the Homeownership Voucher Program be inspected by an independent professional inspector selected and paid for by the participant family.

**The independent inspection must cover major building systems and components, including:**

- Foundation and structure
- Housing interior and exterior
- Roofing
- Plumbing and heating
- Electrical system

The inspector is required to visually inspect all systems and components. If unable to complete the inspection on the first visit – because of inclement weather, for example – the inspector may make a return trip to complete the inspection. It is not uncommon for an inspector to charge a fee for a repeat visit.

The inspector is required to prepare a written report on the condition of the property, and of all major building systems and components. Copies of the inspection report must be provided to the family and to the PHA.

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## SELECTING AN INDEPENDENT INSPECTOR

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The PHA may not select the independent inspector for the family, and the inspector may not be a PHA employee, a PHA contractor, or any other person whose decisions might be influenced by the PHA. The PHA may not pay for the inspection, or provide assistance to the family in paying for the inspection. Although such assistance might appear at first glance to be a help to the family, it might compromise the independence required for the long-term interests of the family. An FSS family may use their escrow funds to pay for

the independent inspection. This is not considered a conflict of interest with the above provisions.

### SETTING STANDARDS FOR INSPECTORS

Along with the Missouri North East Community Action Corporation’s (NECAC’s) HQS inspection, the homebuyer family must hire an independent, professional home inspector. Families may only select only a contractor that fits within normal professional standards, such as a licensed contractor, architect or certified single-family home inspector. The home inspector performs a visual inspection and produces a written report of the property’s condition, describing any observable major defects that require repairs. A copy of the independent inspection report must be provided to NECAC. NECAC and the family discuss the results of the inspection to determine if any pre-purchase repairs are necessary.

The PHA may, however, establish its own qualification standards for inspectors selected by participating families. In some states, professional housing inspectors are licensed or certified, and PHAs in those states should strongly consider requiring that families’ use licensed or certified housing inspectors. Exhibit 8, below, lists the states with licensing or certification requirements. In other states, home inspectors may be required to register with the state and/or the state may have laws governing their trade practices. Twenty-nine states have no requirements at all for home inspectors.

In all states, inspectors who are affiliated with nationally recognized professional organizations are required to meet the organizations’ minimum standards for training and housing inspection experience, and are generally required to participate in continuing education to stay abreast of changes in the industry. The Web sites for these organizations are a good source for the names of qualified inspectors in your area.

Exhibit 8	State Home Inspector Regulations		
	LICENSING/ CERTIFICATION	REGISTRATION	TRADE PRACTICES REGULATIONS
STATE			
Alabama			
Arizona			
Arkansas			
California			
Connecticut			
Georgia			
Louisiana			
Maryland			
Massachusetts			
Montana			
Nevada			
New Jersey			
North Carolina			
Oregon			
Pennsylvania			
Rhode Island			
South Carolina			
South Dakota			
Tennessee			
Texas			
Wisconsin			

The largest organizations are:

- **[www.ashi.org/find](http://www.ashi.org/find)**  
Click on “Find an Inspector”  
NATIONAL ASSOCIATION OF HOME INSPECTORS, INC.
- **[www.nahi.org/inspector/](http://www.nahi.org/inspector/)**  
AMERICAN ASSOCIATION OF HOME INSPECTORS
- **[www.aahi.com/membership](http://www.aahi.com/membership)**  
Click on “Certified Home Inspector Database”

A list of local qualified inspectors can sometimes be obtained for local reputable lenders. If local lenders also require a home inspection report, this may save the family money by using the same inspection report to satisfy the lender’s and the PHA’s requirements.

### PHA AS ADVOCATE DURING SALES NEGOTIATIONS

Many homeownership programs rely on the real estate agent to look out for the family’s interest in negotiating what repairs or other costs the seller will take on. Some housing authorities involve themselves in the inspections negotiations. After all inspections have been conducted, the Burlington Housing Authority (*BHA*) in Vermont advocates for the homebuyer, negotiating with the seller to complete as many needed repairs as possible to hold down the additional costs that the participant family on a tight budget will need to spend..



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### THE INDEPENDENT INSPECTION REPORT

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After the independent inspector has completed the inspection, he/she will submit copies of the report to the family and the PHA.

## LIST OF LIKELY REPAIRS IN THE NEAR FUTURE

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The Miami/Dade (FL) Housing Authority has adopted an Administrative Plan provision that requires the independent inspector to “develop a written list of items that are likely to need replacement or repair within the next one to three years.”

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The PHA will review the report with the family, and will determine whether to approve the home for purchase by the family. Even if the unit otherwise complies with the HQS, and may qualify for assistance under the rental voucher program, the PHA has the discretion to disapprove the unit for homeownership assistance based on the information in the inspection report. Reasons for the disapproval of a unit that was otherwise in compliance with the HQS might include:

- Conditions that were required to be, but were not, disclosed to the buyer by the seller.
- Conditions that normally require disclosure, of which the owner may not have been aware.
- Conditions that threaten the health and/or safety of the family.
- Conditions that will require expenditures for repairs and/or replacement that exceed the family’s resources.
- Conditions that can be expected to interfere with the family’s use and enjoyment of the property.

If the family is still – despite the information in the inspection report – interested in purchasing the house, the PHA may allow the family to negotiate, or may assist the family in negotiating with the seller to make whatever repairs are needed. The information in the independent inspector’s report may also be used as a basis for re-negotiating the sales price for the house.

**CHAPTER 9**



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## POST-PURCHASE PROGRAM ADMINISTRATION

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Up to this point, we have been considering what a PHA has to do to assist the families to the point of purchasing their home. Now we will consider what happens after the purchase is complete.

This chapter will focus on post-purchase activities that are required in order for the family to continue receiving voucher assistance, and program guidelines on how to manage the situations unique to homeownership that will inevitably arise.

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### FAMILY OBLIGATIONS

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Before they receive homeownership assistance, a family participating in the homeownership program is required to sign a statement of family homeowner obligations.

**The statement marks the family’s agreement to comply with the homeownership program requirements such as:**

- Comply with the terms of any mortgage for debt incurred to purchase or re-finance the home.
- Use the assisted unit as the family’s only residence, and to promptly notify the PHA of any absence from the unit. The family may not lease any portion of the home or grounds.

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Supply any information, certification, release or other documentation required by the PHA. For homeownership families, this specifically includes information about any mortgages and/or defaults, any sale or transfer of the home, and the family’s homeownership expenses.  
.....

- Notify the PHA before the family moves out of the home.
- Notify the PHA if the family defaults on the mortgage.
- Have no ownership interest in any other residential property.
- Comply with any other requirements by the PHA, such as any requirements to attend and complete ongoing homeownership and housing counseling.
- Comply with the housing choice voucher family obligations at 24 CFR § 982.551, as applicable (*certain provisions are inapplicable to homeownership families, as noted*).
- Comply with conditions related to crime or alcohol abuse by family members (*24 CFR § 982.553*).
- Comply with other local PHA optional requirements.

The PHA may deny or terminate homeownership assistance to families who do not comply with their homeownership obligations that are detailed in the statement of homeowner obligations.

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## POST-PURCHASE COUNSELING

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A PHA may require families to attend post-purchase counseling, or may make counseling available for families who encounter problems after they have purchased a unit. Like the pre-purchase counseling, the actual counseling may be provided by the PHA, or by a designated HUD-approved housing counseling agency. HUD strongly encourages PHAs to offer post-purchase counseling if feasible. If PHAs have partnered with local HUD-funded counseling agencies, many times the service can be obtained for no charge.

### FOLLOW-UP IN THE FIRST 2 MONTHS

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In Vermont, the Burlington Housing Authority (*BHA*) doesn't require post-purchase counseling, but checks in with new homeowners 6-8 weeks following the settlement to determine if there are any payment or budgeting issues, discuss any program obligations, and review voucher procedures. To keep in touch with the homeowners unobtrusively, BHA sends a quarterly newsletter with topics such as budgeting and maintenance. At recertification, BHA conducts home visits.

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### ONGOING ELIGIBILITY

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Families receiving voucher homeownership assistance are required to comply with the PHA's policies on reexaminations. All families are required to complete an annual reexamination. If the PHA requires interim reexaminations when the family's circumstances or income change, homeownership families, as well as rental assistance families must comply.

In the annual recertification, the PHA must be sure to apply the proper homeownership payment standard criteria, which is different than the rental program payment standard criteria. The payment standard that is used to calculate the family's TTP at any reexamination is the higher of the current payment standard that would otherwise apply to the family or the payment standard used for the family at the commencement of its homeownership assistance.

This provision is necessary so lenders can be assured that the level of subsidy will not be reduced, unless there is a corresponding increase in the family's ability to pay.

At some point, the PHA may determine that the family's income has increased to the point where the family is no longer eligible for a HAP payment (*\$0 subsidy*). Under rental and Homeownership Voucher Program regulations, the family's participation is to be terminated after 180 days with no subsidy payment. However, the PHA may allow the family to remain on the homeownership program, if it determines that termination of the family's

participation will result in extreme hardship for the family. This hardship provision is at the discretion of the PHA, and applies only to the homeownership program.

### POST-CLOSING EDUCATION

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Supportive Housing and Homeless Programs (*SHHP*) in Colorado provides post-closing education through a variety of strategies to help families maintain homeownership stability. These strategies include classroom sessions, mailings, and verbal communication between the homeownership program coordinator and homeowners. In addition, residential coordinators at partner service agencies maintain an ongoing relationship with homeowners, and inform SHHP's homeownership program coordinator regarding any important developments on the family's homeownership front.

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### POST-PURCHASE HQS INSPECTIONS

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Homeownership Voucher Program regulations do not require annual HQS inspections for units receiving homeownership assistance. However, PHAs may adopt their own program policies regarding unit inspections.

The PHA may require:

- Annual (*or periodic*) post-purchase inspections of the assisted unit.
- An inspection for a specified period after the family purchases the home.
- Complaint inspections only.

Some PHAs feel that periodic inspections are important to ensure that the unit is maintained in good condition. Other PHAs are more concerned about how the PHA would respond if deficiencies identified during the inspection were not corrected by the family. For example, would the PHA terminate assistance or just counsel the family if the family were in noncompliance with HQS? Some PHAs have decided to leave the enforcement of maintenance of the unit up to the family, lender, and/or local code enforcement authorities.



### EXTERIOR SPOT CHECKS ON HOME CONDITION

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The Atlanta Housing Authority (*AHA*) conducts monthly post-purchase counseling by telephone. In addition, AHA staff also makes drive-by spot checks to be sure that the property is cared for; the

windows are curtained (*rather than draped with sheets or blankets, for instance*). Any concerns are photographed and the family receives a telephone warning. Thus far, all concerns have been cleared up with a warning. AHA also conducts an annual Housing Choice Voucher recertification.

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## PARTICIPANT MOVES

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The family may purchase another home and receive homeownership assistance, or may move to a rental unit and receive rental assistance, provided that no member of the family still has any homeownership interest in the old unit. Tenant-based assistance may not commence in the new unit until the family has sold the previous unit.

For both the rental and Homeownership Voucher Programs, the PHA may place a limitation on the number of moves a family can make during any 12-month period. If the PHA finds that the family has moved out of the unit, it must terminate homeownership assistance at the end of the month in which the family moved.



In order for the family to be approved to purchase a new unit with homeownership voucher assistance, the PHA must determine that the family still meets the initial eligibility requirements at the time the family will purchase the new unit (*with the exception of first-time homeowner requirement*).

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## PORTABILITY

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The voucher portability procedures at 24 CFR § 982.353 and 24 CFR § 982.355, which describe the respective roles of the initial PHA and the receiving PHA, apply to families using portability in the Homeownership Voucher Program. If the family is eligible for homeownership assistance and has not yet purchased a home, or has sold its ownership interest in an assisted unit, the family may port its homeownership assistance to the jurisdiction of a PHA that:

- Has implemented a voucher homeownership program.
- Is accepting new families into the homeownership program.
- Determines the family meets any PHA requirements for eligibility established by the receiving PHA.

As in the rental voucher program, the receiving PHA's policies dictate the family's eligibility, and if accepted, the family must comply with the receiving PHA's program policies. Other portability provisions or restrictions (*i.e., budget limitations*) allowed under the regulation also apply to the homeownership program.

### LOANS FOR REPAIRS AND IMPROVEMENTS

The PHA provides allowances to families in the homeownership program that consider the homeowner's responsibility for routine maintenance of the unit, and the need to save money for major repairs and replacements. Whether the family establishes a reserve fund or not, the unit may, at some point, require repairs that exceed the amount that the family has available for that purpose. If the family finds it necessary to take out a loan secured by the home (*a "home-equity" loan*) to cover the cost of repairs — or chooses to take out a loan for improvements to the home — the PHA must include the cost of debt service on the loan in the family's monthly homeownership expenses. This will, however, only benefit a family whose monthly housing expense prior to the loan is below the payment standard. This is because the HAP is capped at the payment standard or the homeowner's expense; whichever is the lesser of the two, minus TTP.

### FUNDS FOR UNPLANNED REPAIRS

- To cover the type of repairs that may catch any homeowner by surprise, CHAC, which runs the Chicago Housing Authority's (*CHA's*) Choose to Own program, requires each participant open a maintenance/repair account and save \$1,000 by settlement. This is also a way for CHAC to watch over the new homeowners: to use the account, homeowners submit an estimate or paid bill of needed repairs. CHAC gives permission for a withdrawal after reviewing the submission. Half of the participants who have been in a home at least a year have used this account.

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## REFINANCING

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The PHA may require that the family obtain the PHA's approval for any loans that are secured by the assisted property, including any refinancing or home equity loans.

**In reviewing the proposed loan, the PHA may use the same criteria that it uses to review the initial mortgage loan, including:**

- Qualifications of the lender
- Terms of the loan
- Affordability for the family

HUD strongly encourages PHAs to establish requirements for the qualifications of lenders and loan terms with respect to refinancing and to require PHA review and approval of any proposed refinancing or loans secured by the home. PHAs implementing the program find that it is useful to include these conditions in the Statement of Homeowner Obligations, Administrative Plan and the closing documents. By including them in the closing documents, the PHA also reduces the ability of predatory lenders from refinancing the home (*home equity loans*), without their knowledge.

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### **MORTGAGE DEFAULT & FORECLOSURE**

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The PHA is required to terminate homeownership voucher assistance for a family that defaults on a mortgage loan and is dispossessed from the home under a judgment or order of foreclosure. If the mortgage loan is not insured by the FHA, the PHA may – or may not, in accordance with its policies – allow the family to move to a new unit with rental assistance.

**If the family defaults on a mortgage insured by FHA, the PHA may not approve rental assistance for the family unless the family has both:**

- Conveyed title to the home, as required by HUD, to HUD or HUD’s designee.
- Moved from the home within the period established or approved by HUD.

The PHA may not allow the family to purchase another unit with homeownership assistance if the family defaults on any mortgage loan (*FHA or non-FHA*) and is dispossessed from the home under a judgment of foreclosure.

In any event, the family will need to be informed as to whether they will be able to receive rental assistance or if its participation in the housing voucher program is being terminated.

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### **DEATH OF THE HOMEOWNER**

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If a family member(s) who holds title to the home or ownership of cooperative membership shares for the home – in whole or in part – dies, the PHA may continue making homeownership assistance payments on behalf of the remaining family members (*provided they remain in the home*) until the estate is settled. If payments were previously made directly to the now deceased family member, they should be sent to the decedent’s executor or legal representative. Payments can continue only as long as the unit is solely occupied by remaining family members.

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## TERM LIMITS ON HOMEOWNERSHIP ASSISTANCE

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The maximum term during which a family can receive voucher homeownership assistance is 15 years if the term of the family's initial financing for the purchase of a home first mortgage is 20 years or more, and 10 years if the initial mortgage term is shorter.

This is a lifetime limit on homeownership voucher assistance for any member of the family who has an ownership interest in the property, and for the spouse of any family member who has such an interest. If, for example, a mother and son jointly own an assisted housing unit, and the son is married, the time limit applies to the mother, the son, and the son's wife.

The maximum term applies to all homeownership voucher assistance received by members of the family, whether the family has remained in one unit or moved from one homeownership unit to another.

**No matter how many units the family has purchased:**

- The term limit applies to the total time period during which assistance was received.
- The term limit is based on term of the family's initial mortgage.

By way of example, assume a non-elderly/non-disabled family purchases its first home with a 30-year mortgage. The maximum term for them to receive assistance is 15 years. After 5 years, the family sells the first house and moves to another unit. This time their mortgage loan is for 15 years. Notwithstanding, the family's maximum term limit on housing assistance is still 15 years. Since the family received 5 years of housing assistance in the first unit, they can receive up to 10 years in the second unit.

The term limits for homeownership assistance do not affect the family's eligibility for voucher rental assistance. A family that has reached the end of its maximum term for homeownership assistance can, if it chooses, sell the owned unit, and apply to the PHA for voucher assistance in a rental unit. The family cannot, however, re-apply for participation in the homeownership program.

Pursuant to 24 CFR § 982.634, term limits do not apply to elderly or disabled families (*head of household or spouse is elderly or disabled*). In the case of an elderly family, the exception only applies if the family meets the definition of an elderly family at the start of home-ownership assistance. In the case of a disabled family, the exception applies if, at any time during receipt of homeownership assistance, the family now qualifies as a disabled family.

In either case, should the family no longer qualify as a disabled or elderly family, the maximum term becomes applicable from the date homeownership assistance commenced. However, the family must be provided at least 6 months of homeownership assistance after the maximum term becomes applicable.

For example, a family consisting of a disabled man, his non-disabled spouse, and their newborn baby purchased a home through the program. After 16 years, the marriage ends in divorce and the disabled husband moves out of the house and, as part of the divorce settlement, no longer has any ownership interest in the home. The wife retains ownership of the house and has custody of the minor child. The PHA administrative policy provides that the voucher remains with the residual homeowners occupying the unit (*wife and child*). The maximum term of homeownership assistance is now applicable. The family has already exceeded the maximum time limit, but in such a case would continue to receive 6 months of monthly homeownership assistance payments.

### SUCCESS OF THE PROGRAM

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As a result of eligibility monitoring, ten of Montgomery County Housing Authority's (MCHA's) 41 homebuyers are no longer part of the Pennsylvania program because their incomes have risen above program requirements. One of these families left the program due to income increases as a result of FSS. More common are families who move above income limits because of the addition of an employed adult child, for instance, or who leave voluntarily because a new household member would not meet program requirements. A few were found ineligible for continuation on the program because of undeclared income; MCHA is pursuing filing suit so that the monies due can be lined against the properties. One participant was terminated from the program for refusing to provide necessary recertification information; this family recently lost the property to foreclosure.

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**CHAPTER 10**

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## PROGRAM REPORTING REQUIREMENTS

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HUD's regulatory framework for the Homeownership Voucher Program provides broad administrative flexibility for the PHA to adapt the program to local conditions. Chapter 2 discussed the need for an initial assessment of local conditions, and suggested approaches to assessing the potential demand for the program, local housing market conditions, the lending climate, and the PHA's capacity to undertake a home-ownership program. The PHA's management capacity included the planning, policy development, and program reporting requirements. This chapter discusses the development of the plans and policies necessary to implement a Homeownership Voucher Program and the reporting requirements.



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### THE PHA PLAN

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The Quality Housing and Work Responsibility Act of 1998 (*QHWRA*) requires PHAs to collaborate with local government agencies, program participants and residents in a comprehensive planning process covering all areas of the PHA's operation.

**The products of this planning effort are:**

- A Five-Year Plan that describes the mission and the long-term goals of the agency.
- An Annual Plan that provides details about the agency's needs, resources, programs and services for the year ahead.

The PHA's analysis of local conditions during the planning stages of the Homeownership Voucher Program will overlap to some extent with planning activities that are otherwise required as part of the PHA Plan process. The PHA Plan process, however, also requires the PHA to develop its plans and programs in consultation with both voucher program

participants and public housing residents, and to offer the broader community the opportunity for review and comment. As part of the planning process, PHAs are required to establish resident/participant advisory boards to participate in the plan's development. Prior to consideration by the agency's Board of Directors, the draft plan document and supporting documentation must be made available for review at one or more locations accessible to the public. Public hearings must be held, and the comments received must be considered before the Plan is finalized and submitted to the Board for approval.

Plans for the Homeownership Voucher Program must be included in the broader PHA planning process. When the time comes for the preparation of the actual PHA Plan document, the PHA should be sure to include the following items that relate directly to the agency's planning and implementation of the voucher homeownership option:

- **Statement of Housing Needs.** The PHA is required to collect and provide data on housing needs (*affordability, supply, quality, accessibility, size, and location*) of families in its jurisdiction. The data is generally based on the information contained in the Consolidated Plan applicable to the jurisdiction(s) in which the PHA operates. The Consolidated Plan is prepared by the local CDBG agency or, in rural areas, by the State Department of Community Affairs. This information, which the PHA might not otherwise have occasioned to review, will be helpful in developing a homeownership strategy that addresses untapped resources and/or unmet needs in the community. The statement of housing needs also requires information about the demographics (*income, family status, disability status, and race, ethnicity, and family/unit size*) of families on the PHA's waiting list(s).

The PHA is required to summarize its strategies for addressing the needs of these families in the coming year including, if appropriate, the use of the voucher homeownership option. Broadly, the homeownership program can be seen as a strategy to “maximize the number of affordable units available to the PHA within its current resources” (*Strategy 1 in the plan template*). If the PHA expects very large families, families with disabilities, or other special needs families to use the program to address currently unmet needs; this should be discussed as a strategy for meeting the needs of specific family types. If the PHA plans to use the program, at least in part, as a de-concentration strategy to broaden the neighborhood choices available to voucher holders, this information should be included in the statement of the agency's “... activities to affirmatively further fair housing.”

- **Statement of the PHA's Policies that Govern Eligibility, Selection, and Admissions.** Part B of this section of the plan requires the PHA to answer a series of questions about eligibility, waiting list organization, search time, and admissions preferences in the PHA's tenant-based programs. This section relates to admissions to the Housing Choice Voucher Program, not to the homeownership program.
- **PHA's Rent Determination Policies.** Part B of this section of the plan is a series of questions about the PHA's payment standards and minimum rent. Remember that the payment standard and the (*unit size*) subsidy standard must be the same for the homeownership program as it is for the rental assistance program.

- Operations and Management. Part B of this section requires the PHA to list by program the number of families served at the beginning of the year, and the expected turnover. Homeownership voucher participants are to be included in the count for housing choice vouchers.
- Homeownership Programs Administered by the PHA. Part B of this section asks the PHA to indicate whether it plans to administer a voucher homeownership program in the coming year. If so, the PHA must report whether it intends to limit the number of families participating (*and if so, to what number*), and to state any additional criteria (*beyond the mandatory HUD criteria*) that will be used.

Keep in mind that a PHA that wishes to offer families the homeownership option is required to demonstrate the capacity to operate a successful homeownership program. This can be done by any of the following:

- Establishing a minimum downpayment requirement of at least 3 percent.
- Requiring that the financing used for home purchase comply with industry standards.
- Demonstrating in the Annual Plan that the PHA has or will acquire the capacity to successfully operate a voucher homeownership program.

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## THE PHA ADMINISTRATIVE PLAN

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PHA policy decisions regarding the implementation of the Homeownership Voucher Program must be incorporated into the PHA’s Administrative Plan. Typically, a PHA implementing a targeted housing program, or allowing the use of a new housing type, adds a chapter to its existing Administrative Plan. The new chapter describes any special policies or provisions applicable to the new program, and states that – unless otherwise noted – all of the PHA’s other voucher program policies will apply to the new program.



Additions or changes to the Administrative Plan must be formally adopted by the PHA Board or other governing body before they are considered the official policies of the PHA. (*HUD’s formal approval of the PHA Administrative Plan is not required in order for the policy to take effect.*) Homeownership Voucher Program regulations specify several policy areas in which the PHA must – or may – establish policies. If the PHA has established local or optional policies in any of the areas listed below, they must be addressed in the PHA’s Administrative Plan.

## LIMITATIONS ON THE NUMBER OF FAMILIES

The PHA is not required to permit families to use their voucher assistance for homeownership, and a PHA that does allow families to use their assistance to purchase a home, may limit the number of families who are able to do so. Alternatively, some PHAs have chosen to effectively limit participation in the homeownership program by imposing additional requirements for program participation.

For example, if the PHA intends to limit the number of families participating in the homeownership program, the Administrative Plan should state what the limit will be, and how the PHA will make its selection among eligible families. Possible methods include taking applicants in first-come, first-served order; selecting eligible participants by lottery; or giving preference to certain families (*such as FSS participants, families with lengthy employment histories, etc.*).

Any limitations imposed by the PHA can be applied equally to families currently residing within the PHA's jurisdiction, and to families moving into the jurisdiction under portability procedures.

## PHA REQUIREMENTS FOR PARTICIPATION

The minimum eligibility standards for participation in Homeownership Voucher Program, including minimum standards for income and employment, are established by HUD, and need not be reiterated in the PHA's Plan. The PHA does, however, have discretion to establish a higher minimum income limit and in how it will apply the HUD requirement for "continuous employment" that is, whether (*and to what extent*) an interruption in the applicant's employment will be permitted. If, for example, the family member held a job for eight months, then quit to move to a higher-paying or more convenient job, and took a two-week vacation in between, the PHA could determine that the applicant's employment had not be interrupted.

Program regulations allow the PHA discretion in limiting homeownership assistance to "families or purposes" defined by the PHA.

**For example, this allows PHAs to limit eligibility to:**

- Current program participants or program participants that have been receiving rental assistance and have been in "good standing" for an established length of time. As discussed earlier, the primary considerations here seem to be that current participants are a known quantity, and/or that the PHA is able to earn administrative fees for the families while they are preparing for homeownership. Income targeting requirements may also limit the number of eligible families that could qualify for homeownership directly from the waiting list.

- Family Self-Sufficiency participants. FSS participants are often good candidates a for a homeownership program because they are generally highly motivated families who have some employment history and some savings that can be used to cover the downpayment and settlement costs associated with buying a home.
- Other groups designated by the PHA. This could include targeting the program for special needs families, such as elderly/disabled families.

### **MAXIMUM TIMES TO LOCATE AND PURCHASE A HOME**

Under the Homeownership Voucher Program, no voucher is issued to the prospective homebuyer, and HUD prescribes no time limits on the search period. The PHA may adopt local policies regarding the maximum time it will allow a family to find and to complete the purchase of a home. A PHA may also make a distinction (*with separate time limits*) for locating a potential house and actually closing on the home.

Based on local experience with housing search in the rental assistance program, and an expectation that families will require a longer search period to find a home, many PHAs have established 120-180 days as the basic homeownership search period. If the PHA is willing to extend this period under certain conditions, the Administrative Plan should state the conditions.

### **ISSUING NON-PURCHASING FAMILIES A RENTAL VOUCHER**

Homeownership voucher regulations allow a PHA the option of issuing a rental voucher to unsuccessful applicant (*non-participant*) families at the conclusion of the search period, requiring them to re-apply for housing voucher assistance, or returning the families to the housing voucher waiting list (*at either the top or bottom of the waiting list*). The Administrative Plan should state whether, and under what conditions, the PHA will issue rental vouchers to unsuccessful applicant families.

### **COUNSELING REQUIREMENTS**

Homeownership Voucher Program regulations require that participant families attend and satisfactorily complete a pre-assistance housing counseling program identified by the PHA. The regulations suggest, but do not require, topics to be covered. The Administrative Plan should include the counseling topics that are required by the PHA. If the PHA permits some modification in the topics covered based on the needs of individual families, the Administrative Plan should state what modifications are permitted and how the decision will be made. If the PHA also requires post-purchase counseling, it should include it in the Administrative Plan.

## MINIMUM DOWN PAYMENT OR EQUITY REQUIREMENTS

Program regulations require a PHA to demonstrate its capacity to operate a homeownership program by meeting one of three criteria. The first is “... establishing a minimum down payment requirement of at least three percent of the purchase price, and requiring that at least one percent come from a family’s personal resources.” This does not mean that the PHA is required to establish down payment or equity requirements for families who wish to participate in the voucher homeownership program. If a PHA elects to adopt any minimum down payment or equity requirements, the requirements then should be spelled out in the Administrative Plan.

## REQUIREMENTS FOR FINANCING THE PURCHASE

A PHA may also demonstrate its capacity to operate a homeownership program by requiring that the loan used to finance the purchase of a home either

Be provided, insured, or guaranteed by the State or Federal government.

Comply with secondary mortgage market underwriting requirements.

## COMPLY WITH GENERALLY ACCEPTED UNDERWRITING STANDARDS.

Again, the PHA is not required to impose these requirements, but if it chooses to do so, this policy should be stated in the Administrative Plan.

The Administrative Plan should state any other standards the PHA will use to review the families’ proposed financing, refinancing, or other debt secured by the home. These include standards relating to qualifications of lenders or the terms of the proposed financing, such as:

**Qualifications of Lenders:** The PHA may adopt policies relating to the qualifications of lenders. Some PHAs, for example, have prohibited the use of seller financing. Others require case-by-case approval of lender financing arrangements.

Balloon mortgages, which allow payment of interest only during the term of the loan, and the full amount (*the “balloon”*) of the principal at the end of the term. Mostly associated with widespread defaults during the Great Depression, the balloon mortgage has been brought up to date in a number of variations on the original theme. Generally, the use of balloon financing is not recommended unless the borrower knows that he/she will sell the home before the balloon payment is due, or will be able to refinance when the balloon payment is due.

Adjustable rate mortgages that have interest rates that are subject to increase during the term of the loan. Adjustable rate mortgages, that frequently have lower initial interest rates than fixed rate loans, are generally more attractive when interest rates are especially high. They are less attractive when interest rates are low, because borrowers risk negative amortization if interest rates rise substantially and a larger portion of the monthly payment is consumed by interest charges.

The PHA may also disallow certain overly restrictive provisions in the financing agreement, such as a prohibition on prepayment of the mortgage, high prepayment penalties, predatory loans, or other abusive lending practices.

### **AFFORDABILITY RESTRICTIONS ON DEBT SECURED BY THE HOME**

The PHA may adopt policies regarding the affordability. The affordability can be placed on loans taken out to finance the purchase of the home, or loans proposed subsequent to the purchase that are secured by the family's equity in the home, such as "cash out" refinancing and/or home equity loans that provide cash for home repairs, improvements, or non-housing consumer spending. Many lending institutions tout the availability of home equity loans as "turning your home into a checking account." PHAs may wish to ensure that the checking account is not overdrawn by requiring families to secure PHA approval for any loans secured by the value of the family's home, and develop standards for the affordability of these loans. These standards must be included in the PHA's Administrative Plan.

### **FINANCING AFFORDABILITY**

Unlike the rental assistance program, voucher homeownership regulations do not impose an affordability cap on the homeownership expense of participant families. Nevertheless, PHAs have the option to disapprove proposed financing, re-financing, or other debt secured by the home (*such as a home equity loan*) if they determine that the debt is not affordable. The PHA's standards for determining affordability must be included in the Administrative Plan.

Mortgage lenders generally impose limits of 36-50 percent of gross monthly income on the amount of "back-end" debt — the total housing and non-housing debt — that borrowers can assume. The PHA may wish to apply this or a similar standard when financing is provided by other than a traditional lender (*e.g., seller financing*).

## REQUIREMENTS FOR CONTINUATION OF HOMEOWNERSHIP ASSISTANCE

- The actual cost of principal and interest on the initial mortgage debt (*or refinancing of initial debt*), and any required mortgage insurance premium.
- The actual cost of real estate taxes and other public assessment on the property.
- The actual cost of home insurance.

Homeownership Voucher Program regulations require that participating families comply with certain family obligations in order to qualify for continued assistance. These family obligations are regulatory and stated in 24 CFR § 982.633 and need not be reiterated in the PHA's Administrative Plan. The regulations allow the PHA to establish additional requirements for continuation of homeownership assistance. Any PHA-established requirements for continued participation must be included in the PHA's Administrative Plan. The PHA may, for example, require families to participate in post-purchase counseling.

The PHA may also require annual or periodic post-purchase inspections of the assisted unit. Some PHAs feel strongly that periodic inspections are important to ensure that the unit is maintained in good condition, and believe that this additional level of oversight can be used to encourage participation of the program to lenders. Other PHAs have looked ahead at what might happen if deficiencies identified during the inspection were not corrected by the family, and have decided to leave enforcement on the maintenance of the unit up to the family, lender, and/or local code enforcement authorities.

## DETERMINING HOMEOWNERSHIP EXPENSES

The PHA is required to adopt policies for determining the amount of homeownership expenses it will allow. Most elements of the homeownership expense are based on the family's actual expenses, or allowances that the PHA has already established.

**For homebuyers other than families purchasing shares in a co-op, the PHA is required to include:**

- An allowance for utilities, in accordance with the PHA's utility allowance schedule for the rental voucher program.
- For the homeownership program, the PHA must also include:
  - An allowance for routine maintenance expenses.
  - An allowance for the costs of major repairs and replacements of major systems and appliances.
- The actual cost of principal and interest on mortgage debt incurred to finance the cost of major repairs and replacements, or to improvement to the home.
- Input participant data correctly into PIC



These allowances are intended to allow program families to set aside a small amount each month against the time when major repairs or replacements are necessary. The PHA must decide the appropriate levels for the allowances, based on its expectations concerning the cost, frequency of repairs, and system replacements to homebuyers in local markets. The amount allowed should not be adjusted to reflect the age or condition of the unit purchased by the family or the actual cost of the specific repair. The PHA may advise families about the importance of establishing a “rainy day” fund, but it may not hold assistance payments aside in escrow for the family. The PHA could require the family to maintain a minimum balance and/or make monthly contributions to a savings account to be used as replacement reserve as an additional requirement for continued assistance. The PHA can review the account during the annual recertification.

After purchasing the home, the family may find it necessary to pay for major repairs and/or replacements that exceed the amount available in their reserve. If the family takes out a loan to finance the cost of major repairs and/or replacements, or to make improvements to the home, the PHA must include debt service for the loan in the family’s homeowner-ship expense. The PHA’s policies for determining reserve amounts must be included in the PHA’s Administrative Plan.

For families purchasing shares in a co-op, the PHA may also include allowances for the co-op charge (*which includes payments for real estate taxes and public assessments*) and for co-op maintenance fees assessed by the co-op association. Families purchasing condominiums

are also eligible to receive any allowances provided by the PHA for condominium maintenance fees assessed by the homeowner's association. For families purchasing units where the family will not own the land (*assuming the eligibility requirements for such a unit are met*), the monthly homeownership expenses would include land lease payments.

### LIMITATIONS ON MOVES BY FAMILIES

A PHA may establish policies limiting the number of moves that a family in the homeownership program may make in any one-year period. These moves would include both moves from one homeownership unit to another, and moves from a homeownership unit to rental unit.

**However, PHAs may not impose other PHA restrictions on homeownership families' right to move, unless the family is subject to termination or denial of assistance because of either:**

- Noncompliance with Housing Choice Voucher Program requirements.
- Failure to comply with family obligations under the Homeownership Voucher Program.
- Mortgage default.



If the family defaults on the original mortgage loan, or any subsequent refinancing of the loan used to purchase the assisted unit, the PHA may allow the family to move to a new unit with rental assistance. (*However, this is not an option if the family has defaulted on an FHA-insured loan, and has not conveyed the title to HUD, and moved out of the home within the required period.*)

The PHA's policies, if any, on moves by homeownership families, and on the provision of rental assistance to families in default on their mortgage loans, must be included in the Administrative Plan.

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### PHA REPORTING REQUIREMENTS

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PHAs are reminded that information on families assisted under the homeownership option is reported on section 15 of Form HUD 50058. It is extremely important that the PHA correctly identify homeownership participants in reporting program participant data to HUD.

for more information  
**[WWW.HUD.GOV](http://WWW.HUD.GOV)**

