

**Moving Home:
Minneapolis Public
Housing Authority's
Moving to Work
Program**

May 21, 2001

Prepared for
Rod Solomon
U.S. Department of Housing and
Urban Development
Office of Policy, Program and
Legislative Initiatives
451 7th Street, NW
Washington, DC 20410-3000

Prepared by
Jennifer Turnham
Sonia Ahmad

Moving Home: Minneapolis Public Housing Authority's Moving to Work Program

Introduction

Since August 1998, the Minneapolis Public Housing Authority (MPHA), a participant in the U.S. Department of Housing and Urban Development's Moving to Work (MTW) demonstration, has implemented a Section 8 homeownership program. The design of this program predates the Quality Housing and Work Responsibility Act of 1998, which authorized Section 8 participants to convert their federal rental subsidy to a mortgage subsidy, and the publication of HUD's Section 8 Homeownership Program rule (proposed in April 1999 and final in September 2000). Moving Home, as the program is known locally, is designed to assist 50 families currently receiving Section 8 rental assistance to purchase homes in the City of Minneapolis. The goal of the Moving Home program is to increase homeownership opportunities for Section 8 participants and to support the agency's broader goal of helping families to achieve economic stability and self-sufficiency. Approved families are able to apply their Section 8 Housing Assistance Payment (HAP) toward a monthly mortgage payment, rather than rent. The MPHA is working with Wells Fargo Mortgage and Community Reinvestment Fund to finance and service loans for the 50 participant families. Moving Home participants also receive individualized homebuyer counseling from Thompson Associates, Inc., a private firm specializing in counseling for first-time homebuyers. This report examines the design and implementation of the Moving Home program and discusses its progress to date in meeting its objectives.¹

Program Design and Objectives

The Minneapolis Public Housing Authority manages nearly 5,900 public housing units and administers approximately 4,300 Section 8 certificates and vouchers in the City of Minneapolis. Since 1994, the MPHA has operated a successful homeownership program for its public housing and Section 8 residents. This program, known as Homeownership Made Easy (HOME), provides families with access to below market rate interest rate loans, down payment and closing cost assistance, and homeownership counseling in order to assist them in purchasing homes in the Minneapolis metropolitan area. To date, 119 families have purchased homes through the HOME program and there have been no instances of loan default.

¹ This case study is based primarily on interviews conducted by Abt Associates with MPHA, Thompson Associates, and HUD Field Office staff on a two-day site visit, which took place February 1-2, 2001. It also draws upon a database of MPHA MTW participants provided by the agency in May 2001.

The MPHA's MTW demonstration program, Moving Home, grew out of the success of the HOME program. Through its experience administering HOME, the MPHA had developed working partnerships with local lenders and the Family Housing Fund, a local housing nonprofit, as well as with Thompson Associates, Inc., a private firm contracted to provide first-time homebuyer counseling. The regulatory flexibility afforded by the MTW demonstration offered the MPHA a unique opportunity to broaden the pool of potential home buyers and to provide residents with ongoing Section 8 financial assistance after they purchase a home for up to five years, something that HOME is not able to do.

Using the MTW demonstration to expand homeownership opportunities for Section 8 participants also suits the local context. The Minneapolis-St. Paul area has historically had one of the highest homeownership rates in the country and at the time that the MPHA signed its MTW agreement, single-family homes in the \$60,000 to \$80,000 price range were readily available. The area has also had a relatively low rate of unemployment – averaging about two percent over the last three years compared to a national average of about four percent – and a high percentage of two-income families. The MPHA runs a large Family Self-Sufficiency Program (FSS), through which participating families receive an escrow credit for increases in earned income during the term of the FSS contract. The MPHA also has Economic Development and Supportive Services (EDSS) funding to provide residents with employment assistance.² These local factors, in addition to the MPHA's proven track record with homeownership initiatives, played a role in shaping the Moving Home demonstration.

The principal objective of Moving Home is to provide homeownership opportunities for Section 8 participants with the resources and credit history to be able to purchase a home relatively quickly, but who need ongoing assistance to meet their monthly mortgage payments. A secondary objective of the program is to provide an incentive for Section 8 participants to seek employment (or a higher salary) through participation in the MPHA's FSS and/or EDSS programs. When homeownership is presented as a viable option, families are more likely to see the benefits of maintaining employment and accruing savings. In addition, participants who join Moving Home receive valuable credit counseling and referrals to help them achieve financial stability while preparing to purchase a home.

When the MPHA first proposed the Moving Home program in its application to the MTW demonstration in 1997, Congress had not yet enacted the Quality Housing and Work Responsibility Act (QHWRA) authorizing Section 8 participants to convert their federal rental subsidy to a mortgage subsidy. Moreover, HUD's final rule on the Section 8 Homeownership Program, issued in September 2000, was over three years away. As a result, when the MPHA signed its MTW agreement with HUD in August 1998, Section 8

² As of April 2001, the MPHA had 316 participants in its FSS program – 147 from public housing and 169 from Section 8.

homeownership was a relatively new concept and the MPHA was one of the few housing authorities nationwide undertaking homeownership activities.³

At the time that Moving Home was designed, there were few models available of how to apply Section 8 rental assistance toward the principal, interest, and taxes on a home mortgage. With hindsight, many features of the MPHA's Moving Home demonstration program conform to HUD's recent Final Rule on Section 8 Homeownership; however, the program was developed in advance of these guidelines and was based primarily on the MPHA's experience with the HOME program. The principal features of the Moving Home demonstration are summarized below.

Program Size, Time Limits, and Geographic Scope

Under its MTW agreement, the MPHA is authorized to provide homeownership assistance to a total of 50 families through the Moving Home program.⁴ For each family that purchases a home, the MPHA is authorized to make housing assistance payments to or on behalf of the homeowner for a period of up to five years. In hardship situations, the MPHA may grant an extension of up to one year. This term of assistance in the MPHA's MTW program is significantly shorter than that allowed by the final rule of HUD's Section 8 Homeownership Program, which establishes a maximum term of Section 8 homeownership assistance of 15 years if the initial mortgage has a term that is 20 years or longer and 10 years in all other cases.

Moving Home participants must purchase homes within the City of Minneapolis in order to be eligible for assistance, and the assistance can only be used for payment of PITI (principal and interest owing to the mortgage lender for amounts borrowed to purchase the home, real estate taxes, and insurance for the home). In addition, the current MTW agreement also specifies that a member or members of each family assisted under the demonstration shall take title to the home within three years from the date of execution of the MTW Agreement by HUD.⁵

Eligibility Requirements

In order to be eligible for Moving Home, a family must be a current MPHA Section 8 certificate or voucher holder, a first-time homebuyer, and have at least one dependent at home. One or both adults in the household must be employed full-time (and have been employed for at least one year), and the family must be participating in and in compliance

³ Following the issuance of its interim rule on Section 8 homeownership in April 1999, HUD authorized an additional 15 public housing authorities (PHAs) to develop pilot Section 8 homeownership programs.

⁴ Although the terms of the agreement limit the number of families who can apply their Section 8 assistance to homeownership to 50, the MPHA may provide homeownership counseling to more than 50 families with the assumption that not all participants will go on to purchase a home.

⁵ Due to delays in reaching an agreement with a lender for this program, the MPHA recently requested from HUD a two-year extension of this deadline.

with the MPHA's FSS program.⁶ Annual income for the family must be at least \$16,000, which at the time the program was designed was determined to be sufficient to allow a family with a good credit history and approximately \$1,500 in savings to purchase a home in the \$70,000 price range.⁷ Finally, the family must meet underwriting criteria and be able to qualify for and obtain a mortgage from the lender participating in the program.

Applications and Intake

Within the MPHA, Moving Home is administered by the Public Housing Manager in charge of Homeownership Programs. She conducts a preliminary eligibility assessment for all Moving Home applicants, which includes verification of income, employment status, number of dependents, rental history, and FSS participation. Eligible families are then referred to Thompson Associates, the firm that provides homeownership counseling services for the Moving Home and HOME programs, for a more in-depth assessment of the families' suitability for homeownership assistance. This second assessment involves obtaining a credit report and meeting with families to discuss their financial situation and goals. Families determined to be either mortgage-ready, or close to mortgage-ready, are admitted to the Moving Home program. Families likely to require a longer period of time to become creditworthy, or unable to provide a down payment, may be referred instead to the HOME program.⁸ One advantage of having the same firm perform counseling for both programs is that families may join whichever program is determined to be most appropriate for their needs.

Homeownership Counseling

Moving Home participants are required to participate in homeownership counseling for the duration of the demonstration. The counseling is designed to prepare families for the realities of homeownership, and covers issues ranging from securing a mortgage to maintaining a home. The counseling is provided by Thompson Associates, a residential real estate marketing, sales and consulting firm that specializes in developing and implementing programs for non-profit and governmental organizations, and providing education for first

⁶ HUD's Section 8 Homeownership program requires that one or more adult members of the family who will own the home must be employed on a full-time basis and have been continuously employed for one year before the commencement of homeownership assistance. The regulations do not, however, require participation in the FSS program.

⁷ MPHA staff suggest that this level of income is now too low to enable a family to purchase a home in the City of Minneapolis. It is higher, however, than the minimum income required by HUD's Section 8 Homeownership Program, which is equal to 2,000 hours of annual full-time work at the Federal minimum wage (\$10,300 at the current minimum wage). The minimum annual income required for participation in MPHA's HOME program is \$15,000.

⁸ In general, HOME offers a longer timeframe than Moving Home in which families may become eligible for a mortgage, because of the requirement that Moving Home families take title to homes within three years of the execution of the MTW Agreement. However, participants in the HOME program do not receive ongoing housing assistance to help them meet monthly mortgage payments, so generally require higher annual incomes than those in Moving Home.

time low and moderate income homebuyers. Thompson Associates is compensated on a monthly and per client basis through a joint agreement between the MPHA and the Family Housing Fund.⁹

Thompson Associates' homeownership counseling is conducted on an individual basis and is tailored to the specific circumstances and needs of each family. For most families, repairing poor credit is the first step in this process. Thompson Associates obtains a credit report for each Moving Home participant as part of the intake process, and on the basis of this report sets up a plan with the family for achieving the credit rating necessary to obtain a mortgage. If the family faces significant personal or financial challenges, the Thompson Associates counselor generally refers them to one of several local agencies and nonprofit organizations for assistance. For example, the Metropolitan Financial Credit Agency provides counseling and referrals to families with severe credit problems.

In addition to helping families address their credit issues, Thompson Associates also educates families about the loan application process, working with a realtor, locating a home, and the documents to be signed at the closing. Thompson Associates provides mortgage-approved families with listings of real estate agents, but does not advise them to select a particular agent. Similarly, although the Thompson Associates counselor has access to the MLS listing of homes for sale, she does not provide any direct home search assistance (this is handled by the real estate agent). The counselor does, however, accompany families to the initial loan application and to the closing. The counselor also follows up with families after they purchase a home to ensure that they continue to be able to meet their payments and to provide referrals for additional assistance as needed. Post-purchase follow-up is particularly important because much of the affordable housing in Minneapolis is old and families may require assistance with home maintenance and repair. This follow-up takes place through periodic telephone calls and an annual home visit by the Thompson Associates counselor.

A recent assessment of the HOME program prepared for the Family Housing Fund described Thompson Associates as "one of the program's greatest assets because of the quality of the counseling that it has delivered consistently since the program's inception."¹⁰ Particular strengths of Thompson Associates' counseling include: preparing families for the mortgage

⁹ Thompson Associates' contract covers providing homeownership counseling to both Moving Home and HOME participants. Thompson Associates provides largely the same counseling services for participants of each program, notwithstanding the differences between the two programs in the type of financial assistance provided, which affects some aspects of the financial counseling. The MPHA has allocated \$25,000 of its technical assistance grant funds to subsidize counseling provided by Thompson Associates Moving Home participants. Under the terms of the MTW agreement, HUD has made available to the MPHA a minimum of \$75,000 in technical assistance through Spectrum Consulting/Abt Associates, the MPHA's designated technical assistance provider, and a maximum of \$75,000 in grant funds to be dispensed over the course of the demonstration.

¹⁰ Program Assessment of the HOME Program prepared by Ana Moreno for the Family Housing Fund.

loan application; accompanying families on visits with the lender, which adds to the families' comfort level; helping families to resolve their credit issues thoroughly prior to applying for a mortgage; and developing a trusting relationship with families. The Thompson Associates counselor commented that part of the reason that HOME has thus far had no instances of mortgage default is that both the lenders and the families know that they have someone to call if they need assistance. In the case of the lender this is primarily MPHA's Manager of Homeownership Programs, and for the families it is the Thompson Associates counselor.

Under HUD's new Section 8 Homeownership Program, public housing authorities (PHAs) are required to provide homeownership and housing counseling for participating families. The program regulations note that: "experience with low-income homeownership programs has demonstrated that quality counseling is imperative for successful homeownership and prevention of mortgage defaults." Based on its success with the HOME and Moving Home programs, the homeownership counseling provided by the MPHA through Thompson Associates may be considered a model for Section 8 homeownership programs developed under the new rule. In particular, the individualized and comprehensive nature of the services provided by the Thompson Associates counselor – which includes pre- and post-purchase counseling and accompanying the family to meetings with the lender and the closing – and the firm's expertise in case management as well as real estate marketing appears to be very effective in preparing families to make the transition from assisted rental housing to homeownership.

Application of Housing Assistance Payment (HAP) to Monthly Mortgage

Under the Moving Home program, families participate in the Section 8 voucher rental program until they purchase a home. Once the purchase is completed, the family continues to pay 30 percent of their income toward monthly payments of PITI. The family is also required to make an additional monthly payment of \$25 into an escrow account administered by the loan servicer to be used to pay for home repairs. The Section 8 Housing Assistance Payment (HAP) is made directly to the loan servicer to cover the remainder of the mortgage payment.¹¹ Families are reevaluated each year and may continue to receive Section 8 assistance for up to five years provided that the family: continues to be eligible for tenant-based assistance under the Section 8 program; remains in the home and uses the home as the family's sole residence; has an outstanding mortgage balance; has a family member take title to the home within three years of the execution of MPHA's MTW agreement by HUD; and continues to participate in the FSS program and attend counseling as required by MPHA.

In designing the Moving Home program, one of the first decisions facing MPHA staff was how to apply the HAP to a monthly mortgage payment. Program staff had two options. The first option was to consider the HAP an addition to the family's available monthly income,

¹¹ The HAP for Moving Home participants is equal to the lower of (1) the payment standard minus the total tenant payment or (2) the monthly homeownership expenses minus the total tenant payment. The family is responsible for the monthly homeownership expenses not reimbursed by the HAP. MPHA uses the utility allowance schedule and payment standard schedules applicable to the Section 8 voucher rental program.

and use that income to determine the amount of loan for which the family qualifies. The other option was to calculate the monthly PITI that the family could afford without assistance, and apply the HAP as a direct reduction of the house payment and not as a source of income. This second method of applying the HAP allows the family to qualify for a larger mortgage than they would under the first option, where only a portion of the HAP (typically 30 percent) would go toward the monthly PITI. Under the second scenario, however, the family would be responsible for a larger monthly payment at the end of the period of assistance (five years in the case of Moving Home). As a result, when the initial MTW agreement was put in place, MPHA opted for the first approach even though it resulted in lower mortgages, because program staff felt that treating the HAP as income would make it easier for families to assume the full PITI within five years.

Lender Agreement and Down Payment and Closing Costs

MPHA has an agreement with Wells Fargo Home Mortgage to provide loan products for up to 50 families participating in the MTW demonstration.¹² Wells Fargo in turn has an agreement with Community Reinvestment Fund (CRF), a loan servicer, to service the 50 loans. Through the agreement with MPHA, Wells Fargo makes the products of its Community Home Buyers programs available to Moving Home participants. These products include features such as low down payments, qualifying ratios up to 38 percent of income, loans requiring no payment reserves, and loans with below market interest rates. Wells Fargo has dedicated one loan officer to work with Moving Home participants, and the MPHA's Manager of Homeownership Programs communicates with this person to ensure that Moving Home participants are making their mortgage payments on time. Wells Fargo has also agreed to receive two payments – one from the participant and one from the MPHA to fulfill the monthly mortgage payment. In order to ensure that the lender receives the HAP in a timely manner, the Manager of Homeownership Programs currently requests HAPs for Moving Home participants two weeks ahead of time and processes them manually. This gives the lender a high level of assurance and helps to offset the inconvenience of receiving two monthly payments.

Through the agreement with Wells Fargo, Moving Home participants are able to reduce the amount of cash needed for closing costs by taking out a Community Home Ownership Program (CHOP) loan. Unlike the HOME program, however, there are no funds available to assist Moving Home participants with down payments. To cover down payment and closing costs, families may use up to 50 percent of their FSS escrow funds. The MPHA has also agreed to make \$50,000 of its technical assistance grant funds available to assist Moving Home participants with down payment and home inspection costs.¹³ This assistance will be

¹² At this point in the demonstration, Moving Home participants do not have a choice of lenders and must work with Wells Fargo to obtain a mortgage.

¹³ As discussed above (footnote 9), the MPHA has allocated the remaining \$25,000 in technical assistance grant funds to subsidize the homeownership counseling provided by Thompson Associates.

in the form of a grant to families (maximum \$1,000 per family) with no repayment obligations.

Housing Quality Standards

All homes purchased through the Moving Home program must pass HUD's Housing Quality Standards (HQS) prior to purchase and annually thereafter for the duration of the demonstration. This represents a difference from HUD's Section 8 Homeownership Program, which only requires that homes purchased pass an initial HQS inspection. The annual HQS inspection required in Moving Home imposes a burden on MPHA staff and participating families, but is viewed as an asset by the lender. PHAs developing new Section 8 homeownership programs may choose to require annual HQS inspections as a way to market the program to lenders.

In addition to HQS, Moving Home participants (like participants in HUD's Section 8 Homeownership Program) are required to have an independent home inspection prior to purchasing a home. The MPHA's experience with the HOME program suggests that the low income of program participants often compels them to consider purchasing older homes, which may be in need of repair. Although Minnesota law requires that buyers complete a truth-in-lending disclosure, the independent inspection helps to further safeguard buyers and the lender against major structural problems and design flaws.

Program Implementation

The Moving Home program began in the fall of 1998 when the MPHA's MTW agreement with HUD was executed. During the first year of Moving Home, MPHA staff conducted outreach to all families with Section 8 two-bedroom certificates and vouchers, inviting them to attend an informational session regarding the program. Of the approximately 750 families solicited, 175 attended the orientation sessions and 98 went on to apply to the program. To date, program staff have worked with a total of 123 families to conduct eligibility reviews, provide individual counseling on budgeting, credit, and home purchase issues, and provide assistance in obtaining pre-approval for loans. Of these families, most were not mortgage ready at the time they applied to the program. According to MTW staff, many families who meet the eligibility criteria of the program joined the FSS program after they were employed and thus have not accrued large escrow accounts to help with down payment and closing costs. In addition, many program applicants have significant credit issues. The average length of time that it takes for a new applicant to qualify for a conformable mortgage is 10 to 13 months.

As of May 2001, there are approximately 50 families actively participating in Moving Home. Many program participants are single mothers, with families ranging in size from two to eight people. Annual household income among program participants ranges from \$9,144 to

\$36,000, with a median income of \$21,839.¹⁴ Currently, the Moving Home program has five families who have pre-qualified for mortgages for homes in the \$90,000 price range. Only one family, however, has purchased a home through the program. Program staff suggest that the main reason more Moving Home families have not been able to purchase homes is that there are very few \$90,000 homes available in the current Minneapolis housing market, something that was not the case in 1998 when the MTW agreement was signed.¹⁵

Although current housing market statistics are difficult to come by, it does appear that home sales prices in the Minneapolis area have risen rapidly in the last five years, and in particular have outpaced the growth in wages. As mentioned earlier, the Minneapolis-St. Paul metropolitan area has historically had a high rate of homeownership relative to other metropolitan areas and the nation, and in the last few years this has coincided with an extremely tight rental market. (See Tables 1 and 2.) As affordable rental units have become more difficult to find, families increasingly perceive homeownership as a viable option. Increased demand for homes, coupled with relatively low interest rates, may have contributed to the recent escalation in home sales prices. The median sales price of existing homes in Minneapolis-St. Paul has increased by 18 percent between 1998 and 2000. Median family income, by contrast, increased only by an estimated 13 percent. (See Table 3.) The latest sales price figures show a median residential home sales price for March 2001 of \$164,900, up nearly 15 percent since March 2000.¹⁶

The escalation of home sales prices over the last two years has seriously hampered the ability of Moving Home participants to purchase homes. As mentioned, the five program participants currently searching for houses have been approved for mortgages in the \$90,000 price range, but program staff report that homes in this price range are now extremely difficult to locate. The one participant who was successful in purchasing a home found one for \$87,000 in June 2000. Less than a year later, program staff suggest that homes at this price that are in good repair are very scarce in the City of Minneapolis, where the program operates. Families need to be able to afford a \$130,000 mortgage in order to have a range of housing choices. This appears to be equally true of existing homes, substantial rehabilitation, and new construction.¹⁷

¹⁴ Although the program technically has a minimum income requirement of \$16,000 per year, program staff may choose to accept families who fall below the threshold at the time of application but expect to increase their income in the near term.

¹⁵ According to program staff, single-family homes in the \$60,000 to \$80,000 price range were readily available in Minneapolis in 1998. As an example, the median price of homes purchased through MPHA's HOME program between 1990 and 1999 was \$67,000, with prices ranging from \$27,000 to \$149,000. Moreno, Program Assessment of the HOME Program.

¹⁶ Minneapolis Area Association of Realtors (<http://www.mplsrealtor.com/marketstatistics.htm>).

¹⁷ Program staff suggest that homes acquired and rehabilitated by nonprofit organizations in the Minneapolis area generally sell for \$115,000 to \$130,000. In addition, the Minneapolis Community Development Agency (the development arm of the City of Minneapolis) recently advised Moving Home staff that costs for their new construction two-, three- and four-bedroom homes for low to moderate income families range from \$130,000 to \$185,000.

Table 1: Homeownership Rates, 1990-2000

	1990	1995	2000
National Average (%)	63.9	64.7	67.4
Average of 75 Largest Metropolitan Areas (%)	61.3	61.7	65.5
Minneapolis-St. Paul Metropolitan Area (%)	62.5	66.6	73.1

Sources: U.S. Census Bureau.

Table 2: Rental Vacancy Rates, 1990-2000

	1990	1995	2000
National Average (%)	7.2	7.6	8.0
Average of 75 Largest Metropolitan Areas (%)	7.1	7.6	7.7
Minneapolis-St. Paul Metropolitan Area (%)	6.5	4.9	3.9

Sources: U.S. Census Bureau.

Table 3: Median Family Income and Median Sales Price of Existing Homes, Minneapolis-St. Paul Metropolitan Area, 1998-2000

	1998	1999	2000	% Change, '98-'00
Median Sales Price of Existing Homes	\$128,000	\$138,700	\$151,400	18%
Median Family Income	\$60,800	\$63,600	\$68,600	13%

Sources: National Association of Realtors, U.S. Department of Housing and Urban Development.

The increase in house prices has also affected MPHA's HOME program, where families have continued to purchase, but at a slower pace. Participants in the HOME program, however, may look for homes in the entire Minneapolis metropolitan area, while Moving Home participants are restricted to the City of Minneapolis. It appears that some suburban communities may contain housing that is both affordable and appealing to program participants. Moreover, in addition to the down payment and closing cost assistance that they receive through the program, a significant number of HOME participants have received additional financial assistance in the form of relocation grants through the Hollman consent decree.¹⁸

¹⁸ *Lucy Hollman et al v. Henry Cisneros et al.*, United States District Court, District of Minnesota, Fourth Division, 4-92-712, Consent Decree March 8, 1995.

The extreme tightness of the Minneapolis housing market is the main reason that the MPHA's Moving Home program has thus far not made as much progress as expected toward its goal of assisting 50 families to purchase homes. However, the initial implementation of the program was also delayed by the length of time that it took to secure an agreement with the local lender.

At the start of the demonstration, the MPHA entered into negotiations with two lenders – Wells Fargo Mortgage (then Norwest Bank of Minnesota, NA) and Twin Cities Federal (TCF) – with the idea that each lender would finance and service 25 loans. These negotiations took much longer than anticipated, primarily because the lenders had difficulty identifying appropriate loan products to serve Moving Home participants and were concerned about receiving two separate monthly mortgage payments – one by the family and one by MPHA. Ultimately, the MPHA reached an agreement with Wells Fargo (and the loan servicer CRF) to finance and service loans for the 50 families in the demonstration.¹⁹ Before this agreement was reached, however, no families could obtain financing under the MTW program in order to purchase a home.

A number of the PHAs that participated in HUD's Section 8 homeownership demonstration have also struggled with lender resistance to receiving dual payments.²⁰ In some cases, as in the case of Minneapolis, the lenders have been persuaded to accept dual payments. In other cases, however, PHAs have had to identify more creative ways to satisfy lender demands. Some PHAs have agreed to issue the HAP directly to the family, thereby enabling the family to write a single check to the lender.²¹ Others have allowed the lender to withdraw the family's portion of the mortgage directly from their bank account, which gives the lender some assurance of receiving the payment on time. The experience of the MPHA and the participants in the Section 8 homeownership demonstration suggests that negotiating agreements with local lenders will likely be a significant and time consuming component of developing a Section 8 homeownership program under the new rule.

Program Outlook

The MPHA's MTW program currently faces its biggest challenge to date in the highly competitive Minneapolis housing market. Program staff contend that participants need to qualify for larger mortgages in order to be able to find suitable units in the current market. The MPHA is currently considering several actions, including approaching partner agencies to obtain gap financing for program participants and changing the way the HAP is applied, which (as described above) would allow families to qualify for significantly higher

¹⁹ The MPHA was not able to reach an agreement with TCF.

²⁰ The experiences of five of the 15 PHAs participating in HUD's Section 8 homeownership demonstration are described in "The Section 8 Homeownership Program: A Selective Review of its Success," *Housing Law Bulletin* 31 (June 2001): 1-10.

²¹ This option is allowed under HUD's new Section 8 Homeownership Program.

mortgages. Each of these solutions, however, threatens to place an undue financial burden on the family given that Section 8 assistance is only available for five years under the terms of the current MTW agreement. If the HAP were to be applied directly to the mortgage payment, at the end of five years families would be faced with a higher mortgage payment, possibly compounded by secondary debt if gap financing were to be obtained.²² The MPHA has recently requested from HUD a modification to the MTW agreement to allow the MPHA to provide HAP assistance to program participants for a period of up to ten years. This would give families more time to build their incomes in anticipation of having to take on the entire mortgage payment at the end of the period of assistance, and may provide more security to lenders in offering additional financing.

In the meantime, the MPHA is continuing to conduct outreach to eligible Section 8 participants to ensure that it has 49 additional families in the program who are able to purchase homes. There has been a great deal of interest in the program, but many applicants have significant credit issues to address before they are able to qualify for a mortgage. As a result, program staff are trying to target those families that can be mortgage ready within a relatively short period of time. Staff currently monitor the escrow accounts of FSS participants on a monthly basis and contact families with large escrow accounts about participating in Moving Home. As more families begin to purchase homes through Moving Home, the MPHA plans to supplement the counseling provided by Thompson Associates with training in leadership skills, career growth, self esteem, and life skills.²³ This training is designed to assist families in sustaining stable employment and increasing their earnings through career advancement, something that will be crucial to their ability to cover their mortgage payments at the end of the demonstration period. This kind of training and support will become especially important should the MPHA decide to change the way that it applies the HAP to allow families to qualify for higher mortgages.

Although fewer families than expected have been able to purchase homes through the program up to this point, Moving Home has nevertheless proven to be an important demonstration in Section 8 homeownership, conceived and designed well in advance of HUD's Section 8 Homeownership Program. The MPHA's experience in negotiating an agreement with a local lender and in developing a highly successful counseling component that combines case management with real estate expertise offers valuable lessons to other public housing authorities developing Section 8 homeownership programs under the new rule. Moreover, the MPHA's success in developing creative ways to address the challenges

²² However, it may be that families who are successful in purchasing a home will be able to afford a higher mortgage payment at the end of five years, through increased earnings. It is still too early to tell from Moving Home and the other Section 8 homeownership demonstration programs how long families will continue to require Section 8 assistance after purchasing a home.

²³ The MPHA plans to fund a two- to three-day training session, as well as the development of a training manual and training materials, through the technical assistance funds made available through the MTW agreement.

presented by a very tight real estate – by identifying new sources of gap financing, applying the HAP directly to the mortgage payment, and possibly extending the term of Section 8 assistance – will provide a useful model for other programs facing similar market pressures.