

## MTW #1

# Affordable New Homes Program Columbus, Ohio

### **Purpose**

The purpose of this program is to stimulate the construction of new homes within the boundaries of the Columbus Public School District.

### **Market Served**

In designing an efficient housing production system to build affordable homes in the Columbus Public School District, the developers working to make this initiative a success had to overcome builders' perceptions that the market in the school district was limited. For many years, few new homes had been built in the public school district boundaries, while considerable new home construction outside that district expanded the suburbs.

### **Components**

This initiative is a public-private partnership carried out by Affordable Housing Associates, a venture of two private developers, State Savings Bank and the City of Columbus. The developers committed to invest in 400 sites for new homes; the bank committed \$38 million for land acquisition, site development and home mortgages.

The City provided \$1.2 million for \$3,000 in down-payment assistance for each homebuyer. Because private entities were willing to make these commitments, the City felt justified in using taxpayer dollars to spur development.

The process is as follows:

1. The developer acquires contractual site control. The city approves site selection.
2. The developer prepares development plans for each site and submits plans to the City for approval. After City approval of sites and plans, the developer enters into a development agreement with the City. When the plans are approved, the developer takes title to the land and contracts for creation of the subdivision, which includes clearing, excavation, installation of sewers, sidewalks and streets.
3. The City partially reimburses the developer for street construction costs in an amount equal to \$3,000 per improved lot. The developer then sells the lots to builders. At closing on the purchase of each lot, the developer deposits \$3,000 into an escrow. When the builder sells the lot, improved with a residence, the \$3,000 is applied for the purchaser toward down payment and closing costs.

Homebuyers needed only to be able to qualify for a mortgage. The program has no first-time homebuyer restrictions or household income ceilings.

## **Resources**

This initiative's only subsidy is the City of Columbus down payment assistance of \$3,000 per lot, funded through City bond proceeds and other sources. Because these are not federal funds, the use of this money does not trigger income-restriction requirements.

## **Results**

Phase I of the project (400 homes) started in April, 1995. To date, about 200 homes have been sold and the balance are in various stages of completion. Phase II (1,000 homes) was announced in November 1995. The average home is costing buyers around \$95,000.

## **Lessons**

### **1. A Production System**

This model works because it mirrors the normal building process, creating an efficient production system that involves key stakeholders—local developers, builders and a financial institution.

### **2. Income Mix**

Because the city funds did not have federal income requirements, residents will have a mix of income levels, which some consider good strategy for neighborhood revitalization.

### **3. Subsidy Issues**

Nonprofits had built new homes in Columbus but with significant subsidy, usually in the \$10,000 to \$22,000 range. This level of funding was difficult for the city to sustain and was an impediment to an efficient production system.

## **For more information, contact:**

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MTW #2

Baltimore City Employee  
Homeownership Program

# Baltimore, Maryland

## **Purpose**

The purpose of the Baltimore City Employee Homeownership Program was to increase homeownership in Baltimore by giving municipal employees a financial incentive to buy a home there.

## **Market Served**

The City identified low- and moderate-income municipal employees as a market to tap. Program development began with a survey of employees, to determine the extent of income eligibility for assistance under federal Community Development Block Grant and HOME funding. The survey found that, within the city's 25,000-employee workforce, a significant number of workers earning \$28,000 to \$30,000 were interested in owning a home in Baltimore.

The City initially planned to offer this sort of home-ownership program to police officers, firefighters, and teachers, but ultimately designed the plan to include all eligible municipal employees. Because the subsidies were mostly federal funds, the City decided the program could not be limited to specific groups.

## **Components**

1. The City and Fannie Mae developed a financing incentive to assist employees with down payment and settlement costs. The city would provide eligible employees up to \$10,000 in assistance. Employees had to have at least \$1,000 of their own money, which the City would match dollar for dollar up to \$2,500. This was supplemented by a \$7,500 deferred loan with a 10-year term that declined in balance each year.

Fannie Mae agreed to purchase loans made under this program through its Magnet® product, which is designed to promote employer-assisted housing plans. Fannie Mae also helped bring together local financial institutions to make first mortgages. A total of 18 lenders participated.

2. A marketing component to introduce employees to the program included presentations in city departments, brochures distribution and notices with paychecks.

3. The number of employees who participated in required homebuyer education show the degree of interest in the program: 825 took the course; 342 were eligible for the program, completed the training and received a certificate; and 213 purchased homes under this program

## **Resources**

The City budgeted \$2.0 million for this program using CDBG and HOME funds and repayments of Urban Development Action Grants.

## **Results**

The program opened in November of 1994 and by June of 1995, the allocation was spent.

Of the 213 employees who bought homes:

- 40% were police officers, firefighters and teachers;
- 75% were African-American;
- 25% were white, Latino and Asian;
- Were typically in their late twenties to mid-thirties;
- Had average income of \$24,600.

The average sale price was \$70,600; the average first mortgage was \$61,695.

## **Lessons**

### **1. Replication**

The City hopes to replicate this successful program, which achieved the objective of increasing homeownership in the city, in its own workforce. The City also is promoting the idea of employer-assisted home ownership among other major employers in Baltimore.

### **2. Stretching Resources**

Subsequent efforts are likely to provide less subsidy per homebuyer, so that resources can serve more people. Another change might be to spread funds over a multi-year period, awarding only a portion of the total per year.

### **3. A Good Risk**

Participation in the program was a good risk for the financial institutions. City employees represent a fairly stable workforce. To date, the portfolio has no loans at risk of default.

**For more information, contact:**

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Chief, Home Ownership Institute  
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**MTW #3**

**Chattanooga Neighborhood Enterprise Homebuyer  
Education**

# Chattanooga, Tennessee

## **Purpose**

In keeping with its often-stated business tenet—that intensive homebuyer education is a significant factor in determining whether a family will be successful in homeownership—Chattanooga Neighborhood Enterprise (CNE) designed and runs an extensive homebuyer education program, called Fastrak.

CNE is a nonprofit community lending institution specializing in housing that has grown significantly in the last ten years. In 1988, CNE helped seven buyers purchase homes; in fiscal year 1996, it helped 272 people buy homes. CNE also develops and manages affordable housing and works with social service providers.

Fastrak has been an integral part of that growth.

## **Components**

### **1. Screening and Tracking**

An important aspect of the CNE homeownership process is that the organization takes a buyer through all of the steps of purchasing a home, start to finish and beyond.

When potential homebuyers call CNE, they are immediately signed up for the next weekly orientation session and sent a follow-up notification of time, place and other details. CNE makes sure that inquiring callers are moved as soon as possible to an orientation and then to the appropriate homebuyer education venue, so that they can get a complete picture of homeownership's responsibilities before signing a sales contract.

CNE staff evaluate early on whether a potential buyer is knowledgeable enough to go into the eight-hour Fastrak class (most effectively done in two four-hour sessions). Depending on a customer's readiness, CNE might first do one-on-one counseling or recommend its Life Skills course, which is six sessions on household financing, smart shopping, strengthening relationships, home and car maintenance, personal growth and pre-purchase homebuyer training. Life Skills leads into the Fastrak course.

### **2. Training Materials**

CNE's standard-setting student and instructor guides, *Fastrak to Homeownership*, are known and used nationally in homebuyer education. The curriculum is accepted by numerous lending institutions. Fannie Mae has approved *Fastrak*, as have local, state and national government agencies. More than 200 public, private and nonprofits organizations nationwide use these training materials.

CNE sells the *Fastrak to Homeownership* books at cost, for \$12 plus shipping.

CNE charges homebuyers a \$100 fee for its homebuyer education, on the reasoning that customers value a service or product more if they've paid for it than if it is given away for free. This fee also can be financed with the home purchase.

*Fastrak* covers these homeownership topics: budgeting, underwriting and credit, finding a home, financing, the mortgage process and post-purchase subjects such as home maintenance and delinquency, default and foreclosure.

### **3. CNE's Homeownership Process**

The CNE homebuying process is as follows:

- A one-hour orientation, regularly offered on Wednesdays with morning and evening sessions, usually with about 30 attendees.
- Following orientation, CNE refers customers either to a *Fastrak* class; one-on-one counseling; or, less often, the Life Skills course.
- CNE then does a pre-certification, determining what kind of house a customer can buy if they are ready.
- If a customer attends an orientation session and is prequalified, CNE pulls a credit report on the customer within two days and then sends the customer a letter detailing immediate next steps.
- Originators do one-on-one counseling with customers who are ready to buy.
- Once a customer finishes the CNE *Fastrak* course (or courses, depending on which track was recommended), CNE processes their loan application quickly, usually in less than three weeks. This time period may lengthen depending on the property's condition.

### **4. Delinquency Intervention**

CNE is a mortgage lender and therefore does loan originating, processing and underwriting. It tracks the payments of its loan customers and does post-purchase counseling. If a customer is ten days late with a monthly payment, CNE mails a reminder card; at 15 days, CNE calls and offers counseling services and, beyond that, helps with a workout plan.

### **Results**

- In fiscal year 1996, 355 people went through *Fastrak* classes; 454 had homeownership counseling.
- *Fastrak* is a factor in the low delinquency rate of CNE mortgage loans, which is consistently at less than 2%. This rate is better than the national average for mortgage-lending delinquencies.
- Area lenders send customers to CNE for homebuyer education. The organization's education component makes \$35,000 per year.
- Since 1988, CNE has helped more than 900 people attain homeownership.

### **Lessons**

#### **1. Educational Hurdles**

CNE identifies budgeting as the most difficult subject for its *Fastrak* students. Technical items such as titles and surveys are difficult but not as necessary to master or as personally challenging as budgeting and credit.

## **2. Homeowner Confidence**

As Fastrak graduates, homeowners understand more about credit and the importance of financial obligations. With knowledge about banking and legal issues, they are less intimidated about asking questions and by the responsibilities of homeownership. This increases confidence and the likelihood of success in homeownership.

## **3. Post-Purchase Counseling**

Early delinquency and foreclosure intervention have proven very effective. Skills learned through Fastrak as well as in post-purchase activities such as preventive home maintenance are practices that customers learn to apply to day-to-day life on a continuing basis.

## **4. Advocacy**

CNE stresses the importance of homebuyer educators and nonprofit intermediaries communicating to buyers that they are on the buyer's side. In the real estate transaction, the nonprofit is the only party that doesn't profit from the sale. Community development practitioners are more interested in the long-term process than in the sale itself. By extension, the nonprofit advocate needs to stay engaged in the long-term relationship with the buyer and the neighborhood, and it needs to communicate that role to the buyer.

## **5. Demystifying a Complex Process**

CNE points out that the curricula in high schools or in post-secondary education do not teach the subject matter Fastrak covers, so that most people have no frame of reference for homebuying. Many customers in the market CNE serves are first-generation homeowners. Or, they are potential homebuyers who disqualify themselves, assuming that homeownership is unattainable for them. CNE, however, points to the fact that it finances home purchase for many people moving directly from public housing.

## **6. Formula for Success**

CNE's approach has created lending results that provide a solid foundation for sustained community development. Intensive underwriting criteria and experience and careful educational work with borrowers, coupled with personalized servicing of loans, can produce an affordable housing mortgage loan as viable as any other. CNE believes that inappropriate lowering of underwriting standards, to produce volume, and lack of intensive homebuyer education risk higher rates of delinquency.

**For more information, contact:**

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## MTW #4

# Glacier Affordable Housing Foundation Kalispell, Montana

### **Purpose**

Glacier Bancorp, Inc. recently created the Glacier Affordable Housing Foundation to provide a receptacle for funds dedicated to affordable housing expenditure. Through second mortgages and equity participation, the foundation recycles these grant funds to achieve a unique level of efficiency. As a result, future low- to moderate-income borrowers will benefit from these same grant funds.

### **Markets Served**

The five-county area in Northwest Montana contains many small and rural communities. Residents have been priced out of homeownership by sharply escalating real estate prices, driven by people relocating in the state, presumably because of its beauty and distance from populated areas. Local incomes have not kept pace with this inflation, making housing unaffordable for local residents.

### **Partners**

- Glacier Bancorp, Inc. members: Glacier Bank; First National Bank of Whitefish and First National Bank of Eureka;
- The city of Kalispell;
- County commissioners of Flathead, Glacier, Lincoln, Sanders and Lake Counties;
- Northwest Montana Human Resources;
- Ronan Public Housing Authority;
- Montana State Board of Housing;
- Federal Home Loan Bank of Seattle;
- HUD;
- Home Investment Partnership Program.

### **Process and Results**

1. Last year, the Glacier Bank board of directors approved creation of a foundation to support affordable housing by providing down payment and closing cost assistance to low- and moderate-income borrowers. The foundation received 501(c)3 status, designating it as a nonprofit organization, from the Internal Revenue Service.
2. The foundation hopes to provide down payment and closing cost assistance to 150 families in its first two years of existence. To be eligible, borrowers must be first-time homebuyers, have stable

income, decent credit, a minimum 1% down payment in cash or sweat equity and complete a nine-hour homebuyer course that the foundation developed.

3. To seed its operations, the Glacier Affordable Housing Foundation applied to the Federal Home Loan Bank (FHLB) Affordable Housing Program and received a \$610,000 grant to use for down payment and closing cost assistance.
4. To supplement that money, foundation representatives visited five nearby counties, asking the county commissioners to join together and apply for federal HOME and Community Development Block Grant (CDBG) funding. The grant funds awarded would be allocated to each county on a pro-rata basis and would always remain in that county. The counties would use the foundation's FHLB funds as match money when applying for these grants.
5. The foundation hired a grant writer to write the applications on behalf of the counties. Nonprofit agencies involved will administer the grants on behalf of the counties.
6. The county grant applications resulted in \$700,000 in HOME funds and \$400,000 in CDBG funds.
7. This brought to \$1.7 million the total funds available to first-time homebuyers with incomes 50% to 80% of median income. Still, announcement of the program brought far more applicants than funds would accommodate, so the foundation held a lottery to establish priority.
8. To stretch the buying power of these first-time homebuyers, the Montana Board of Housing agreed to provide \$3.5 million in 30-year FHA loans, which Glacier Bancorp's three banks will lend at interest rates ranging from 5 1/2% to 6 1/2%. The banks are waiving one point at closing and will service the loans for the board of housing.
9. The final result is that the Glacier Foundation will provide second mortgages in amounts from \$15,100 to \$27,250 at no interest, with no monthly payments. Homeowners will repay the second mortgage, plus a share of any increase in equity arising from inflation, when they sell or vacate their homes. Borrowers with the lowest incomes will receive the largest loans.

## **Lessons**

The most significant lessons learned revolved around partnership: one agency or lender cannot efficiently provide affordable housing alone. Making affordable housing available effectively requires a partnership of agencies, both governmental and private, each contributing what they do best, and each being flexible as the program takes shape.

A partnership like this can provide homeownership opportunities to very low-income borrowers in high-cost areas. Flexibility and open communication are key to success in such an effort.

This program marks one of the first times these neighboring counties were able to band together in a common effort to solve affordable housing issues.

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**MTW #5**

## **Yale University Homebuyer Program New Haven, Connecticut**

### **Purpose**

In the second phase of the Yale University Homebuyer Program, the university is providing grants to its employees of \$2,000 per year for ten years, to help them buy homes in designated New Haven neighborhoods. This is in addition to a “bonus” incentive of \$4,000, for closing costs and home rehabilitation.

### **Background**

The program’s first phase surpassed the university’s expectations of attracting about 50 potential homeowners when, ultimately, 227 university employees took advantage of the new benefit. The first phase was like the second in that it provided the same annual payments of \$2,000 for ten years, but phase one did not offer the closing-cost and rehab assistance “bonus.” Both phases are for two years.

### **Components**

#### **1. Eligibility**

The program is available to any Yale University employee who is:

- A faculty member with a minimum one-year appointment of 50% or more of full-time; or
- Permanent staff employee scheduled to work 20 hours or more per week.
- A household may receive only one benefit, even if more than one Yale employee is a member of that household.
- Participants must commit to own and reside in the home purchased for at least two years from the closing date.

#### **2. Properties**

A participant must buy and occupy a single-, two- or three-family home or condominium in a designated area of six neighborhoods. Of the city's declining areas, these are the neighborhoods closest to Yale and to downtown.

### **3. Homebuyer Education**

Homebuyer education is encouraged but not required. Yale works with the city and with nonprofits to conduct classes but views these sessions first as a marketing tool for attracting first-time homebuyers and secondarily as a counseling tool to get purchasers through the homebuying process.

### **4. Marketing**

In addition to homebuyer education classes, the university does neighborhood-based housing fairs to attract homebuyers and educate them about important activities in a designated neighborhood, such as community policing. These events also offer open houses and tours of rehabilitated properties.

For fair-related and general publicity about the home-ownership program, Yale uses its employee bulletin and direct mail to employees living in the city and outlying zipcodes. These mailers show housing prices and different scenarios, by income level, for monthly payments.

### **5. Financing**

Participants can go to any bank they choose; the university provides an informational sheet with lenders' names and interest rates. Employees buying through the Yale program also often take advantage of city and state home-financing assistance.

## **Results**

### **1. Homebuyers Assisted**

In the first two years of the program, 227 Yale employees purchased homes in New Haven, entailing a \$4 million financial commitment from the university.

### **2. Buyer Profiles**

- 35 percent of buyers are from Yale's clerical and technical staff;
- 32 percent are from the faculty;
- 22 percent are management and professional staff;
- 11 percent are service and maintenance employees;
- Two-thirds are first-time homebuyers;
- About half are women.

### **3. Citywide Impact**

More than half of the single-family homes purchased in the city of New Haven since the program began in 1994 were bought by Yale employees through the university's Homebuyer Program. Most of these properties sold in the price range of \$50,000 to \$100,000.

#### **4. Economic Spin-off**

For the year 1995, property taxes paid on homes purchased during the first 18 months of the Yale Homebuyer Program totaled about \$500,000.

#### **Lessons**

##### **1. Homeowner Feedback**

Design of the program's second phase came about through interviews with phase one homeowners, as did the added \$4,000 bonus and the importance of making that bonus available up front, when needed.

##### **2. Refining Focus**

The first phase allowed home purchases citywide, but the university decided to narrow its efforts to six neighborhoods closer to its campus. Although some criticized Yale for trying to gentrify its own back yard, the university has a neighborhood revitalization strategy: to sprinkle new homeowners block by block, thereby pulling up property values and encouraging investment in surrounding properties.

##### **3. Easy Sign-Up**

In designing the program, the university identified as one of its main goals ease of enrollment in the program. Signing up and receiving the benefit is supposed to be "absolutely easy" for employees. The program is unique in its simplicity, its administrators say.

**For more information, contact:**

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**MTW #6**

**Hartford Down Payment Assistance  
Hartford, Connecticut**

**Purpose**

Hartford Down Payment Assistance is a partnership between the City of Hartford, Fannie Mae and local mortgage lenders to increase home ownership in the city. The program provides down payment and closing cost assistance for two- to four- unit buildings, which are predominant in Hartford's housing stock.

## **Market Served**

This program is designed for low- and moderate-income renters in Hartford who could with some assistance own a home.

City leaders in Hartford recognized a need to increase the number of owner-occupied households: 22% of units in the city are owner-occupied, giving Hartford the lowest home ownership rate of any city in Connecticut. Of low- and moderate-income renters, 64% pay more than 30% of their incomes for rental housing.

Of Hartford's housing stock, 11% is single-family detached units; the remainder, two- to four-units. Because these buildings provide rental income for owner-occupants, they can work financially for modest-income buyers who can cover down payment and closing costs. Buying these properties often requires a higher down payment.

Hartford Down Payment Assistance addresses this barrier.

## **Components**

### **1. Financing**

The key pieces in Hartford Down Payment Assistance are down payment and closing cost assistance plans called the Hartford 3/10 and the Hartford 5/10 Home Mortgage Programs. They work like this:

To buy a two-unit building, borrowers at or below 80% of Hartford median income need a down payment of 3% of the purchase price. The City provides a deferred loan of 10% of the purchase price, plus up to \$3,600 in closing cost assistance. To buy a three-family home, borrowers in this income category need a 5% down payment. Again, the City makes a deferred loan of 10% of the purchase price, plus up to \$3,600 of closing costs.

For borrowers between 81% and 100% of median income, the same levels of down payment apply, as do amounts of the deferred loan and down payment assistance. Borrowers in this income bracket buying multi-unit buildings have to make at least one rental unit affordable and rent it to a low-income person.

### **2. Marketing and Education**

The City is funding two community-based groups, the Urban League and Hartford Area Working Together, to help market the program and educate and pre-qualify buyers.

## **Resources**

The City of Hartford committed \$461,000 in HOME funds to HouseHartford for down payment and closing cost assistance. Fannie Mae will purchase first mortgages originated by financial institutions and the Connecticut Housing Finance Agency (CHFA).

## **Results**

In the first six weeks of Hartford Down Payment Assistance, 32 loans were closed. The average building sale price was in the \$70,000 to \$100,000 range. The average borrower's annual income was around \$25,000.

## **Lessons**

### **1. Subsidies**

This program represents an effective use of HOME subsidies to increase both homeownership and the supply of affordable rental housing. While many affordable homeownership programs are geared to one-family homes, the 3/10 and 5/10 Home Mortgage Programs treat an important piece in Hartford's housing stock and make effective use of HOME funds in the process.

### **2. Base of Support**

Those developing Hartford Down Payment Assistance tried to gain early support of important players: the political leadership in the city, the financial institutions, the real estate community, other government entities such as the Connecticut Housing Finance Authority, and the media.

### **3. Attraction of Urban Living**

While depressed urban centers usually carry a negative image, people still want to live there. By providing a financial incentive to encourage home ownership, the City and its partners are helping build demand to live and own in Hartford.

## **For more information contact:**

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**MTW #7**

**Legacy/Emanuel Hospital**

# Home Ownership Program Portland, Oregon

## **Purpose**

The Legacy/Emanuel Neighborhood Home Ownership Program (ENOP) is designed to help employees of Emanuel hospital and the citywide Legacy Health System buy homes in specific neighborhoods around Emanuel Hospital, in Portland

## **Background**

The neighborhood around Emanuel Hospital has for some time had a reputation for being distressed and disinvested. In the 1970s, Emanuel Hospital was a participant in an urban renewal program that removed a significant number of houses near the hospital. The effort resulted in negative feelings in the community. In 1990, as an approach to these old issues and along with construction of a new building, Emanuel developed an employee housing assistance program, using its own funds to encourage employees to purchase homes in the neighborhood near the hospital. This encouraged positive neighborhood development and enhanced the hospital's employee benefits package. In addition, grants and loans were given to nonprofit housing developers in the area over a three-year period.

## **Components**

### **1. A Targeted Geography**

Emanuel chose to focus its efforts on an area of Portland already designated as an enterprise zone, which provided ready and noncontroversial boundaries for the hospital program. And, by encouraging people with stable employment to purchase homes in the neighborhoods adjacent to Emanuel, hospital administrators hoped to stimulate improvement there.

### **2. Down Payment Assistance.**

The hospital provides a forgivable loan up to \$5,000 or 10% of the purchase price of the home, whichever is less, to employees with at least one year's service. The loan principal is reduced 20% each year, which is taxable income for employees. Employees pay interest at the annual rate of 8.5%. Payment is made through payroll deduction.

### **3. Broad Eligibility**

The program has no income restrictions. Employees must have at least 3% of the purchase price as a down payment, attend an approved homebuyer seminar and be employed in good standing.

### **4. Price Range of Houses**

When the program began in 1991, assisted purchases were limited to homes costing less than \$65,000. As values rose in the area, the threshold rose also, to \$85,000.

## **5. Nonprofit Partners**

Emanuel partners with two nonprofits, Homeownership One Street at a Time and the Northeast Community Development Corporation. Both build and renovate homes in the neighborhood and provide home ownership counseling.

### **Resources**

Since 1991, Emanuel Hospital invested \$150,000 per year in this program: \$100,000 was allocated for down payment assistance for employees. During 1991 and 1992, the hospital gave \$50,000 in operating grants to the nonprofit partners.

### **Results**

Since 1991, 80 employees have purchased homes in the designated neighborhood, out of a total of 5,500 eligible employees.

The program slowed because of its own success: few homes in the allowable price range are available in the neighborhood. The hospital does not plan to extend the program's physical boundaries because of the difficulty in doing that fairly and without controversy.

The neighborhood is improving, in part because of the hospital's sustained commitment and employees' subsequent choices to buy in the neighborhood. Property values are appreciating; more private renovation is occurring.

### **For more information, contact:**

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**CEO and President**  
**Legacy Health System/Emanuel Hospital**  
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**MTW #8**  
**Homes for Public Safety Employees**  
**Los Angeles, California**

### **Purpose**

The purpose of this new program is to encourage police officers and firefighters to purchase and live in a home in the City of Los Angeles.

## **Market Served**

This program is a response to a 1994 study showing that 83% of Los Angeles police officers live outside the city, in part to have access to more affordable housing. Median home prices have fallen in Los Angeles from \$250,000 in 1992 to \$210,000 in 1996. That trend, coupled with this program's benefits, can make homeownership more affordable for police officers and firefighters.

## **Components**

Since the state constitution prohibits a residency requirement for municipal employees, homeownership promotion in the city has to provide incentives to encourage that choice.

The program is in its early stages. It has three main components:

### **1. Homebuyer Counseling**

The city's housing department will assign a staff person to work with the police and fire departments. This person will market the program, plan and conduct homebuying seminars, provide individual housing counseling, coordinate with lenders, the secondary market and developers and monitor and report on program progress.

### **2. Special Financing Assistance**

Because a common obstacle in home purchase is sufficient down payment, the program requires a fixed amount of \$1,000 as a down payment from the employee's own funds. The city pays the balance of the down payment and the closing costs in the form of a forgivable loan. This \$10,000 contribution is a deferred soft second with a declining balance over five years. After five years, the full amount is forgiven. This is taxable income for the employee.

Moderate-income personnel can access three other city housing programs to further increase affordability:

- The city's mortgage revenue bond program can provide below market, fixed rate, 30-year mortgages.
- The mortgage credit certificate allows the buyer to claim a federal tax credit based on a portion of interest paid on a mortgage.
- Through a special program with the California Housing Loan Insurance Fund, the city can offer personnel low-cost mortgage insurance.

### **3. Access to Affordable Homes**

A key component in this program is the availability of specially priced homes. These include the Fannie Mae inventory of foreclosed homes. The city of Los Angeles Housing Department sponsors large- and small-scale homeownership developments. These homes carry special incentives that buyers can add to other flexible financing.

The maximum purchase price for homes under this program is \$213,000.

## **Resources**

The Homes for Sworn Public Safety Employees program is funded by \$1,000,000 in general revenue and federal HOME funds.

## **Lessons**

### **1. Neighborhood Influence**

This program recognizes the stabilizing influence of homeownership by police officers and firefighters. Other benefits accrue to the community and the homeowners themselves: shorter commuting time, quicker emergency response, economic boosts to local businesses and deterrent to crime.

### **2. Collaboration**

Development of this program required the cooperation of a number of entities both in and outside of city government: Fannie Mae, the city of Los Angeles, the Police Commission, the Police Protective League and the Police Credit Union.

## **For more information, contact:**

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**MTW #9**

**Field of Dreams**  
**NEDCO**  
**Eugene, Oregon**

## **Purpose**

Field of Dreams is a 44-unit mixed income subdivision on a six-acre parcel in Eugene, Oregon. The development of Field of Dreams is an important component of the Neighborhood Economic Development Corporation (NEDCO) mission to stabilize neighborhoods and provide affordable housing and an economic base for families.

## **Market Served**

Since 1979, NEDCO has been working to address the needs of low-income people in Eugene and Springfield. An upturn in the housing market has spurred rapid acceleration of values, making

homeownership difficult for lower-income working people. To expand the affordability of homeownership, NEDCO developed an innovative lease-purchase program as part of Field of Dreams.

## **Components**

### **1. New Home Construction**

NEDCO built 44 detached single-family homes. The homes' design received the Governor's Livability Award in 1996.

### **2. Lease-Purchase**

NEDCO's HOMES (Home Ownership through Managed Equity Savings) Program helps lower-income people become homeowners. HOMES works like this:

To build a house for its lease purchase program, NEDCO gets a construction loan for land acquisition and construction. When the house is ready for occupancy, NEDCO obtains a loan for 80% of appraised value for a 30-year term. Tenants who meet lease obligations will ultimately assume this loan as part of the purchase. At that time, they must be approved by the lender and be re-qualified prior to assumption.

During the lease period (usually three to five years), tenants have an option to buy the house at a fixed price. Also during this period, NEDCO establishes a household savings plan for tenants to use in accumulating down payments. The amount in the savings plan is supplemented with quarterly down payment assistance grants if tenants meet their obligations under the lease.

### **3. Home Purchase**

When a tenant has met the lease obligations, and when NEDCO and the lender have certified the arrangement, the tenant may buy the house, assuming the balance of the 30-year loan and paying an assumption fee.

The difference between the appraised value and the loan balance at the time of purchase represents NEDCO's equity. This equity is secured by a zero-interest note and second trust deed. This amount is repayable only if the house is sold during a specified period of time. In some cases, the amount may reduce to zero over a ten-year period.

### **4. Homebuyer Counseling**

The Threshold Program is NEDCO's homebuyer training program, which combines individual meetings with NEDCO's counselor and monthly meetings with other people working toward the goal of home ownership.

## **Resources**

First Interstate Bank (now Wells Fargo) provided a \$25,000 seed grant and an \$87,000 line of credit for land acquisition and subdivision development. The bank also financed construction and made the

HOMES lease-purchase loans. The city of Eugene committed HOME funds for down payment assistance and for reducing the construction loan interest rate.

Lane County contributed a \$250,000 Road Fund grant to pay for infrastructure. The Eugene Water and Electric Board made small grants to boost energy conservation standards. The University of Oregon Center for Housing Innovation did site planning and design work.

## **Results**

NEDCO has assisted 45 households in lease-purchase, both in Field of Dreams and elsewhere in Eugene. Six of these families now own their homes, having successfully completed their leases. Average income of NEDCO's lease purchasers is around 65% of the area median income.

## **Lessons**

### **1. Self-Reliance**

NEDCO takes a self-reliance approach that attempts to move people away from the culture of dependence. Low-income people need access to opportunity. When they bring their personal goals into partnership with NEDCO, they can create a path to achieve those goals.

### **2. Effective Homebuyer Education**

Homebuyer training is a critical element in the success of this program. NEDCO has developed training that is organized and sensitive. It deals with a multitude of issues with families and is very labor intensive.

### **3. Individual Action Plans**

A key component in the Thresholds Program is the individual meeting with the counselor and the development of an individualized action plan. The plan can deal with a range of issues that affect the household. When a family is committed to the plan, this is usually a good indicator of success.

## **For more information, contact:**

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**MTW #10**

# Public Housing HOME Program Minneapolis/St. Paul, Minnesota

## **Purpose**

The purpose of the HOME program is to help public housing residents and Section 8 recipients buy homes in the St. Paul and Minneapolis market.

## **Components**

The St. Paul Housing Agency and the intermediary Family Housing Fund of Minneapolis and St. Paul developed this program seven years ago, when the agency was able to keep some resources from a federal public housing homeownership program. Three years later, the Minneapolis Public Housing Authority adopted the HOME program, using the same basic format.

The HOME Program has a number of interesting components that make it successful:

### **1. Homeownership Counseling**

Because many of the families involved are first-generation homebuyers, a thorough counseling program is critical. Counseling in this program offers both group homebuyer education classes and one-on-one counseling. In the one-on-one sessions, potential homebuyers develop individual work plans with the counselor that address credit, employment, and budgeting issues. Counseling is available in several languages.

### **2. Real Estate Agents' Education**

Given that public housing residents generally are unfamiliar with the real estate sales process, real estate agents need to be sensitized to the kinds of questions buyers might ask. Agents also needed a working knowledge of the program's special financing features.

### **3. Entry Cost Assistance**

This is perhaps the key component in helping families into homeownership. Three specific financing pieces lower first-mortgage debt:

- Equity participation in the form of a loan of 10% of the acquisition cost at 3% interest. This loan is payable when the property is sold or when the mortgage is paid off.
- A closing cost loan of up to \$3,000 at 0%, repaid when the property is sold or the mortgage paid off.
- A down payment grant representing the difference between the FHA minimum down payment requirement and a \$500 cash contribution. The borrower "repays" the grant through various forms of community service credited at \$25 per hour.

## **Resources**

The Family Housing Fund, the St. Paul Public Housing Agency, the Minneapolis Public Housing Authority and the Minneapolis Community Development Agency contribute to down payment assistance. The St. Paul and Minneapolis PHAs support the operating cost.

## **Results**

HOME has helped 163 families move from public housing into homes throughout the Twin Cities. Prices have ranged from \$30,000 to \$90,000. Homebuyers' average family income is \$20,000.

## **Lessons**

### **1. Customers From Public Housing**

HOME provides an important option for public housing residents. It is one of the few successful attempts to focus on this specific market and to develop the right mix of counseling and financing to overcome barriers.

### **2. Standard Underwriting**

The program requires no expanded underwriting from the first mortgage lender. Most of these transactions have been financed with tax-exempt mortgage revenue bonds. The qualifying ratios are standard, as are the credit requirements.

### **3. Individual Work Plan**

A key component is the individual work plan that comes out of the one-on-one counseling. The HOME experience shows that many families have overcome significant financial and personal obstacles to achieve homeownership.

## **For more information, contact:**

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**MTW #11**

**"Ain't I a Woman" Housing Initiative**  
**Pittsburgh, Pennsylvania**

## **Purpose**

This initiative is a program conceived and initially proposed by the Pittsburgh Community Reinvestment Group (PCRG). Pittsburgh financial institutions meet quarterly with PCRG, which represents more than 30 community organizations, to discuss community credit needs and resource gaps. They also discuss mortgage lending patterns, market penetration, and special lending efforts in low- and moderate-income census tracts.

Through these meetings, financial institutions sought suggestions to improve Community Reinvestment Act lending performance. Two of the smallest institutions were Community Savings Bank and Fidelity Savings Bank. Both had been actively committed to outreach and had met with community groups to explain their loan products, but they found it difficult to compete with larger banks' affordable loan products.

The two banks decided to focus on low- and moderate-income single female heads of household, who were an underserved, potential market for both banks. The banks studied the target market and discovered it was relatively untapped and ignored. The PCRG put the two banks together to implement a program addressing this market's home purchase lending needs.

The name of the initiative has a powerful origin as a recurring line in a speech made by the famous African-American activist, Sojourner Truth. Truth was a freed slave who worked for recognition of the rights of blacks and women. At a Women's Rights Convention in Akron, Ohio, in 1851, male clergy heckled the women present (all of whom were white, except for Truth) with comments about their already excessive rights and their appropriate place. However, even these rights, which women of that time found unacceptable, had not been available to Truth or any other slave. In her speech, Truth recounted the "rights" she had not benefited from, each followed by the question, "And ain't I a woman?" making the point that human rights cross all boundaries, including sex and race.

## **Market Served**

The initiative's market is women and female-headed households with low and moderate incomes who live in Allegheny County and the city of Pittsburgh, including residents of public housing developments and publicly assisted housing units. Typical customers are single women who earn \$14,000 to \$25,000 and have one to four children.

## **Components**

### **1. The Product**

The first mortgage loan product created for this program features reduced interest rates, no loan origination fees, a simplified home mortgage process and customer service designed for each potential borrower. Loans are offered at one quarter percent below the market interest rate. All standard closing costs are discounted approximately 50%.

Rehabilitation costs for qualifying home repairs are also financed, using an after-rehab appraised value in determining the loan amount.

Additional terms of the first mortgage include:

- No maximum or minimum loan amounts.
- Minimum 3% down payment.

- Loan term up to 30 years.
- No origination fee or points.
- Private mortgage insurance not required.

## **2. The Application Process**

Applicants who are serious about buying a home generally fall into two groups:

- Those who can qualify for a mortgage;
- Those who have significant credit problems that prevent them from borrowing but who commit to repairing their credit.

## **3. Credit Counseling**

Applicants in the second group are referred to the Community Lender Credit Program, formed by 17 financial institutions to help rejected mortgage applicants reverse credit problems. These banks postpone applications referred to the Community Lender Credit Program and commit to the applicant to make the loan if the applicant meets the credit program's requirements and becomes bankable. The banks refund the applicant's \$50 counseling fee when the applicant gets financing.

## **4. PHOP**

To get qualified borrowers the best interest rate, the banks may refer them to the Pittsburgh Home Ownership Program (PHOP), a mortgage revenue bond-financed home purchase program with the Pittsburgh Urban Redevelopment Authority.

## **Marketing**

### **1. Community Seminars**

To kick off the program, participating banks sponsored an "Ain't I a Woman" celebration at a church. Child care and refreshments were provided. Approximately 300 potential borrowers attended, despite inclement weather.

Since the program started in 1993, the banks have sponsored two seminars and will likely repeat the events annually. Community groups usually cosponsor, organize and market the seminars.

### **2. Direct Mail**

Both banks and PGRC worked together to do a brochure mailing to 18,000 households in pre-identified neighborhoods.

## **Partners**

- Community Savings Bank
- Fidelity Savings Bank
- Pittsburgh Community Reinvestment Group

## **Resources**

The banks have made an open-ended commitment to making first mortgages in this program. To the extent possible, loans will be sold on the secondary market. Some will be put in portfolio and seasoned for sale later.

## **Results**

- In three years, Fidelity Savings Bank and Community Savings Bank have closed more than 50 loans, a significant number for institutions of their size—about \$300 million in assets.
- More than 100 women have gotten homebuyer education; other lenders have approved financing for some of these customers.

## **Factors in Success**

### **1. Collaboration**

The relationships the banks have with PCRG and the Community Lender Credit Program (CLCP) have been key to the initiative's success. PCRG's support and endorsement, and the marketing efforts of its member community organizations, have been critical in connecting potential borrowers with the banks. CLCP's high-quality credit counseling services have given the banks more opportunities to approve potential borrowers' applications.

The banks' collaborative, working relationship with each other has been very useful. They make referrals back and forth and share ideas, activities which benefit the customer.

### **2. Tracking Individuals' Progress**

Another success factor has been the banks' ability to offer personalized service. Because of their small size, they know where each "Ain't I a Woman" customer is in the process, and can report on individuals' progress to community groups and real estate agents that refer them. They can also stay in touch with potential borrowers as they work on correcting credit issues and saving down payments.

## **Lessons**

Of all of the marketing and outreach techniques this initiative uses, the most successful have been homebuyers' testimonials at "Ain't I a Woman" events. Their personal success stories make immediate, direct connections to potential homebuyers, inspiring hope and action.

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**MTW #12**

## **Alliance for Better Housing Chester County, Pennsylvania**

### **Purpose**

The Alliance for Better Housing mission is to improve the quality of life of farmworkers, their families and other lower-income people in Southern Chester County by developing, managing and marketing affordable housing and promoting fair housing. One key service area is increasing access to homeownership.

### **Market Served**

The Alliance for Better Housing serves low-income residents of Chester County, Pennsylvania, who are employed predominantly in agricultural jobs. Most are Puerto Rican or Mexican immigrants, and have household incomes of less than 50% of area median income (less than \$24,650).

### **Background**

Chester County, Pennsylvania, “the mushroom capital of the world,” is home to mushroom growers, wealthy estate owners and the farmworkers they employ. These workers are often unaware and yet in need of the few affordable housing opportunities and financing programs that are available. They are also often unable to establish credit-readiness and navigate application procedures, without culturally relevant and linguistically appropriate assistance.

In 1991, a Realtor, Tony Garcia, began a concerted effort to reach farmworkers and connect them with houses and financing, usually through the Rural Housing Service (formerly Farmers Home Administration) Direct Mortgage Program.

Garcia has helped more than 100 families buy homes who would not otherwise have done so (none have been in default). Garcia saw, however, greater need than he could address and consequently

helped to create the Alliance for Better Housing, a nonprofit organization locally controlled by a board of directors that includes major growers' representatives.

## **Components**

The Alliance was incorporated in 1994, with assistance from the National Puerto Rican Coalition (NPRC). The organization has developed rental housing and is creating services to help farmworkers and others into first-time homeownership.

### **1. Services in Development**

- Comprehensive Spanish-language pre-purchase homeownership counseling, explaining the rights and responsibilities of homeownership in the United States and how the mortgage program works;
- Counseling to improve credit and save for closing costs;
- Development of a 24-unit subdivision of townhomes for first-time homebuyers;
- Packaging and delivery of loan applications to the Rural Housing Service;
- Provision of interpreting services during closings;
- Spanish-language post-purchase counseling for homeowners;
- Linkage of family members to needed community services.

### **2. Financing**

In the Rural Housing Service Direct Mortgage Program, the federal government is the direct lender, offering 100% financing to low-income families in rural areas. Interest rates are fixed and depend on household income. Mortgage insurance is not required. There is a formula for recapture of the interest subsidy (or "payment assistance") upon sale of the property. Financial institutions can participate with RHS by making a 25% to 50% loan-to-value loan in first position.

## **Partners and Resources**

- National Puerto Rican Coalition, for technical assistance;
- National Council of La Raza, for program administration funding;
- Commonwealth of Pennsylvania, for operating support and project grants;
- Rural Housing Service, for home purchase financing;
- Chester County, for CDBG grant funds for site acquisition and Community Housing Development Organization (CHDO) operating support;
- Fannie Mae Foundation, funding for program administration.
- Federal Home Loan Bank of Pittsburgh Affordable Housing Program, for a project grant;
- William Penn Foundation, for strategic planning funds;
- Delaware Valley Community Reinvestment Fund, for construction financing and planning;
- Area growers, for project support.

## **Lessons Learned**

Farmworkers are generally a quiet subculture in agricultural communities. They are taxpayers who support families and work at jobs many consider undesirable. They are often isolated from

mainstream society and its benefits by cultural and linguistic barriers. They tend not to have bad credit, but rather no credit. Many are qualified to buy a home but don't realize it; nor do they know or understand the steps to inquiring about homeownership.

Tony Garcia has shown that the most basic first-time homebuyer outreach, if done in ways that are culturally relevant and linguistically appropriate, can make a difference in these families' capacity to be homeowners.

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**MTW #13**

**Columbus Housing Partnership**  
**Homeownership Program**  
**Franklin County, Ohio**

**Purpose**

The Homeownership Program is designed to provide homeownership opportunities in Columbus, to provide technical and referral services to low- to moderate-income home buyers, to educate the public of the strengths of the city's neighborhoods, and to attract moderate-income families to Columbus in order to enhance the cultural and economic diversity of the neighborhoods.

**Market Served**

Founded in 1987, CHP was created through the collaborative efforts of the City of Columbus, local civic leaders, real estate agents, lenders and the Enterprise Foundation. The Homeownership Program benefits low- to moderate-income households in Franklin County, with an emphasis on residents of Columbus residing in the Columbus Public School District.

**Components**

The Homeownership Program has two distinct components: to provide affordable homeownership opportunities and to refer clients to other sources of affordable homeownership.

### **1. A Source of Affordable Housing**

CHP develops both newly constructed homes and rehabilitated single-family homes. Approximately 75% of the homes are newly built. CHP is the primary developer and technical advisor to co-developers and builders and secures capital required for specific projects. The new homes have three to four bedrooms and average 1,300 to 1,400 square feet of living space. The homes are typically in the \$70,000- \$90,000 price range.

The other 25% of the housing provided by CHP are homes which have been purchased, rehabilitated, and resold for prices ranging from \$42,000 to \$70,000. CHP provides both the funding and the general contracting for these projects. The funds are generally in the form of grants or loans CHP obtains from public and private sources.

### **2. Customer Referrals**

CHP does referrals for clients who are ready to purchase as well as to clients not yet ready to buy. When potential buyers apply for the Homeownership Program, a CHP staff member reviews the applicant's credit and income history. If applicants appear ready to purchase CHP:

- Refers them to local real estate agents experienced in affordable housing;
- Provides a list of affordable lending programs compiled with the Columbus Mortgage Banker's Association;
- Informs them of financial assistance programs available to first-time homebuyers.

### **3. Counseling**

When applicants are not ready to buy, CHP counsels them on how to get a mortgage. Credit problems are the primary barrier to eligibility. If an applicant's credit issues are minor and resolvable within one year, that household may be able to enter into a lease purchase agreement with CHP. In the lease-purchase component, CHP holds the mortgage on the home while assisting the client in credit repair, so the client can assume the mortgage after one year.

### **Resources**

The Columbus Housing Partnership received a Hope III Implementation grant in 1992 to enable low-to moderate-income families to move into homeownership. This partnership used the grant to purchase and rehab 36 single-family homes; to provide down payment and closing cost assistance; to subsidize the difference between rehabilitation costs and the purchase price of the homes; and to establish joint, non-routine maintenance reserve accounts which homeowners can use to finance major household repairs. CHP will use a previously awarded HOPE III grant to create 23 new homeownership opportunities.

The Dreambuilder Mortgage (HUD's 203(k) loan program) is used to fund the purchase, rehabilitation and resale of single-family homes throughout Columbus.

In 1995, HUD awarded CHP a \$25,500 grant, administered through the National Association of Housing Partnerships, Inc., to provide homebuyer education to more than 150 potential homebuyers.

CHP currently receives an allocation of funds set aside by the Ohio Housing Finance Agency to be used for down payment assistance and Mortgage Credit Certificates for qualified home buyers. CHP also secured set-aside funds from the City of Columbus to be used as down payment assistance for its Willow Creek Woods subdivision of 52 new homes.

In addition, CHP maintains strong working relationships with other Columbus area agencies and groups dedicated to increasing homeownership opportunities for low- to moderate-income households. These organizations help subsidize CHP's operating expenses through one-time and ongoing grants.

## **Results**

Since its inception CHP has provided more than 100 new and rehabilitated homes for purchase in the Columbus area. Under the current HOPE III program, 32 homes were purchased; the forthcoming HOPE III program is expected to provide 23 homes. CHP also used 203(k) loans to purchase and rehab a number of homes throughout Columbus. Most of those homes were featured in one of the three "Parade of Possibilities," a series of tours to increase homebuyer interest in selected neighborhoods. A fourth Parade is expected to take place in 1997.

CHP purchased five homes through its lease-purchase initiative and expects to assist 50 homebuyers over the next two years through this component. Of the Willow Creek Woods subdivision's 52 new homes, 47 have been purchased through conventional financing. Due to be complete in 1997, the Framingham subdivision will offer 135 new homes, a percentage of which will be marketed to low- and moderate-income buyers, selling in the \$70,000 to \$90,000 range.

## **Lessons**

### **1. Marketing**

CHP uses television, radio, and newspaper advertisements as well as homebuyer fairs to spark interest in the Homeownership Program.

### **2. Support Network**

CHP has the support of key leaders from community organizations and the private and public sectors. This support has been crucial to the program's success. CHP's working relationship with real estate agents and lenders, combined with its own inventory of homes, allows the organization to offer a diversity of single-family housing products.

### **3. Detail**

CHP pays close attention to detail in all aspects of development, including construction, financing, marketing, and support services.

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**MTW #14**

**First Place of Rochester**  
**Rochester, New York**

**Purpose**

First Place of Rochester, a redeveloped residential city block, has met the goal of re-creating an economically sound and safe neighborhood that would act as a catalyst for surrounding neighborhood revitalization. This neighborhood strategy's key component was the development and financing of new, three- to four-bedroom homes for families with lower incomes.

**Market Served**

The area chosen for First Place was characterized by severe disinvestment, absentee ownership, vacant and abandoned properties, and drug-related crime.

The customer market for First Place was existing neighborhood residents -- primarily African-American and Hispanic families with little or no capital for a down payment. Most families derived their income from service sector jobs, had household incomes from \$20,000 to \$25,000 and lived in expensive, energy-inefficient apartments.

**Components**

First Place of Rochester is a partnership of First Federal Savings & Loan Association of Rochester, the City of Rochester, and the North East Block Club Alliance, formed to develop 50 units of affordable single-family housing, to create jobs for neighborhood residents and to train inner-city high school students for jobs.

**1. Homeownership**

The City of Rochester already owned two-thirds of the First Place site. First Federal purchased and demolished the remainder of the properties on the block—thirteen single-family structures and one

old factory—and deeded them over to the City. These irregularly shaped lots that were virtually unbuildable were re-subdivided into 40' by 100' uniform lots with new infrastructure to accommodate new three- and four- bedroom homes.

The City deeded the properties back, one at a time, as they were sold. First Federal's subsidiary, BHD Properties Company, Inc., was the developer, and First Federal provided the construction financing as well as the permanent mortgages. The North East Block Club Alliance did pre- and post-purchase homeownership counseling .

## **2. Job Creation**

The First Place initiative was to provide jobs for area minority contractors in the project's construction phase. More than 70% of the subcontractors were minority-owned or women-owned businesses, and many of the others were area residents. These contractors all provided high-quality craftsmanship.

## **3. Youth Job Training**

The third part of the initiative was to provide a Youth Job Training program for at-risk city high school students. In conjunction with the City of Rochester School District, more than 20 students have participated in job training since the program's inception. Students work in the field with contractors to gain exposure to a building trade, for up to 20 hours a week for 18 months, and are paid by the school with funds from First Federal—\$120 per week, nontaxable.

## **Partners**

- First Federal Savings & Loan Association
- City of Rochester
- North East Block Club Alliance
- City of Rochester School District
- New York State Affordable Housing Corporation
- Federal Home Loan Bank of New York

## **Resources**

The New York State Affordable Housing Corporation provided direct mortgage buydown and closing cost grants in the amount of \$22,500 per house. An additional \$500,000 came from the Federal Home Loan Bank of New York Affordable Housing Program, also for direct mortgage buydown and closing cost assistance. The average subsidy per unit from these two sources was \$33,800 per family.

First Federal agreed to forego the normal developer's fee of approximately \$365,000 in order to make the project more affordable. First Federal also provided the construction financing interest-free, which saved the project approximately \$250,000. First Federal received a two-year Community Investment Program advance from the Federal Home Loan Bank of New York to minimize this cost.

First Federal provided permanent financing through 30-year fixed-rate mortgages at 7% interest (1% below market at the time).

The City of Rochester contributed approximately \$400,000 to the project in the form of infrastructure improvements, including the rebuilding of existing roadways, sewers, water lines, sidewalks, and street lighting. The city also built a new street.

## **Results**

Of the 43 units built and sold, nine were sold to buyers earning less than 50% of area median income; 10 to buyers earning 50% to 60% of median; and 24 to buyers earning between 60% and 80% of median. Seven more units are in development. The delinquency rate on the portfolio is 0%.

The First Place development has generated spin-off investment, including building on vacant lots in adjoining blocks, upgrading of marginal properties and a new 1,000-pupil middle school. Across the street from First Place, 17 units of new affordable rental housing were constructed, in the same style as First Place. Less than a mile from First Place, a commercial retail plaza is coming back to life. The police department reports a significant decrease in crime in the area.

Due to the success of First Place of Rochester, a second location in another area of the city is undergoing similar redevelopment. First Federal is also in discussion with the City of Buffalo to replicate the project there.

## **Factors in Success**

This initiative was successful because interested and motivated people formed a partnership to meet a demonstrated need—providing first-time homebuyers with the opportunity to purchase a modern, energy-efficient home in a revitalized neighborhood. Innovative financing allowed renters to purchase a home with a monthly PITI payment less than their rent payments had been. Winter utility payments for these families are a fraction of what they paid in their apartments.

Because the project was a component of a comprehensive redevelopment plan for the city of Rochester meant that impediments to developers were removed. A positive investment climate attracted developers, homebuyers and other investors to the area.

## **Lessons**

One important lesson was that the choice of a community-based organization is key to a project's success. Despite the fact that First Federal's community-based partner changed executive directors several times during the project, the commitment of this highly motivated group helped bring the program to fruition. First Place is a model of what an active partnership between city government, a community-based organization, and a financial institution can accomplish in a short period of time.

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**MTW #15**

## **The DuPage Homestead Program** **DuPage County, Illinois**

### **Purpose**

The purpose of this partnership program is to increase homeownership opportunities in high-cost, fast-growing DuPage County, west of Chicago.

### **Market Served**

DuPage County, home to many businesses and industries, has little affordable housing for people employed there: the average price of a single family home there is more than \$190,000. Employees working in DuPage County often commute from Chicago, despite long travel times. The DuPage Homestead Program is for first-time homebuyers, particularly low-income people and minorities, purchasing in DuPage County.

### **Components**

The DuPage Homestead Program was created in April, 1992.

The DuPage Homeownership Center provides free first-time homebuyer and credit education seminars and individual counseling. The center also screens potential buyers and directs them to one of 25 participating lenders on a rotational basis, while allowing for buyer preferences.

The major financing component, provided by the designated lender in the rotation, is a 30-year, fixed-rate loan for up to 55% of the home purchase price. The loans can be sold to Fannie Mae directly or through MidAmerica Federal Savings Bank. The Affordable Housing Trust Fund of the Illinois Housing Development Authority (IHDA) or the HOME program provide a second mortgage at 40% loan to value, which features no interest and is payable over 30 years. The mortgage guidelines are Fannie Mae's Community Home Buyers Program with a 3/2 option, with slight deviations such as requiring that buyers have two months' reserves at closing.

## **Resources**

Buyers receive a 2% down payment grant and must bring 3% from their own funds (no loans or gifts). The IHDA Affordable Housing Trust Fund or the federal HOME programs are sources of down payment grants. HOME funds are administered by the DuPage County Community Development Commission.

The program's supporters include the Realtors Association of the Western Suburbs, First American Title Insurance, Greater Illinois Title and 34 participating local lenders. Attorneys, home inspectors, corporations, foundations and social service agencies also support the homestead program.

## **Results**

In four phases, the program enabled 70 families to become homeowners.

For its efforts, the DuPage Homeownership Center received a Partners in Housing Award from the National Association of Realtors and Fannie Mae and an Affordable Housing Award from the Mortgage Bankers Association of America.

## **Lessons**

### **1. Using Partners' Skills**

The public and private sector partnership of the program allows each entity to do what it does best. For example, Hinsdale Federal Savings took over the origination and servicing of second mortgages because it had the expertise and support systems that the government agencies lacked.

### **2. Recruit and Train**

Originally, the DuPage Homestead Program used a lottery to select participants. However, this method was not effective in bringing qualified people into the process. The lottery was abandoned and the DuPage Homeownership Center initiated more intensive one-on-one counseling sessions to prepare buyers.

### **3. Instilling Confidence**

Because many potential home buyers are not sure whether they are financially prepared for homeownership, they are reluctant to approach lenders. Because the DuPage Homestead Program is administered by a local community agency, potential buyers can be given more confidence in taking the first step.

### **4. Pre-qualification**

Pre-qualifying potential buyers—while providing ongoing, intensive counseling—helps ensure that program participants are prepared to become homeowners and that lenders deal only with qualified buyers.

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**MTW #16**

## **Logan Square Housing Program For School Personnel Chicago, Illinois**

### **Purpose**

The purpose of the program is to help teachers and school personnel purchase homes in neighborhoods adjacent to schools where they work.

### **Market Served**

Chicago's Logan Square community contains 82,605 people—30% are homeowners. Of the population, 66% are Hispanic; and, of those homeowners, 27% are Hispanic.

### **Background**

The Logan Square Neighborhood Association (LSNA) is a community organization concerned with many issues. It draws leadership from churches, block clubs, civic associations, and local businesses. In May of 1994, LSNA developed a comprehensive plan for the community. A major part of this plan dealt with schools and the need to make a stronger connection between schools and the community. The Logan Square Reinvestment Coalition was formed to implement the plan and passed a resolution to create a housing program that would encourage teachers to live in the community.

The coalition has relationships with a group of neighborhood financial institutions and worked with these lenders on a program to reach school personnel. Meetings with teachers gave the coalition and lenders a better idea of barriers these professionals face in the homeownership process. Based on information from these meetings, lenders began to develop loan products to encourage school system employees to buy homes.

### **Components**

The primary component is a first mortgage product with an interest rate 1/4 percent below market rate for a 30-year fixed term. Buyers can choose any participating lender. A 5% down payment is

required, with a minimum of 3% from the buyer's own savings. Most of the lenders waive application and appraisal fees. Mortgage Guaranty Insurance Corporation and the General Electric Mortgage Insurance Companies provide the mortgage insurance with relaxed underwriting criteria.

Eligible properties are any one-to-four unit building in the neighborhood. Eligible buyers are households with at least one full-time school employee whose income is within a lender's maximum income limits. Buyers are required to participate in homebuyer education; LSNA provides post-purchase counseling and support, as well.

## **Results**

Lenders have made 14 loans to school employees.

The Chicago Board of Education has started a city-wide program for public school teachers, using the Logan Square program as a model. The Chicago Teachers Union backs this fledgling program.

## **Lessons**

### **1. An Intentional Connection**

By connecting teachers and other school employees with homeownership, LSNA was attempting to make a stronger connection between schools and the neighborhood. This strategy was viewed as a way to help school staff increase their commitment to the neighborhood and to provide role models for local youth. For school employees, it was a boost toward achieving homeownership.

### **2. Diverse Parameters**

With 12 different homeownership loan programs available from participating lenders, teachers have many options. This diversity of program parameters attracts more teachers to buy a home in the Logan Square community and makes the program consumer-driven.

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**MTW #17**

**Flynn Avenue Co-op**

# Burlington, Vermont

## **Purpose**

The Flynn Avenue Co-op is a new, mixed-income development that has created homeownership opportunities for 28 very low- to moderate-income families in Burlington, Vermont.

## **Background**

Low- to moderate-income families in Burlington have been unable to purchase homes because of conventional underwriting restrictions; an economic recession that made it difficult to save for down payment and closing costs; and in some cases, incomes that would not support non-subsidized homeownership.

Burlington is Vermont's largest municipality. It is diverse and includes recent and previous immigrant groups, and a large university student population. Local municipal, civic, business and housing leaders had identified high housing costs as one of the most serious obstacles to local economic growth.

## **Market Served**

The Flynn Avenue initiative serves very low- to moderate-income households in Burlington. Customers generally have lived in cramped, code-deficient, unsafe apartments where raising children is a risk. Flynn Avenue Co-op residents include senior citizens, single adults, families, ethnic minorities, new Americans and previously homeless people. Among the first residents, eight of the households have members with a physical or mental disability.

## **Components**

Flynn Avenue is an employer-assisted, limited-equity co-op. Located in a middle-income neighborhood, it is a model for economic integration of low-income borrowers.

### **1. Affordability**

All but one of the units are for people earning at or below 80% of median income. At least 14 units are designated for those earning at or below 50% of median income; one is for a member earning between 80% to 100% of median. The co-op's public-private financing made development and permanent mortgages more affordable.

### **2. Employer-Assisted Homeownership**

Local employers were invited to help their employees become resident owners of Flynn Avenue Co-op. One option for assistance, which became known as the Ten Cent program, involved an employer contribution of \$1,000 per participating employee, an amount equal to ten cents per hour of the employee's work over five years. This contribution would be potentially tax deductible for the employer.

Resident-owners' down payment costs were \$2,000 per household: \$1,000 from the owner and \$1,000 from the Ten Cent program.

While physical development planning proceeded, eligible area employees took steps to qualify for the Ten Cent program and enrolled in homeownership counseling as prospective co-op owners.

### **3. Monthly Payments**

Monthly carrying charges at initial occupancy in Flynn Avenue Co-op ranged from \$300 to \$440 for a one-bedroom unit, \$400 to \$570 for the larger two-bedroom townhouses, and \$725 for three-bedrooms. Ten of the units were further subsidized with project-based Section 8 subsidies. The co-op is intended to remain perpetually affordable because of its ground lease, its limited equity formula and binding legal documents.

### **4. Development Process**

The development was a collaborative effort of three nonprofits, the City of Burlington and co-op members.

- The City developed the concept and provided site control and seed capital.
- The Lake Champlain Housing Development Corporation (LCHDC), the lead developer, was responsible for funding, design, permits, project management, transitional ownership, and, now, property management.
- The Champlain Valley Mutual Housing Federation (CVMHF) helped secure financing, served as a pass-through for loans and public funding, and provides ongoing technical assistance to co-op members. CVMHF provided two years of training to future residents in management, budgeting and finance to prepare them to own and operate the co-op.
- The Burlington Community Land Trust (BCLT) took ownership of land at closing and has leased it to the co-op under a long-term ground lease.

### **5. Design**

The development consists of townhouses around a central courtyard and community building. Four units are handicapped-accessible; five more are handicapped-adaptable.

### **6. Resident Involvement**

Residents participated in the design phase, contractor selection, membership criteria selection and policy setting. Resident committees develop the annual operating budget, supervise capital projects, deal with neighbor disputes and organize social activities. They are the board of directors, which sets policy and manages the co-op's business affairs.

### **Resources**

Total development cost for Flynn Avenue Co-op was \$2.15 million. Equity in the project of about \$945,000 came from grants from the state of Vermont, the city of Burlington, and the University of Vermont; contingent grants from the Federal Home Loan Bank of Boston's Affordable Housing Program and HUD; and member shares.

Vermont National Bank, HUD, the Vermont Community Loan Fund and the CVMHF Share Loan Fund provided permanent financing.

## **Results**

Flynn Avenue Co-op members are successfully managing the property and usually ended each year with a cash surplus. The co-op is fully occupied and well-integrated with the surrounding community.

Flynn Avenue Co-op's success has inspired the development of two more co-ops in Burlington. One has 20 units and is located in Burlington's lowest-income neighborhood. The other has 18 units and is located in a high-income suburb.

## **Factors in Success**

Because the goal that precipitated the development of Flynn Avenue Co-op was clear, civic organizations, business entities and municipal, state and federal agencies could and did work together successfully.

Flexible financing was critical to success. Vermont National Bank's blanket mortgage structure and grants from several other sources made Flynn Avenue work.

## **Lessons**

### **1. Underwriting**

Flexible underwriting, within sound lending standards, can create new financial structures yielding homeownership opportunities for very low- to moderate-income households.

### **2. Importance of Stakeholders**

Another lesson learned is that safe, diverse communities can evolve when those involved have a stake and participate as partners. One of the first Flynn Avenue owners said, "When I first moved in, I used to worry about my daughter's safety. Now, she plays with the other kids and I don't have to worry because everyone looks out for one another. And we don't have to keep changing schools because our apartment changes."

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**MTW #18**

## **Fairfield Affordable Housing Program**

### **Fairfield, Alabama**

#### **Purpose**

The program's goal is to revitalize deteriorating urban neighborhoods by increasing home ownership with an infill, new home construction strategy.

#### **Market Served**

The program is designed to accommodate low- to moderate-income residents of Fairfield, Alabama.

#### **Background**

As Fairfield's steel industry declined, so did the city's homeownership rate. Drug activity on vacant lots plagued older neighborhoods. The Jefferson County Commission decided to develop houses on the vacant lots, in an attempt to stabilize these neighborhoods.

Beginning the program in one declining neighborhood of Fairfield, the county brought in a community-based housing development organization, Community Service Programs of West Alabama (CSP), to run the program.

#### **Partners**

The initiative is a public-private partnership involving CSP, AmSouth Bank and the Jefferson County Commission. CSP finds the land and the buyer; secures the first mortgage and construction financing; qualifies buyers; and hires the contractor.

The Jefferson County Commission administers the program and provides a second mortgage. The city of Fairfield tears down derelict properties that hinder the improvement of neighborhoods and transfers the lots. The city also offers in-kind support such as office space and staff to CSP.

#### **Components**

## **1. Infill New Construction**

With an average selling price of \$62,000, the infill homes are about 1,125 square feet and have three bedrooms, two bathrooms. They are brick construction and a low-maintenance exterior, and have central air conditioning, new refrigerators and gas stoves. The homes, designed to be energy efficient, have an innovative heating system called hydroheat, which is said to save a household a potential \$70 per month in the winter.

The homes cost \$55,000 to build, while lots typically cost \$6,000.

## **2. Lease-Purchase**

First-time buyers lease infill houses for 24 months and assume the mortgage on the 25th month. A portion of the lease payment goes toward down payment, which on average is \$700. A sweat equity commitment of 100 hours per household, expended on minor finishing projects such as painting and landscaping, also is applied to the buyer's down payment.

## **3. Homebuyer Education**

Buyers are required to attend a 12-week homeownership counseling course. Beyond that, the entire two-year lease period is intensive and ongoing homebuyer education, conducted by CSP.

## **Resources**

The total budget for this first round of construction was \$1.2 million. The Jefferson County Commission received \$590,243 from the HOME program. AmSouth Bank provided \$659,400 for construction as well as permanent, fixed-rate, first mortgage financing at 7.5%. When buyers became full owners after two years, they assumed the mortgage at the 7.5% rate granted CSP by AmSouth.

## **Results**

In less than two years, the partnership built 19 homes on six blocks.

## **Lessons**

### **1. Neighborhood Asset-Building**

The program intentionally built quality houses. With brick construction and amenities such as central air conditioning and new kitchen appliances, the homes made a statement that the neighborhood was improving. In some cases, the houses replaced frame "shot-gun" houses—long, narrow houses stigmatized as housing for low-income people. The new homes achieved the dual objective of creating assets for the buyer and the neighborhood.

### **2. Risk Reduction**

Lenders benefit from lease-purchase arrangements through a reduction in risk. AmSouth Bank and the Jefferson County Commission, in a public-private partnership, minimized the risk to both sources.

### **3. Buyers' Advantage**

The lease-purchase arrangement is advantageous to low-income people because buyers who ordinarily would not qualify are given two years to prove that they are fit to become homeowners. Moreover, lease payments (and the buyer's sweat equity) go toward the down payment, reducing it substantially.

#### **4. Community-Based Capacity**

Community Service Programs of West Alabama, a capable organization that has a good working relationship with lenders, was able to get the Fairfield community's support.

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**MTW #19**

## **Greater Grand Rapids Home Builders Achievable House Grand Rapids, Michigan**

### **Purpose**

The goal of the program is to use efficient architectural design and construction methods to help bring homeownership within reach of low- and moderate-income people.

### **Background**

In February of 1992, the Citizen's League of Grand Rapids released a report entitled "A Dream Deferred," challenging the Greater Grand Rapids Home Builders Association to come up with a plan for a house that could be built for under \$50,000 (not including land).

The association assembled a task force of community residents, lenders, builders, subcontractors, non-profit groups and government representatives. In October of 1992, the association and local builders released a blueprint of a house characterized by simple construction, square design, energy efficiency, a maintenance-free exterior, expandability and contemporary styling.

## **Market Served**

The program is designed to assist first-time home buyers throughout the Grand Rapids area. The popularity of the plan created nationwide demand, however, and the association allowed the design to be used by anyone who wanted to build The Achievable House.

## **Components**

### **1. Design**

The plan calls for a bi-level home with 800 square feet of finished space on the upper level and 600 square feet of unfinished space on the lower level. The finished level consists of two bedrooms, one full bath, a dining and living room, and a kitchen. The unfinished level is designed to include two bedrooms, a living area, a bathroom, and a laundry room. The plan shows a garage to be added later.

This building design enables homeowners to finish the lower level when their incomes or family size increase. As built, the house is sufficient for smaller families.

### **2. Local Building**

Once this innovative design was released, the rest was up to private builders. The task force did the zoning requirements and minimum site sizes of municipalities in the Grand Rapids region so that builders would know where the house could be built. Developers then began to use the design locally.

### **3. Reaction**

National demand occurred when national media sources, such as the TV show “Good Morning America” and radio commentator Paul Harvey, featured The Achievable House.

## **Resources**

The focus of this effort was on reducing construction cost through efficient design. Conventional lending financed home purchases.

## **Results**

Approximately 200 homes have been built using this design. The organization freely distributes the plan with no exact reporting procedure to determine how many of the houses have been built elsewhere.

## **Lessons**

### **1. Demand**

Homes do not need to be large with a lot of amenities. People seeking a home to own will buy a smaller, simpler home that they can finish off or add to as their needs change.

Meeting demand for such a home, builders increase the amount of affordable housing and the number of homeowners while maintaining profitability.

## **2. Pooling Talent**

Having a consortium of builders promote homebuying is more effective than the efforts of one developer. The design was a cooperative effort in which a group of developers, designers and others pooled their knowledge. This further illustrates that good architectural and building practice can make homes affordable, without government subsidy.

## **3. Sharing the Wealth**

The Greater Grand Rapids Home Builders Association did a good job of promoting the design, particularly by making it available at no cost to any builder.

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**MTW #20**

**Eastside Community Investments Inc.  
Asset Development  
Indianapolis, Indiana**

### **Purpose**

The asset development strategies of Eastside Community Investments, Inc. (ECI) are intended to help low-income people gain assets and self-sufficiency by saving money, using Individual Development Accounts (IDAs) and Homeownership Development Accounts (HODAs).

### **Markets Served**

Because homeownership is often a family's most significant asset, ECI's asset development is designed for low-income people who are prospective homeowners. Individuals who have IDA or HODA accounts through ECI usually are participants in other Eastside programs. These include

programs for young people, victims of domestic violence, caregivers in ECI's special needs housing programs and homebuyer education students.

## **Background**

Eastside Community Investment is a 20-year-old nonprofit, community-based organization whose activities cover real estate development, business lending, homeownership promotion, rental and transitional housing, job training, child care and services for people with special needs. ECI manages commercial and industrial property. It also counts weatherization as a chief activity and does an annual Caulk of the Town with about 1,000 volunteers.

ECI has 60 employees, seven for-profit subsidiaries, 13 limited partnerships and three not-for-profit affiliates.

Although the organization had clients' savings plans in the past, outcomes were inconsistent: some participants withdrew money after a short period of time, to satisfy short-term interests. Changing the program orientation to asset-building and wealth accumulation broadened ECI's perspective to encompass other individual and community needs, such as the need to cushion periodic income shocks, to specialize and take risks, to participate in community life and to help children flourish.

## **Components**

### **1. IDAs**

An IDA is a leveraged, restricted savings and investment account. In the ECI program, IDAs are restricted and matched using a three-year grant from the Joyce Foundation of Chicago. Account holders can use their IDA funds only for home purchase, business start-up or continuing education.

### **2. IDA Savings Plan**

After an individual has participated for six months in ECI's self-sufficiency and homebuyer education, ECI will put \$250 in an IDA account for that person. ECI will then help the account holder with a personal savings plan, matching those savings \$9 to \$1, up to \$675.

### **3. HODAs**

HODAs are restricted in use to helping tenants build down payment and closing costs for home purchase on Indianapolis' east side. They also are tied to tenant behavior.

### **4. Buyer's Contribution**

ECI's homeownership programs require prospective buyers to contribute sweat equity and a \$500 down payment toward purchase.

### **5. Business Start-Up**

ECI's business plan training class and its self-employment loan fund assist micro-entrepreneurs. The ten-week training class helps individuals with a business dream write a workable business plan, which makes them eligible to apply for micro-loans of \$100 to \$10,000 for business start-ups and working capital.

## **6. Administration**

A local community development credit union administers the accounts.

### **Results**

- ECI customers have created 150 IDAs and HODAs.
- 19 people have used their accounts: nine for homeownership; seven for business start-up; and three for education.
- ECI's goal is to help 500 families build assets over a three-year period. Through its homeownership, micro-enterprise and sweat equity programs, 200 people have built assets in various forms.
- Prospective homeowners, through the ECI program, have accumulated about \$75,000 in deposits to date, in IDAs and HODAs.

### **Lessons**

#### **1. Savings Behavior**

The program is showing that the idea of having low-income people save and create assets is producing results. Many low-income individuals aspire to earning, managing their finances responsibly, saving and converting their savings into tangible assets. Eastside's IDA and HODA programs help build on those aspirations, instilling confidence and self-esteem and, by extension, neighborhood stability. Asset-building and wealth accumulation allow individuals to participate in the economy and to realize, perhaps for the first time, that home ownership is an option within reach.

#### **2. Replication**

Financial institutions can use ECI's IDA and HODA concepts to rebuild deposits in markets or geographic areas where deposit activity is lacking.

#### **3. Importance of Scale**

Philanthropic funding of ECI's savings programs, allowing for more of a savings match than ECI previously could make, helped expand the program. Having helped 200 families build assets, ECI believes it is having an impact on its community's market. Property values are rising, population decline is reversed. ECI interprets these trends as indicators of success: "The most accurate measure of how healthy a place is, is whether people want to live there," its president said.

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**MTW #21**

## **Fort Wayne Neighborhood Housing Partnership Fort Wayne, Indiana**

### **Purpose**

The Fort Wayne Neighborhood Housing Partnership's purpose is to improve and stabilize Fort Wayne's neighborhoods by promoting and financing affordable homeownership for low- and moderate-income people.

### **Market Served**

The intended revitalization area has many vacant houses used for criminal activity. Most houses are in need of repair. High rates of absentee ownership contribute to the cycle of disinvestment.

Most of the Neighborhood Housing Partnership's homeownership customers are unbankable by conventional standards or because of lack of down payment or derogatory credit. In 90% of the cases, they are also very-low, low- or moderate-income.

### **Components**

Fort Wayne Neighborhood Housing Partnership is a nonprofit community-based organization. Its board of directors represents a partnership of neighborhood residents and lenders with other key technical advisors. The partnership has several strategies to promote homeownership.

#### **1. Financing**

The partnership can finance up to 125% of loan-to-value, including purchase price, rehab and closing costs, for qualified borrowers. The first mortgage is up to 100% LTV, and the rest of the financing is in the form of a grant, loan, or shared equity position due on sale. These funds come from a variety of sources, including Indiana Housing Finance Authority HOME funds, City of Fort Wayne CDBG funds, the Federal Home Loan Bank of Indianapolis and the Foellinger Foundation. The only borrower "equity" required is the cost of the first year's homeowner's insurance.

In a typical scenario, the acquisition cost of a house would be about \$18,000; rehab, closing costs and other fees would add \$25,000, for a total cost of \$43,000. All properties must be rehabilitated to partnership standards, which exceed HUD housing quality standards.

The partnership's first mortgage funds come from a pooled line of credit, capitalized by six banks, at an interest rate of 5%. The partnership makes a 5½% fixed-rate mortgage with a seven-year balloon, amortized over 15 years. One-quarter percent goes to the bank that services the loan as a servicing fee; another quarter percent goes into a loan loss reserve fund.

Borrowers must refinance the first mortgage conventionally within seven years. Because of the rapid equity feature (the 15-year amortization), borrowers will achieve an equity position greater than 20% after five years, and greater than 36% at seven years.

Customers who don't immediately qualify for a purchase loan may enter a lease-purchase program to allow more time to repair credit problems and overcome other obstacles. In either case, borrowers receive pre-purchase homebuyer education and counseling.

## **2. Property Development**

To increase the stock of high-quality, affordable homes in the area, the partnership builds new homes on vacant lots, and purchases and rehabs dilapidated housing for resale.

## **3. Marketing**

Among the partnership's many creative marketing strategies is its annual spring tour of affordable homes, for sale in its neighborhood. Hundreds of people turn out to walk through a wide variety of homes—some newly constructed (which are usually sold but serve as a marketing tool for those interested in building new homes on other lots); some newly-rehabbed; and some in the process of rehab. A professionally produced guidebook for each tour describes each home's features.

## **4. Outreach to Police Officers**

For the partnership's special outreach program to police officers, the financing tool is the same, but officers who buy a home in the area are given a marked police car for work and personal use (which must be parked on the street as a visible deterrent to crime) and a paid membership in the neighborhood association, which they are expected to be active in.

## **Partners**

- Fort Wayne National Bank
- Home Loan Bank
- NBD Bank
- Norwest Bank
- Star Financial Bank
- Standard Federal Bank
- City of Fort Wayne
- Indiana Housing Finance Authority
- Fort Wayne Police Department
- Fort Wayne Area Association of Realtors
- Anthony Wayne Services
- Federal Home Loan Bank of Indianapolis

- Foellinger Foundation
- Fort Wayne Community Foundation
- Home Builders Association
- Fort Wayne Urban League
- Project Renew
- Southeast Area Partnership

## **Results**

In four years, the partnership has:

- Helped nearly 200 people become homeowners;
- Built eleven new homes;
- Rehabbed 108 vacant, blighted homes.
- Trained hundreds in homebuyer education.
- Helped four police officers move into the neighborhood.
- The police department reports a 45% decrease in crime in the area.

Economic impact includes:

- Creation of 95 full-time, year-round jobs in the construction trades;
- Purchase of more than \$3.2 million in goods for home construction and repair from Fort Wayne suppliers;
- Transformation of 50 houses into tax assessable property;
- Elimination of more than 100 vacant lots from city maintenance responsibilities.

## **Factors in Success**

### **1. A Means to an End**

The partnership focuses on neighborhood revitalization and considers housing a tool for achieving that. For homeownership to be successful, particularly for low-income families, resident owners must be in a strong neighborhood where their investment makes sense.

### **2. A Bridge to the Bank**

The partnership is committed to full economic empowerment for their borrowers. It is a bridge to the bank, rather than an alternative lender. Through rapid equity financing, intensive credit repair, high-quality rehab and creation of a relationship between the borrower and a conventional bank, borrowers enter the economic mainstream.

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**MTW #22**

## **Victoria Park Detroit, Michigan**

### **Outcome**

Victoria Park, described as the first new-home construction in Detroit since the Truman administration, is a 156-unit subdivision that has helped spark redevelopment and revitalization activity in surrounding neighborhoods and elsewhere in the city.

### **Partners**

- Standard Federal Bank;
- The city of Detroit;
- Jefferson Chalmers Homeowners Association;
- The Building Industry Association of Southeast Michigan.

### **Background**

Like many other cities across the nation, the city of Detroit has lost employers and jobs as well as population: an estimated 1 million people have moved away in the last 20 years. In speaking to this trend and its reversal, Standard Federal approached the city in 1991 with the question: If people are leaving the city for the suburbs, can we bring the suburbs to the city? The proposal was to build and offer for sale suburban-type housing, relying on homeownership's positive side-effects to revitalize and stabilize communities.

### **Components**

#### **1. Joint Venture**

The development was a joint venture among the four partners. Their roles are variously described as follows:

- **The City Government.** The city sold the land for \$1 to builders who, after several months of coaxing, agreed to become involved. The city allotted each builder \$5,000 per lot for site improvements, and did street and road improvements and utility- and telephone-system installation.

- **The Jefferson Chalmers Homeowners Association** provided a funnel for deeds from owners to builders. The group also monitored and bolstered community support for the development.
- **The Building Industry Association of Southeast Michigan** was key in convincing builders to participate, a process that extended over six months.
- **Standard Federal** loaned funds to builders, for building and specs, and to the end borrowers who bought homes.

## **2. Ownership of Land**

The city owned most of the land on which Victoria Park is built through tax foreclosures, particularly after ill-advised FHA lending in the 1970s.

## **3. Cost of Development**

Victoria Park's minimum total development cost was about \$31 million. The city used HUD urban renewal funds to assemble the land and do neighborhood improvements, including Riverbend Plaza shopping center, now being expanded using Community Development Block Grant funding.

## **4. Physical appearance**

- Victoria Park's homes are single-family units with two-car garages.
- Lots have front footage of about 65 square feet.
- Cul de sacs help satisfy public safety concerns.
- The development has a public park.

## **5. Home Prices**

Developers originally envisioned prices in the \$60,000 to \$100,000 range but actual prices were between \$100,000 and \$200,000. Demand, they say, was similar to that in the suburbs. They assert that housing quality is a determining factor in the city's population loss: when provided with quality housing similar to what is for sale in the suburbs, homebuyers may decide to stay in the city.

## **6. Home Financing**

Standard Federal offered mortgage financing with down payments at 3%, or more. Two rounds of Federal Home Loan Bank Affordable Housing Program funds were available for down payment assistance but the bank did not use those funds because buyers' incomes were too high.

## **7. Home-a-Rama**

The Building Industry Association of Southeast Michigan agreed to hold a Home-a-rama for Victoria Park, replicating similar events in other neighborhoods. The Home-a-rama consisted of weekend-long open houses of 25 Victoria Park homes. The two Detroit newspapers ran stories the week prior to the event.

## **8. Marketing**

Because a new subdivision in Detroit was big news, the partnership received significant media coverage. The partnership therefore did little marketing besides the Home-a-rama but still sold all of the homes quickly. Buyers were almost exclusively African-Americans with average dual household incomes in the \$60,000 to \$70,000 range. These included police officers, firefighters, teachers, civil servants and business people.

## **Results**

The ripple effects of the Victoria Park development have extended to:

- New homebuilding elsewhere in the city, including Brush Park; Virginia Park Estates; a subdivision, Clairepointe, that is under construction a few blocks away; and a planned 360-acre mixed-income development in the city's historic Fort Wayne area;
- Development of a needed strip shopping center;
- Job creation;
- A large Methodist church congregation's decision to stay in the neighborhood;
- Improved public services such as police protection, schools and street cleaning and repair. A new police substation is located in the neighborhood.
- Five new builders got started in business through the Victoria Park development.

## **Factors in Success**

### **1. Home-a-Rama**

This event, unveiling 25 homes simultaneously, provided public relations, credibility and significant media coverage.

### **2. Appraisals**

The city had no known housing comparable to Victoria Park's homes, which made appraisals difficult. Appraisers therefore went to Detroit's suburbs to find similar houses and based comparables on those, for use in determining Victoria Park home prices.

## **Lessons**

### **1. Role of City Government**

The city government's positive involvement was key in promoting the Victoria Park idea to builders who, after 42 years, were not eager to do a development in the city.

### **2. Subsidies**

Critics have said the Victoria Park subsidies were too high. Supporters counter that developers wouldn't have considered building Victoria Park without incentives and assistance because of doubts generated by years of inactivity in the city's housing market. They also argue that no one expected that level of subsidy to continue and that Victoria Park homeowners have sold their houses at fair market rates.

### **3. Land Acquisition**

An impediment to developments like Victoria Park is unavailability of land. Property is not necessarily abandoned in pieces large enough for subdivisions: acquisition has to be done piece by piece, owner by owner, or by eminent domain. These processes generally are time-consuming and costly. Victoria Park partners say that finding and acquiring land is one of the biggest obstacles to redevelopment within cities, and that state and local government are lacking in policies or programs to provide money for that.

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**MTW #23**

**ECHO Program**  
**Minnesota Housing Finance Agency**  
**St. Paul, Minnesota**

**Purpose**

The Entry Cost Homeownership Opportunity (ECHO) program supports private- and public-sector direct mortgage lenders' community lending by providing entry cost assistance to buyers.

**Components**

ECHO works in a straightforward manner. A state agency, the Minnesota Housing Finance Agency (MHFA), set aside \$3 million for lenders or nonprofits involved in community lending programs that originate mortgage loans and sell them to secondary market entities. The pool of money is for down payment and closing cost assistance of up to \$3,000 for existing properties and up to \$4,000 for new homes. Eligible properties are one- to four-unit dwellings, attached or detached.

Loans are interest-free and deferred, due upon sale or when the borrower no longer occupies the property. Loans are also discounted 26% at the time of purchase; lenders must make up the difference from their own funds or from other sources.

In developing community lending programs, lenders may either originate mortgage loans for their portfolio or sell mortgage loans to institutional investors, as long as the program addresses a locally

identified lending need. Lenders may use mortgage revenue bond financing from local issuers if the financing supports a special lending initiative.

## **Results**

In less than two years:

- ECHO has enabled 17 lenders to make 665 loans to homebuyers.
- \$1.8 million of the pool has been spent.
- About half of the program participants have been minority borrowers.
- Most of the homes sold are existing or rehabilitated structures.

## **Lessons**

### **1. Simple to Use**

The simple and straightforward application process for lenders has been a major strength of the ECHO program. The application is one page, MHFA approval is streamlined, and MHFA disburses funds as soon as lenders send disbursement requests.

### **2. Lender Commitment**

ECHO cannot supplement a lender's regular book business. This is an attempt to ensure a lender's commitment to the community.

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**MTW #24**

**Santa Fe NHS Relationships with Churches**  
**Santa Fe, New Mexico**

**Product**

Neighborhood Housing Services of Santa Fe has developed a strong relationship with a number of local churches to help educate potential homebuyers. The particular approach the NHS took in developing this relationship is a good lesson on connecting to local institutions.

## **Background**

Real estate values in Santa Fe have escalated rapidly over the last decade. The median sale price has risen to \$182,000 as heavy demand for housing from people outside the community makes ownership less affordable for native Santa Feans.

To help working families participate in the housing market, NHS needed to look at a broader geography for housing product and opportunities.

Ultimately, these market conditions presented NHS with opportunities to increase homeownership among local working families. The State Housing Finance Agency was offering a six and three-quarter percent (6-3/4%) mortgage product, some affordable stock was available, and no one was really focusing on the first-time homebuyer market. NHS saw a niche for intervention and began to carry out a strategy to develop that niche.

A key piece in that strategy was simply telling people that homeownership was possible for them. The strategy to increase homeownership had at its core an emphasis on increasing the level of confidence on the part of people in their ability to access the system.

## **Components**

Much of the outreach to potential buyers in Santa Fe has taken place within networks of churches and church-related schools. NHS determines whether a congregation is interested in increasing homeownership. If so, NHS helps design an appropriate approach to parishioners.

Three basic components describe the NHS approach to churches.

### **1. Assessment Interview with Pastor**

As part of a process to become acquainted with the Santa Fe community, the NHS executive director met with individual church pastors. The meetings' purpose was to discuss with pastors how they viewed the Santa Fe housing situation, not to sell NHS. NHS asked pastors whether access to homeownership was an issue in their congregations and whether pursuing homebuyer education and assistance was an interest.

After conducting assessment interviews, NHS determined that some churches had an interest in homeownership and developed a homebuyer education workshop series for them.

### **2. Introducing Workshops to Churches**

NHS went back to the churches with an outline of how the homebuyer seminars would work. Often the pastor would refer the NHS to a particular church committee, and NHS staff would work with that committee on how the homebuyer session would be introduced.

What worked best was an announcement at the Sunday service from a parish leader, with other parishioners available to sign people up at the end of the service. NHS's role was to work behind the scenes, organizing the announcement and sign-up. Throughout this process, it was important to emphasize that this was the church's meeting and that NHS was an invited guest and a resource.

### **3. The Homebuyer Workshop**

The homebuyer education workshops offered to the churches were intended to increase people's confidence in their ability to participate in the homebuying process and to increase their knowledge of how that process works. Doing this kind of seminar within the context of the church was important. People felt safe, as members of the congregation, and were open to learning and participating.

The workshop focused on what NHS can do to help people buy a house and what people themselves needed to do. It discussed the barriers that existed and how certain barriers could be overcome. The workshop also provided information about new loan products and down-payment assistance.

Again, the idea of NHS being the guest was reinforced. Before the meeting, NHS reviewed with the pastor or group leader what was to be covered and made sure the meeting would be similar to other church-related meetings. If other church-related business would be covered or if the meeting would begin with a prayer, these items would be discussed in advance.

The workshop in one parish extended into several sessions, covering topics in more detail. The NHS training was more effective because the NHS instructor herself had not only gone through a homebuyer education class but as a result of that training had been successful in buying a house.

## **Lessons**

### **1. The Approach**

In developing the approach to churches, NHS was careful not to simply "use" the church. The approach spoke to the church's self-interest. The problem of people not being able to buy homes was also a problem for the congregation, thus making an opportunity for a dialogue about how NHS might help the church address this issue. For those congregations where this was an issue, NHS presented itself as an invaluable resource.

### **2. Customers' Lack of Knowledge**

This approach recognizes that a major obstacle to homeownership can be lack of knowledge about the system and the discouragement that often results. Addressing these issues within an institutional framework where people feel safe and affirmed is effective.

### **3. Establishing NHS Credibility**

In approaching churches, NHS did not assume the pastors knew about their organization. It was important to provide the credentials of the organization as a first step in building the relationship. Initial individual meetings were a discussion focused on housing situations the congregations faced. From this dialogue with pastors came a homebuyer education strategy.

### **4. Ongoing Dialogue**

The ongoing dialogue with pastors and parishioners defined for NHS problems particular to Santa Fe, such as affordability and lack of knowledge about homebuying. Preliminary dialogue defining the problem proved critical in subsequently finding the solutions, which in this case were development of homebuyer training and loan products.

## **5. Understanding Churches' Interests**

This approach was successful in positioning homeownership as a strategy in the self-interest of the church as a value-based institution. This differs from simply marketing to churches in that it seeks to understand and use that self-interest to determine where the NHS might add value.

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**MTW #25**

**Pilsen Resurrection Project**  
**Chicago, Illinois**

### **Purpose**

The Resurrection Project (TRP) has as its goal the creation of a healthy community in the predominantly Mexican-American neighborhood of Pilsen on Chicago's Lower West Side. Initially begun in seven Catholic parishes and then expanded to other congregations, TRP saw the important role homeownership played in building stakeholders in the community.

### **Market Served**

Pilsen has traditionally been a port of entry for immigrants into Chicago, initially Czechs and Eastern Europeans, now, immigrants from Mexico. The housing stock is some of the oldest in Chicago. Catholic parishes in this neighborhood are an important institution and connect to thousands of families. The experience of the church pastors and leaders indicated many families wanted to become homeowners and could afford to buy, but lacked confidence in their own abilities to master the homebuying process. Since families making a commitment as stakeholders to the neighborhood was

consistent with the parishes' desire to build community, the pastors and lay leadership embarked on development of a homeownership program.

## **Components**

### **1. Listening to Residents**

The first step was listening to residents and helping them articulate their own personal goals and their goals for the neighborhood. TRP and parish leaders held hundreds of individual meetings which led to a series of house meetings. These gatherings of a few families to pray and reflect on their life situation reinforced the need for a strategy to help people understand the homebuying process.

### **2. Homebuyer Education**

Homebuyer education was the first step, explaining costs and the process of buying a house. Many participants saw they could afford homeownership and learned about the details of financing, closing, and maintaining a home. Because this was a population of first-generation as well as first-time homebuyers, TRP made an intentional effort to encourage people to take the personal leap into homeownership if they had the resources.

### **3. Housing Market**

TRP initially helped people buy within the existing inventory of buildings but found few for sale. The City of Chicago Department of Housing initiated an infill new construction program, on City-owned vacant land, called New Homes for Chicago. TRP formed a joint venture with a private developer and was one of the first groups approved to build homes. TRP was also approved in subsequent rounds and began to develop two-flats, which are homes with an owner unit and a rental unit, a very common housing type in this neighborhood. The single family homes sell for \$70,000 to \$75,000; the two flats for \$100,000 to \$105,000.

## **Resources**

TRP raised a construction loan fund of \$250,000 at 0% from the Sisters of Mercy, for a three-year term. The state of Illinois Housing Trust Fund matched the Sisters' financing with a \$500,000 loan at 2%. The New Homes for Chicago grant reduced the development cost of the new homes. TRP also used funds from the Federal Home Loan Bank of Chicago Affordable Housing Program to reduce the rate on first mortgages. A group of local financial institutions provided first mortgage loans.

## **Results**

TRP has developed 91 new homes, representing more than \$15 million in investment, and is completing 29 more. The buyer market is predominantly Latino and working class. About one-third earn less than 50% of median income; one-third earned 60% to 80% of median; and one-third earned more than 80% of median income.

## **Lessons**

### **1. Stimulating Demand**

TRP began its homeownership efforts by building demand rather than building houses. TRP and involved parishes listened extensively to potential customers, determined what barriers existed for those families and focused on how those barriers could be eliminated.

## **2. Building Confidence**

A major part of the homebuyer education effort was marketing the community and encouraging people to feel confidence in the neighborhood and in themselves. TRP emphasized both tangible and intangible assets. Tangible assets are location, churches, institutions and new homes. Intangible assets were the language, culture and values of the people.

## **3. Celebration**

Celebration enhanced the process of encouraging demand and developing houses. When the program was announced, a major celebration modeled on a baptismal service drew more than 800 people. When the houses were being built, there were more qualified buyers than houses. The archbishop of Chicago chose buyers by lottery, pulling the winning names, again in the context of a multi-parish celebration.

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**MTW #26**

**Metro-Miami Action Plan**  
**Homeownership Assistance Plan**  
**Dade County, Florida**

### **Purpose**

A central goal of the Metro-Miami Action Plan (MMAP) is to join the public and private sectors in raising the percentage of African-American homeowners in Dade County. As of 1990, the percentage of African-American homeowners was 45%, compared to 49% for Hispanics and 66% for whites.

MMAP is a community-based organization acting as a public trust of Dade County. As a public trust entity, MMAP carries out a public purpose activity and is accountable to county government without being part of the county government structure.

MMAP determined that acquiring a down payment was a household's greatest barrier to homeownership. In March of 1995, the Homeownership Assistance Plan was created to enhance home ownership opportunities for African-Americans by providing down payment and closing cost assistance.

## **Components**

The program's approach is straightforward. Forty participating lenders provide down payment and closing cost assistance to buyers, using a mortgage product developed by Fannie Mae that provides a 0% interest, forgivable loan of up to \$3,000, which cannot exceed 2% of both the down payment and closing costs.

Eligible properties are single-family dwellings in Dade County. To qualify, people must be first-time homebuyers who live in the county and meet income guidelines. Qualified buyers must take a homebuyer education course.

The South Florida Board of Realtists, a non-profit trade association of nearly 200 African-Americans in real estate, administers the program at no cost to MMAP. Specializing in assisting low- and moderate-income buyers, the South Florida Board of Realtists trained and monitored more than 30 mortgage brokers and loan officers and ten title companies that serve as closing agents for the program. This support enables MMAP to access a network of more than 300 people.

## **Resources**

In addition to using lenders that offer down payment and closing cost assistance, the plan uses the Dade County surtax. This is a commercial sales tax from which 8% is earmarked for low- to moderate-income homebuyer programs in the county. Typically, the Homeownership Assistance Plan gets \$1.5 million per year from the surtax.

## **Results**

Since 1995, the program has helped 628 people buy homes, with one foreclosure.

MMAP received the National Association of Counties Achievement Award in 1996.

## **Lessons**

### **1. Community-Based**

Because MMAP is a community-based organization, the Homeownership Assistance Plan is better able to reach potential home buyers. Being a public trust of the county gives MMAP the political muscle needed to make the program succeed.

### **2. Real Estate Community**

This program is a good example of how the real estate industry can become engaged in an affordable housing strategy. The South Florida Board of Realtists heavily promotes the program throughout its member offices, and MMAP can use their skills and experience at no cost.

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**MTW #27**

## **Employer-Assisted Housing Program Lawrence, Massachusetts**

### **Purpose**

The purpose of this initiative was to help employees of companies located in Lawrence purchase homes there. By encouraging homeownership, the City of Lawrence and its private-sector partners were also hoping to revitalize city neighborhoods.

### **Market Served**

The program was for low- and moderate-income first-time homebuyers who were employees of participating companies. These employers included the City of Lawrence, First Essex Savings Bank, Malden Mills (the City's largest employer with over 3,300 workers) and KGR, a women's clothing manufacturer.

Historically dependent on the textile industry, Lawrence began a decline in the 1950s, losing population and its economic base. Despite this decline, a number of local family-owned companies remained.

Lawrence, like many Northeastern cities, enjoyed a brief real estate boom in the late 1980s but values declined after that. Currently, the average house price is \$60,000. Historically an immigrant city, that tradition continues: Lawrence's Hispanic population has grown from 42% in 1980 to 70%.

### **Components**

First Essex Savings Bank officials approached the mayor of Lawrence with a commitment to support homeownership and to encourage businesses to participate. Major employers, the city of Lawrence and First Essex Savings Bank entered into an agreement to help employees buy homes.

## **Eligibility**

Eligible homebuyers were employees of participating employers; first-time homebuyers not owning any other property; and earning no more than 80% of the area median income. Employees also needed to participate in homebuyer education sponsored by First Essex Savings Bank.

The primary method used to encourage employees to buy in Lawrence was an attractive financing package. Eligible employees wanting to buy a one- to three-family dwelling in the City of Lawrence could apply for down-payment assistance, rehabilitation funds and special first mortgage financing.

A total down payment of 5% of purchase price was required for one- and two-family homes; 10% down payment was required for a three-family home. Three percent of this down payment was to come from the borrower's savings. Malden Mills, KGR, and First Essex Savings Bank all agreed to provide down payment assistance of \$1,500 for each homebuyer. Additional down payment assistance of \$1,000 was provided by the city as a deferred loan.

On first mortgage financing, First Essex waived processing fees and closing points on its 30-year fixed rate mortgages. Private mortgage insurance was available through GE Mortgage Insurance and the Mortgage Guaranty Insurance Corporation. Fannie Mae and Freddie Mac purchased loans originated under this program.

The City of Lawrence offered housing rehab funds through the HOME program. The maximum loan offered was \$40,000. Loans less than \$20,000 required no monthly payment. Loans more than \$20,000 were at 3%. If the borrower occupied the property for at least ten years, the loan would be forgiven. If the borrower sold or moved out within ten years, the loan would be repayable with interest.

## **Results**

Since 1994, when the program was introduced, 62 employees have purchased homes. A larger group of employers is expanding the program with a broader base of resources.

Initially, Fannie Mae and Freddie Mac each agreed to purchase \$1 million in loans originated under this program. Each subsequently increased their commitment to \$2 million.

## **Lessons**

### **1. Broad-based Partnership**

This program is a good example of a broad partnership between a local lender, local employers, municipal government, the secondary market and mortgage insurers, in which each contributed something in tandem with the other to make the program work.

## **2. Savings Bank Leadership**

The program was initiated by a local bank, First Essex Savings Bank. The bank used its relationships with larger employers to bring them to the table and develop the program.

## **3. Visibility**

From the beginning, the initiative had a clearly defined, aggressive marketing strategy. It began with a visible public announcement with the mayor, the local congressional representative and HUD Secretary Henry Cisneros. The city and major employers followed up with information on the program for their employees.

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**MTW #27**

**New York City Housing Partnership**  
**New Homes Program**  
**New York, New York**

### **Purpose**

The New York City Housing Partnership, a nonprofit consortium of business and civic leaders, joined with the City of New York's Department of Housing Preservation and Development (HPD) in 1986 to encourage private development of affordable housing through the New Homes Program. The purpose of the program is to expand home-ownership opportunities for moderate-income families in New York City.

### **Program Components**

In the New Homes Program, builders commit to build one-, two-, and three-family homes affordable to the designated population, conditioned only on the availability of public subsidies (up to \$25,000 per unit in public financing, plus land subsidies, is available from the City and State). Builders also agree to limit their profit to a percentage of the costs of the project, less the amount of any subsidies and contingencies.

Participating lenders commit to provide construction financing, typically conditioned upon guarantees of completion by the builders of a specified number of homes for which the public subsidies are committed.

The New York City Housing Partnership assists the City in administering the New Homes Program, and, through a nonprofit development fund company, holds title to sites until the units are deliverable to homebuyers. The Partnership also assists in marketing and financing the homes, and facilitates private sector and community involvement in project developments.

In a typical deal, a two-unit home is built at a total cost of \$210,000, including land. A soft-second mortgage loan of \$50,000 (\$25,000 per unit), plus a land subsidy of \$10,000, writes down the purchase price to \$150,000. The borrower must obtain bank financing for not more than 95% of the \$150,000, and provide a down payment of the remaining 5%. During the first eleven years following the sale of the land to the Partnership, no taxes are due on the improvements built on the site. The purchaser pays only the tax on the unimproved land. Taxes on the improvements are gradually increased at the rate of 10% per year, so that the first time full taxes are paid is the twenty-first year.

No payments are made on the second mortgage, and its loan balance declines by 1/25th per year and is entirely forgiven 25 years after the original purchase. If the property is sold within 25 years of purchase, the borrower must apply 50% of the profit to repayment of the subsidy up to the amount of the remaining balance of the loan, except if sold in the first 3 years, when all profit must be applied to repayment of the subsidy.

## **Results**

Since 1986, more than 12,000 units of housing have been constructed through the New Homes Program, and they have been purchased by more than 6,000 homebuyers, who provide much needed, high-quality rental housing for 6,000 more families.

## **Factors in Success**

1. Families who, despite reasonable incomes, were still priced out of the New York market, created a significant demand for housing.
2. After the boom of the mid-1980s, the New Homes Program was the biggest underwriter of residential new construction in New York, so developers and contractors were eager to work with the program.

## **Lessons Learned**

### **1. Marginal Neighborhoods**

The New Homes Program built housing in neighborhoods that many investors had written off but that clearly still had investment potential with the right product, tools, and partnership.

### **2. Unmet Demand for Retail**

The influx of new residents into these neighborhoods has created a strong demand for retail services that private developers haven't met. The New York City Housing Partnership is offering a similar program to encourage commercial development.

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**MTW #28**

**Self-Help Enterprises**  
**New Homes Program**  
**San Joaquin Valley, California**

**Background**

Self-Help Enterprises (SHE) originated in the early 1960s when a Quaker group, the American Friends Service Committee, came to the San Joaquin Valley to help improve the lives of farmworkers.

Working in the fields with the laborers, one of the group's leaders recognized that the one thing the workers wanted most was the stability that a home would provide. SHE was formed in 1965 to give this group of people the opportunity to buy homes. The program's goal is to provide homeownership opportunities via sweat equity and to create stable, healthy communities.

**Market Served**

The New Homes Program assists low- and very low-income persons in the southern half of the San Joaquin Valley, a seven-county area encompassing 15,000 square miles. This rural area is home mainly to lower-income Mexican-American farmworkers.

**Components**

The New Homes Program combines the independent pioneer spirit of self-help with the community-based idea of mutual assistance. The construction cost savings of sweat equity provides the down payment on each home. After becoming qualified, ten to 12 families sign a group contract pledging

that each family will spend 40 hours a week building each other's homes. Each family typically commits an approximate total of 1,400 hours, over an eight-month period, building homes in small subdivisions.

There are three components in the New Homes Program. The first component is the pre-development stage in which SHE acquires land and subdivisions, markets the program, and sells lots to qualified families. The second component is the preconstruction stage which entails loan packaging, home ownership counseling, and construction training. The third component is the construction stage in which the organization coordinates the construction of the homes. SHE homes range from \$55,000 to \$80,000, this wide variance being due to vast differences in land costs.

### **Resources**

For first mortgages, the New Homes Program primarily uses FHA-insured loans or the Fannie Mae Community Homebuyer Program, attractive because of the low down payment requirement. Potential homeowners can also borrow through the U.S. Department of Agriculture's Farmers Home Administration 502 loan program. California Housing Finance Agency (CHFA) funding, such as the CHFA Home Purchase Assistance Program, is used when FHA loans are not available.

In addition, about half of the homes SHE builds receive secondary financing from sources such as the HOME Program; CDBG; local redevelopment agency funds; other local subsidies, waivers or deferrals; and California Department of Housing and Community Development Programs. Examples of the latter would be Farmworker Housing Grants and California Self-Help Housing Grants.

SHE also uses fundraising in its working area which has enabled the organization to create an internal loan fund for interim construction financing. This fund of more than \$800,000 is gathered from churches, community groups, corporations, and individuals.

### **Results**

Since 1965, SHE has enabled 4,200 households to become homeowners. The high regard for the program is evidenced by the 12,000 families on the waiting list. In addition, the New Homes Program is responsible for providing adequate water delivery and wastewater disposal system in areas where public health had been threatened because of substandard infrastructure.

SHE participants view homeownership as an end in itself, not as an investment move. Thus, they tend to remain in their original neighborhoods, showing that Self-Help Enterprises not only creates homeowners but also builds a sense of community within neighborhoods. In fact, a 1986 SHE survey of 750 homeowners discovered that, over 20 years, 87 percent of these households were still in the home that they had built.

Other results are less tangible. For example, two brothers who built their homes in nearby Shafter established, over time, a large construction company. Building their own homes had not only given them a secure place to live, it had given them the confidence to move up the ladder. Children who grow up in these homes see the immediate benefits of their parents' hard work.

### **Lessons**

## **1. Know the Construction Business**

Although its strong sense of values is the main reason SHE was founded, the organization would not be as successful if it did not emphasize the real over the theoretical. Organizations based on social service values must also have technical expertise. The home-building industry is complex; in order to succeed, an organization must know the construction business well.

## **2. Simple Design**

Housing design can be simple and traditional when providing homeownership to non-traditional buyers. This helps keep costs lower and allows for success in sweat-equity and occupant construction efforts.

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**MTW #30**

**Shelter Source  
First Citizens Bank  
North Carolina**

### **Purpose**

As a result of a CRA self-assessment process, First Citizens Bank was seeking new products to serve low- and moderate-income mortgage and affordable housing needs. The Shelter Source program was developed to increase opportunities for homeownership among first-time homebuyers.

### **Market Served**

Low- and moderate-income first-time homebuyers in North Carolina. First Citizens Bank has 300 branches in North Carolina and about \$8 billion in assets.

### **Components**

#### **1. Loan Product**

- For buyers who haven't owned a home in three years.
- Homebuyer education required.
- Maximum income limits vary from county to county.
- Eligible properties include owner-occupied, single-family units, including townhouses and condominiums used as a primary residence.
- Housing debt ratio of 32%; total debt ratio of 42%.
- Closing costs can be financed. (Prepays and per diem are not classified as closing costs and may not be financed.)
- Minimum downpayment is 1.5% of acquisition cost, 50% of which may be in the form of a gift.
- Appraisal fee of \$250; no origination fee or discount points.
- Fixed-rate financing up to 30 years at market rates.

## **2. Marketing**

Senior management is committed to making this program work, putting significant resources into advertising, contracted for with a minority-owned advertising firm. Branches offer brochures and the program is advertised in minority newspapers and radio stations. The bank mails promotional materials to community and affordable housing leaders, real estate agents and builders.

The bank also partners with about 40 community-based organizations and municipal community development departments to match this financing with their own down payment assistance programs.

## **Results**

Since the program began in 1991, First Citizens has closed 1,240 loans, totaling \$58.5 million, across the state of North Carolina. Although it started with a \$15 million commitment, First Citizens now has no ceiling on the amount of lending it will do under this program. Loans are portfolioed, and after some seasoning, may be sold to Fannie Mae.

The delinquency rate on the portfolio is 5.5%; there have been 10 foreclosures in five years, with less than \$100,000 in losses.

## **Factors in Success**

Partnerships with community-based organizations and municipal community development departments have been critical. Down payment assistance they provide makes certain home purchases possible that otherwise might not be. The marketing and outreach they do significantly leverages what the bank can do on its own.

## **Lessons**

First Citizens has refined the loan product and other approaches to meeting customers' needs. For example, First Citizens found that medical collections were common credit issues for this market, which had little to do with borrowers' willingness to pay and everything to do with lack of health insurance. First Citizens no longer counts medical collections against potential borrowers when evaluating their credit.

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**MTW #31**

**Homebuyer Education Program  
Coast Federal Bank  
Los Angeles, California**

### **Purpose**

Coast Federal Bank, with assets of approximately \$8.5 billion, has found a primary obstacle to homeownership to be a lack of understanding of the homebuying process. The bank developed its homebuyer education program to provide consumers with basic knowledge of the homebuying and financing process. The program consists of a free 25-minute video and accompanying written guide, both available in English and Spanish.

### **Market Served**

The bank's homebuyer education program is for first-time homebuyers in California. In Los Angeles County, where Coast has its largest single-family mortgage loan market, Hispanics make up 33% of the population, of which 76% are Spanish-language dominant.

### **Components**

The video and the booklet cover budgeting; selecting the right house; finding the right lender and loan; and negotiating.

Coast Federal Bank funds the homebuyer education video and guide through its marketing department's budget.

The bank's communications department filmed the video in-house. The bank hired private consultants to edit the video. The video cost about \$15,000 to make, an estimated one-half the cost of using outside additional production companies.

Coast employed some of their own staff in the video, but hired actors and actresses for the major speaking roles. Coast pays an outside company about \$1.60 per tape, to produce duplicates. The bank distributes tapes and guides through their branches, homebuyer fairs, libraries, and public information sections of video stores. The bank also has an 800 number where consumers can leave their addresses to get a video package mailed.

### **Factors in Success**

Consumers appear to be eager for the information Coast distributes via the videos and pamphlets. Coast staff attribute the success to the video's educational value, availability, the fact that it's free and provides basic information to which consumers can refer at their own convenience.

### **Results**

Coast Federal Bank has distributed more than 15,000 English and 10,000 Spanish tapes. Consumers who returned feedback cards responded positively to the videos.

KMEX-TV, a local Los Angeles Spanish-language station, aired for six months an infomercial containing portions of the Coast tape. The Spanish infomercial reached an average of 18,000 households each time it aired. Coastal staff reported an increase in calls to the infomercial's advertised 800 number, answered by Spanish-speaking staff, during the months the infomercial aired. Although Coast has not specifically tracked what number of loan applications might have originated from the infomercial or video, the bank has made more loans in low-income communities since releasing the videos.

The infomercial first aired when KTLA-TV, an independent Los Angeles station, interviewed Coast Federal's chairman of the board and chief executive officer, who introduced the Spanish version of the homebuyer-education tape. This telecast generated phone requests for more than 400 of the Spanish tapes, which Coast then distributed by mail.

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**MTW #32**

# The Home Ownership Center Minneapolis/St. Paul, Minnesota

## **Purpose**

Five major financial institutions—First Bank, Norwest, TCF, Marquette Bank and American Bank—joined the Family Housing Fund, the State Housing Finance Agency and the cities of Minneapolis and St. Paul in creating The Home Ownership Center. Because increases in lending to first-time homebuyers had spun off a variety of homebuyer education programs, The Home Ownership Center was seen as a way to improve and standardize curricula and fund high-quality counseling and education would in the Twin Cities.

## **Market Served**

At one level, the center serves low- and moderate-income homebuyers. More directly, the center serves agencies that provide homebuyer education.

## **Components**

The center is a 501(c)3 organization with a small staff. It contracts with community-based nonprofit organizations for delivery of education and counseling services to prospective home buyers.

The center supports and coordinates community-based service delivery agencies by training staff training, obtaining or developing homebuyer education materials, centralized marketing, tracking program outcomes, and resource development assistance.

The center supports housing counseling staff in delivery agencies with training for new counselors, regular in-service training, loan product updates and language interpretation.

The center has created training manuals and counselor materials: A manual for conducting a homebuyer workshop; handbooks for homeowners; a loan counselors' guide; a matrix of loan programs in the Twin Cities; and overhead-projector transparencies.

## **Resources**

The center is funded by financial institutions, the two cities, the Family Housing Fund and Fannie Mae. The initial funders made a three-year funding commitment and subsequently decided to continue funding the center.

## **Results**

The groups served by the center have counseled and provided homebuyer education to 2,805 households in two years. Of those, 850 bought homes by the end of the second year.

## **Lessons**

### **1. Enhancing Local Efforts**

The Home Ownership Center is a way of adding value to housing counseling efforts being offered at the community level. It is not a “one-stop shop” but rather seeks to build on and enhance local groups’ work.

## **2. Board’s Forward Thinking**

The center’s board of directors, along with providing guidance and support, discusses policy directions in homeownership counseling. For example, the board is recognizing the need for post-purchase counseling and is recommending the center develop programs in that area.

## **3. Strength in Numbers**

The center’s network structure allows for coordination, specialization and economies of scale that are not available when education and counseling are provided by a disjointed set of agencies. An example of specialization is the fact that the Center has secured funding for translation services and in training interpreters in the language of homeownership. This is an important piece that helps all agencies but it is unlikely any one could have secured these resources alone.

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**MTW #33**

## **Wisconsin Supported Housing Partnership Madison, Wisconsin**

### **Purpose**

The purpose of the Wisconsin Supported Housing Partnership is to help people with disabilities achieve homeownership.

### **Market Served**

The partnership helps individuals with physical, developmental, and psychiatric disabilities access the resources they need to become homeowners. These include financial resources and access to comprehensive housing counseling. They include families with children as well as single and married

adults with disabilities. Typically these are people who rely on Social Security, Supplemental Security Income (SSI), Social Security Disability Income (SSDI), and modest employment - often from several jobs.

## **Components**

The Wisconsin Supported Housing Partnership has three primary components in its approach to expanding home ownership opportunities among people with disabilities. These are:

### **1. Access to Financial Resources**

The partnership is working to develop the financial resources and credit enhancements needed by these borrowers for assistance with down payment, closing costs, special underwriting considerations for shared dwellings, and cash and maintenance reserves. These efforts are being carried out through work with local lenders, Fannie Mae, HUD and two state agencies, the Wisconsin Housing and Economic Development Authority and the Wisconsin Department of Administration's Division of Housing.

### **2. Access to Comprehensive Counseling**

A major part of the partnership's effort is creating and supporting capacity at the local level to provide potential homeowners who have disabilities with comprehensive housing counseling. This counseling includes the traditional areas covered in pre-purchase home buyer education, i.e. the purchase process, credit and budgeting. In addition, consumers and their families get information about the effects home ownership may have on benefits such as SSI and Medicaid. Information about how families can provide financial resources to a family member in purchasing and maintaining a home is also discussed. An individualized service plan is developed to plan for any necessary supportive services.

### **3. Technical Assistance to Local Groups**

The Wisconsin Partnership for Housing Development (WPHD), a private, nonprofit entity, plays a key role in providing technical assistance to local groups that may be interested in facilitating home ownership for people with disabilities.

## **Resources**

The Partnership draws from a range of financing resources and funds to support capacity building. The State has provided various forms of housing subsidy, lending institutions have been willing to consider individual loan requests and Fannie Mae has agreed to purchase these loans. The costs to WPHD in providing technical assistance to groups around the State is covered through contracts from two state human service agencies.

## **Results**

More than 150 people throughout Wisconsin have benefitted from the partnership. They have purchased single-family homes, condominiums, mobile homes, and in some cases have rehabilitated older homes in both rural and urban centers.

## **Lessons**

### **1. Mainstream Choices**

The focus of the Partnership is helping people with disabilities access normal housing that provides a maximum degree of consumer choice. When, in developing this program, WPHD and the state agencies asked people with disabilities what kinds of housing they preferred, these consumers said they desired the kind of choices everyone else had, including home ownership.

### **2. Family Assistance**

When WPHD began working with individuals with disabilities, it found that people often had sufficient resources, through their families, and that home ownership could be attainable with some assistance.

### **3. Special Challenges**

Complex problems are often involved in helping disabled people achieve home ownership. Using family resources, maintaining eligibility under assistance programs, and underwriting income from roommates who pay the homeowner rent are all specialized challenges.

### **4. Broad Collaboration**

What makes this statewide partnership particularly innovative is that it builds collaboration between the public and private sectors, including state government, lending institutions, nonprofit housing and human service agencies, Community Action Programs, and advocates for the disabled, and individual families. This collaboration has produced a range of innovative solutions that otherwise would not have occurred.

### **5. Supportive Response**

Helping people with disabilities achieve home ownership is a fairly experimental, cutting edge approach. Nevertheless, WPHD has enjoyed the interest and support of lenders, government, social service agencies, and Fannie Mae.

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## MTW #34

# Liberty Bank for Savings Affordable Housing Program Chicago, Illinois

### **Purpose**

The goal of the program is to increase homeownership opportunities in an area with a low percentage of homeowners and to curtail the displacement of long-time residents in a revitalizing area.

### **Market Served**

The program is designed to assist the near northwest side of Chicago communities around Liberty Bank for Savings. The program was started following a community-based housing summit that emphasized the low percentage of homeowners (30%) in the neighborhoods. Moreover, with little housing construction occurring and rents rising, many long-time Hispanic residents were getting priced out of the area.

The housing stock in these neighborhoods is predominately multi-unit, mainly two-unit buildings called "two-flats," which cost in the \$100,000- \$160,000 range. Typically, two-flats are owned by one household that utilizes the rental unit to help pay the mortgage. Liberty Bank and the community-based Logan Square Neighborhood Association (LSNA) initiated the program to enable local residents to pool their resources and share the purchase of two-flats.

### **Components**

After qualifying, two households pool their incomes, assets, and other resources and jointly buy a two-flat on the private market. Both households execute the first mortgage documents and share the mortgage payment and other obligations.

Liberty Bank provides both first and second mortgage loans and LSNA provides pre- and post-purchase counseling to buyers. The loan is a fixed-rate, 30-year loan requiring a downpayment of 5% with at least 3% coming from both households.

### **Resources**

There have been four phases of the program, three of them differing in funding and subsidy characteristics:

In the first phase, the Federal Home Loan Bank (FHLB) of Chicago through its Affordable Housing Program (AHP) covered a one percent loan origination fee and reduced the loan's interest rate down to 7%. The Illinois Housing Development Authority (IHDA) contributed \$5,000 to each of the two households for closing cost and downpayment assistance.

In phase two, IHDA's total contribution remained the same; Liberty Bank waived its underwriting fee.

In phase three, IHDA provided a 2.5%, 30-year fixed rate second mortgage of up to \$45,000. The FHLB of Chicago AHP contributed \$5,000 to each property's two households for closing cost and down payment assistance. Liberty Bank again waived its underwriting fee. The ongoing fourth phase is identical to the third phase.

## **Results**

Through this program, Liberty Bank enabled 36 households to become homeowners. To date, there have been no delinquencies, although in two instances, one household in a two-flat partnership decided to opt out of the program. In both cases, however, Liberty Bank found a replacement family after obtaining approval from supporting government agencies, the only requirement being that the family had to be in the same income bracket as the family withdrawing from the program.

## **Lessons**

### **1. Buyers' Common Bond**

Because the program was a joint venture, partnering families had to have a common bond, such as friendship or family ties. Without this bond, the program might well have failed. Every borrower is not suited for such a shared-ownership arrangement.

### **2. Importance of Neighborhood Group**

The relationship Liberty Bank built with LSNA was vital to the program's success. Not only does LSNA administer the program and provide services such as homeowner counseling, the organization also acts as a conduit between homeowners and the bank and influences homeowners to become more active in their neighborhoods.

### **3. Meeting Market Needs**

The program succeeded because it spoke to community market needs. Using two-flat buildings, the program is well-suited to area housing stock; by combining family incomes for acquisition, ownership is possible for lower-income families who otherwise are unable to buy.

### **4. Bank Leadership**

The bank's persistence played a strong role in making this program work. With help from the community, Liberty Bank successfully lobbied a state housing commission for resources to support the program. Liberty Bank also convinced both government agencies to change the rules and allow the bank to find replacement buyers for households that opted out of the program.

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**MTW #35**

**Neighborhoods Inc. of Battle Creek  
Post-Purchase Initiative  
Battle Creek, Michigan**

**Purpose**

The Post-Purchase Initiative is an important component in an overall approach that uses homeownership promotion as a tool for neighborhood revitalization. It focuses on connecting new homebuyers to existing neighborhood networks, encouraging their own leadership efforts in the neighborhood, and preempting any post-purchase problems that might occur.

**Market Served**

Neighborhoods Inc. works in three Battle Creek neighborhoods: the Historic Northside, Post Addition, and Washington Heights. All are older and have traditionally suffered spot abandonment, reduced homeownership, declining maintenance standards and weak market values. The overall approach of Neighborhoods Inc. is to make these neighborhoods healthy again by restoring neighbors' capacity to manage the neighborhoods. Homeownership is key in restoring this management capacity. Needed are not only new homebuyers, but homebuyers who will commit to playing a role in the process of neighborhood change.

**Components**

The Post-Purchase Initiative is a means of reducing delinquency, but it is also an intentional effort to connect new homebuyers to other neighborhood residents and activities in the neighborhood. It also helps the program staff anticipate problems new homebuyers might have so that corrective action might be taken before a major problem occurs.

This initiative's key management tool is regular staff meetings about new buyers. Staff discuss the status of each new homebuyer and lay out a strategy to connect that family to the neighborhood, i.e., how best this family can they fit in and with whom they could network. A profile is developed for many new homebuyers. This helps staff know more about the family and its interests. Neighborhoods Inc. often uses selected written profiles in public relations and marketing.

For families that enter into homeownership with less than perfect credit or budgeting issues, the post-purchase counselor may visit to directly ask new buyers to do budget or maintenance counseling. The

counselor may take a small gift--flowers or welcome basket. Neighborhoods Inc. also prepares a gift book called "Our Home" for the new owner, with a picture of the home, a brief history of the house and the neighborhood, helpful hints and a place to store important documents.

New buyers are encouraged to meet other new buyers or active neighbors, or are asked to participate in block events such as clean-ups or plantings. This approach also serves other program needs. Because the new homebuyers also are usually Neighborhoods Inc. loan customers, periodic home visits give the program staff an opportunity to check out any potential financial or maintenance problems.

## **Examples**

### **1. Instilling Pride of Place**

In the course of walking the neighborhood, a staff person noticed torn screens on the windows and door of a new homebuyer's house. These were small problems that nevertheless affected how the house looked to the rest of the block. The owner was asked if Neighborhoods Inc. could offer a screen-repair workshop at her home, and if she could invite some neighbors. Residents, including the loan client, learned how to repair screens using her broken screens as examples.

### **2. Post-purchase Budgeting**

Many loan customers have never analyzed their spending habits or established a budget. Neighborhoods Inc. hosts regular budgeting workshops. The atmosphere is relaxed (with baby sitting and dinner) and the group is never more than six to eight families. A lot of thought goes into who is in the class. Young single mothers who have recently purchased are invited along with more mature homeowners. The peer-to-peer relationships not only enhance learning, but carry over into relationships on the blocks and in the neighborhoods.

## **Lessons**

### **1. Personal Contributions**

The Post-Purchase Initiative is a "low tech, high touch" strategy, focusing on new homebuyers as people—their skills, capacities, and interests and how NIBC can connect them to the neighborhood.

### **2. Neighborhood Involvement**

This strategy's basic theory is that neighborhood change requires both a targeted and a comprehensive effort to get people involved. The lesson is that, given opportunity and encouragement, new homebuyers will contribute to the neighborhood.

### **3. Post-purchase Counseling**

Homeowners must manage their money and pay their bills in a timely way in order to be successful. The one-on-one approach to delinquency prevention lets customers know that they have someone to talk to about issues related to owning a home and living in the neighborhood. This approach also identifies the customers when they are 30 days late and can still catch up as opposed to 90 days late when the amount delinquent often seems insurmountable.

#### **4. Explicit Expectations**

As part of the interaction with clients in the homebuying process, the staff lays out informally--but explicitly--the expectation of payback. That is, new buyers will be asked to do something to help Neighborhoods Inc. Based on buyers' individual interests and capacities, that might range from having a story written about them or participating in block events, to initiating block clubs. Although not everyone is—or needs to be—a joiner, everyone can give something back to the neighborhood.

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**MTW #36**

**Baltimore NHS**  
**Closing Cost Assistance**  
**Baltimore, Maryland**

#### **Purpose**

The Closing Cost Loan Program (CCLP) of Neighborhood Housing Services (NHS) of Baltimore provides low-interest loans to homebuyers who lack sufficient assets to pay settlement costs.

#### **Need**

With introduction of Fannie Mae's Community Home Buyer product several years ago, NHS of Baltimore sensed a new reality on the lending scene. Lenders were more accepting of lower down payment with some borrowing allowed, but with no clearly recognized source of borrowed funds. As rates came down, NHS began to look at ways to capture new homebuyer demand for the NHS neighborhood and increase its lending volume. Although NHS had historically referred people to banks, the market did not view NHS as a source for conventional loans, a perception NHS sought to change.

At the same time, the City of Baltimore was developing a down payment assistance program for middle-income borrowers targeted at homes priced at \$60,000 and above. The NHS saw an opportunity to create a similar product appropriate to lower-priced houses in the neighborhood and

for more modest-income borrowers. Out of this context the Closing Cost Loan Program was developed.

## **Components**

### **1. Eligibility**

To be eligible for a CCLP loan, a borrower must:

- Be 18 years of age or older
- Have a total gross income within the program income limits
- Intend to occupy the home as a primary residence
- Be able to afford to repay the CCLP loan
- Receive a commitment for a first mortgage on the property from a lender

### **2. Income Limits**

Borrowers must meet the CDBG income guidelines for Baltimore. A limited amount of funds are available to those over CDBG income limits.

### **3. Minimum Cash Contribution**

The borrowers minimum cash contribution will vary depending on the financing requirements of the first mortgage.

### **4. Terms of Loan**

- Interest rate: 5 percent
- An amortized payment of up to 10 years
- A maximum loan of \$5,000
- A minimum loan of \$500
- Recordation as a second mortgage lien on the property being financed
- Promissory note, when applicable

### **5. Eligible Properties**

Properties in the geographical areas established by NHS. While this product was targeted at NHS neighborhoods, it was available in certain surrounding neighborhoods as well.

### **6. Settlement Expenses Included in CCLP**

- Fees or premiums for title examination, title insurance, or similar expenses
- Fees for preparation of a deed, settlement statement, or other documents
- Payments owed at the time for settlement for property taxes or hazardous insurance coverage
- Escrows for future payments of taxes and hazard insurance
- Notary fees
- Credit report fees
- Appraisal fees

- Transfer and recordation taxes and fees
- Fees or premiums for mortgage insurance
- Loan discount points and origination fees
- Required down payments

## **7. Application Process**

- Borrower applies for mortgage with participating lender.
- Participating lender sends tracking forms to NHS.
- Tracking forms will be accepted by NHS from participating lenders and processed simultaneously with the first mortgage.
- In 24 hours of receipt of the completed NHS approval form and documentation from the lender (application, credit report), NHS reviews the CCLP loan.
- Upon approval and issuance of commitments for the first mortgage and CCLP loans, settlement may be scheduled.
- Lenders will be responsible for origination and the processing of both loans.
- Lenders will be responsible for underwriting and closing the first mortgage loan.
- NHS will prepare and send to lender or title company the required documents for closing the CCLP loan (simultaneous with first mortgage).
- Lenders will be responsible for sending post-closing package to NHS.

## **8. Acceptable Loan Products**

- If the first mortgage is a FHA or CDA (state housing finance agency) loan, the CCLP loan will be in the form of a secured second mortgage.
- If the first mortgage is a VA or Conventional loan, or underwritten through the Community Home Buyer's program, the CCLP loan will be in the form of a unsecured note.
- Loans will be processed in accordance with the underwriting guidelines applicable to aforementioned loan products. Downpayment requirements will be governed by the loan product the borrower utilizes.

The NHS loan process for CCLP is designed to be as streamlined as possible. The first mortgage lender underwrites and discloses both the first and the CCLP. The NHS funds the loan at closing and services the loan. This process allows the NHS to fund loans within 24 hours and without additional staff.

The source of funds for the CCLP came from the NHS revolving loan fund (RLF), which included foundation grant monies, funds from Neighborhood Reinvestment Corporation, and recycled CDBG dollars. The Baltimore RLF is a mature loan fund and generates substantial repayments which were used to fund this product.

Initially, the program was marketed to real estate agents, but shortly after its inception the NHS went to the participating lenders asking them to market this product to their real estate contacts. This provided lenders with a new weapon in their arsenal to increase their value to their partners in real estate.

Although CCLP was available at first only in NHS neighborhoods, soon after introducing the product NHS expanded its use into a kind of secondary ring of neighborhoods adjacent to those initial target areas. This gave NHS a way of impacting those neighborhoods through encouraging homeownership without development of a full-scale NHS program.

## **Results**

CCLP began in the fall of 1993. Since that time, 221 buyers have been assisted with closing cost loans totaling \$712,000. This has leveraged another \$10.8 million in conventional first mortgage money. Eighteen lenders participated in CCLP.

## **Lessons**

### **1. Leveraging**

CCLP has proven to be a great way to leverage conventional lending. It was designed for straight purchase on homes not in need of rehab. NHS has other products to accommodate those situations needing rehab.

### **2. Efficiency**

This product uses the private market efficiently by providing enough assistance to make “close deals” “closed deals,” but it is not an alternative or competitor to private lenders.

### **3. Multi-Tier Value**

In developing this product, NHS recognized its multiple tier of customers—lenders, the City, real estate agents and homebuyers. It was a way to increase the value of NHS to those various customers. It provided, for example, a way for lenders to increase their value to real estate agents. It also complemented the City program by focusing on a lower-income market niche.

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**MTW #37**

# New Homes for Chicago

## Chicago, Illinois

### **Purpose**

The purpose of the program is to expand homeownership opportunities for working-class families, foster the development of mixed-income communities, and revitalize deteriorating urban neighborhoods through an in-fill new home construction strategy. The New Homes for Chicago Program is administered by the City of Chicago Department of Housing.

### **Market Served**

The program is designed to assist low- and moderate-income first-time homebuyers in Chicago and is scattered throughout the City.

### **Components**

The New Homes for Chicago Program has two components for helping to create mixed-income communities: the New Homes component and the Deep Subsidy component. Both provide affordable homeownership opportunities to city residents and offer incentives to developers.

New Homes targets households with annual incomes at or below 120% of the area median income. Conventional financing is obtained by the buyer and the City provides a second mortgage that is forgiven over four years.

Deep Subsidy targets households with incomes below 80% of the median income. Qualified households receive City of Chicago HOME funds of up to \$40,000 depending upon income level. For example, a household earning below 50% of the area median qualifies for the full amount; a household in the 71% to 80% of median range can receive up to \$25,000.

Qualified buyers can also receive down payment and closing cost assistance through the City Mortgage Program. This resource is financed with tax exempt bonds and consists of market rate loans available from participating lenders.

Developers can be for-profit or non-profit entities or joint venture partnerships. Single-family homes must be priced less than \$99,000 and two-flats no more than \$150,000. The maximum total subsidy per development is usually \$500,000 and developers must build a minimum of six homes. To generate builder interest in the program, the City provides the following incentives to developers:

- A per-home purchase price subsidy of up to \$20,000 for single-family homes and \$32,000 for “two-flats,” two-unit buildings typically in which the owner lives in one unit and uses rent from the other unit to help pay the mortgage.
- City-owned vacant lots valued at \$20,000 or less for as little as \$1.
- Waiver or reduction of various building permit and utility connection fees.
- Perimeter site improvements such as new sidewalks.

## **Resources**

The Department of Housing uses two sources of funds for the program: City of Chicago Corporate Budget dollars and HOME funds. Corporate Budget funds are used for New Homes and HOME funds are used for Deep Subsidy. The City has committed \$8 million to New Homes and \$1 million to Deep Subsidy.

## **Results**

Since 1990, the two components of the New Homes for Chicago Program have created 532 new homeowners and have promoted mixed-income communities in the city. The construction of infill homes has removed vacant and often dangerous property while expanding the city's tax base.

## **Lessons**

### **1. Organizational Growth**

Several community groups have become partners with homebuilders and lenders in the completion of a New Homes project. These partnerships have contributed to the success of the program and have given community groups the opportunity to transform themselves from social service agencies into community-based development organizations.

### **2. Application Process**

Changing the application process to make it more "user friendly" enabled more builders to participate in the program.

### **3. Knowing What Is Feasible**

The marketing and overall economic feasibility of each New Homes development must be carefully considered before the project begins. In one case, a developer completed only three units of a planned 16-unit development due to poor initial marketing and planning.

### **4. Awards**

New Homes for Chicago has increased the visibility of the city's housing programs. Homan Square, one of the program's developments on the city's west side, received the Association of Local Housing Finance Agencies' HOME Award. The program also was a major reason why Chicago received the U.S. Conference of Mayors' City Livability Award.

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## MTW #38

### NHS of New York City Partnership With Local 1199 New York , New York

#### **Purpose**

NHS of New York City has a unique partnership with Local 1199—a union representing hospital workers—and Amalgamated Bank. The focus of this partnership is to help members of 1199 access homeownership.

#### **Market Served**

New York City is one of the most expensive housing markets in the nation, with median home prices at \$150,000. The median income of New Yorkers is only \$42,000, creating a significant affordability gap. Despite this gap, the experience of NHS of New York City indicates a strong interest in homeownership on the part of modest-income, working families..

Importantly, the clients NHS has assisted are a population of prospective homebuyers largely untapped by conventional lenders. NHS has statistically out-performed government and private channels of credit in reaching this market. Eighty-five percent of the homebuyers assisted by NHS have been from minority populations—63% are African-American, 14% are Latino, and 8% are other minorities.

This affordability gap provided an ongoing challenge to NHS to find families qualified to move into ownership. One strategy in finding this market is a partnership with a union representing modest-income health care workers.

#### **Partners**

Local 1199 is a labor union representing health and human service workers with a high proportion of minority members. The local formed a housing committee to develop a program to help members to buy homes. In this partnership, 1199 does the following:

1. Prints and distributes to its members informational and educational material about the program;
2. Provides office space and necessary equipment at 1199's office where the assigned NHS staff work with union members interested in participation in the program;
3. Provides equipment to be used by NHS at homebuyer workshops; and

4. Appoints a program administrator who oversees the daily activities of the program and works closely with the NHS staff assigned to 1199.

For its part, NHS:

1. Provides two full-time staff members to work at the 1199 office to assist members interested in the program;
2. Holds educational seminars for 1199 members, which satisfy the educational requirements of the Community Home Buyer mortgage product; and
3. Provides budgeting, saving, and credit counseling and debt restructuring services to 1199 members, and refers members to participating lenders.
4. Provides monthly reports that contain data on homebuyers NHS services.

### **Components**

NHS of New York City provides a range of homebuyer counseling and loan packaging services to the members of Local 1199. NHS has two staff people located at the union headquarters who provide individualized counseling and follow-up to members.

One of the main program components of the 1199 partnership is a series of homebuyer education workshops the NHS provides for union members. Local 1199 announced the availability of these seminars in its newsletter, and several thousand members returned a response card indicating their interest. With such a large response, the NHS was challenged to develop an efficient mechanism for homebuyer education and follow-up.

A two-phase approach was developed and has been used successfully by the NHS. Interested members are grouped by place of employment. The phase I session is an hour-and-a-half introduction to home ownership with an attendance averaging 200 members. It provides an overview of NHS of New York City and its relationship to Local 1199 and general background on buying a house. At the end of the session participants are asked to fill out a pre-qualifying form and authorize NHS to do a credit report.

After the Phase I session, NHS reviews the pre-qualification information and reviews credit reports. Those members who are prequalified are invited to a Phase II session, which provides more detailed information. Those members who may have savings or credit deficiencies are encouraged to contact the NHS housing counselors posted at the union headquarters for more individualized counseling. Phase II is a three-and-a-half hour session that covers family budgets, the real estate sales contract, financing products, and home inspection. At the end of Phase II, members are given a certificate of completion and are encouraged to go home shopping. The NHS loan counselors follow up as well on the progress of those members, and make themselves available for individual counseling.

Because interested members were grouped by place of employment, the NHS initially went out to the site (usually a hospital) for the Phase I seminar. After the first few seminars, it became apparent that doing the session at the union headquarters was a better alternative and could draw people from

several employers. Members were accustomed to going to the union hall and there was some efficiency gained from presenting to a larger group. The NHS worked out a schedule of times when the seminars would be offered, establishing an agenda over six months and enhancing the NHS' ability to be prepared.

When a member finds a building to purchase, he or she continues to work with the NHS loan counselors through the application process. NHS then works with lenders to facilitate the mortgage process and helps the 1199 members to obtain loans. NHS has also been helpful in helping financial institutions understand some of the peculiarities in this market. Many borrowers are Caribbean immigrants who often use alternative savings plans and may lack established conventional credit, yet have a solid history of bill-paying. As an intermediary between the borrower and the financial institution, NHS is able to document creditworthiness to the lender. At the same time, NHS is educating this market about financial institutions and helping overcome cultural barriers that inhibit involvement with mainstream financial institutions.

## **Results**

Through this program, NHS has counseled 2,347 families and closed \$19,488,406 in loans.

## **Lessons**

### **1. Union Benefit**

This is a good example of how a union local provided an important benefit to its members by partnering with NHS of New York City.

### **2. Reaching Underserved Markets**

Unlike many homeownership efforts that start with buildings that need buyers, this approach targets a particularly large market of employed working families and helps that market move forward into home ownership. The membership of Local 1199 is predominately minority with strong representations of African-Americans, Caribbeans, Latinos, and Asians—groups traditionally underserved by conventional credit.

### **3. Teaching Process and Possibility**

NHS staff now understands that one of the major barriers to home ownership for this market is lack of knowledge about the process. Many seminar participants, although working and with good credit, could not grasp the possibility of homeownership. The seminars have helped 1199 members understand the process and how much house they can afford.

### **4. Strong Response**

NHS staff were pleased at both the response to the seminars and readiness for home purchase exhibited by the membership. This readiness is supported by the number of members prequalified for the Phase II seminars. Almost two-thirds of the members attending the Phase I session met the prequalification threshold requirements for Phase II.

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**MTW #38**

**GE Capital Mortgage Corporation  
Community Resource Center  
Philadelphia, Pennsylvania**

**Purpose**

The Community Resource Center was developed to serve as a model for learning how to identify and serve potential borrowers in communities where residents are capable of becoming homeowners, but lack either an understanding of the home-buying process or easy access to capital. GE Capital will eventually share the information gathered with lender partners who share GE's commitment to this kind of outreach. During this limited pilot, GE provides intensive pre-purchase counseling, pre-qualification, and referrals to real estate agents and lenders for potential homebuyers in the Philadelphia area, through a "one-stop-shopping" format.

**Market Served**

The Community Resource Center has no income targets for its customers, but focuses on near-ready borrowers. Usually they are moderate- to high-income families who have credit problems. Income range for customers to-date has been \$65,000 to \$85,000. The geographic target area is the entire South Jersey/Philadelphia metropolitan area.

**Components**

**1. Counseling Services**

The Community Resource Center is a storefront office with four full-time GE employees. Center services are free of charge.

GE staff promote a self-help approach with customers, and, where necessary, develop “credit strategy packages” for families engaged in intensive credit repair. Partners in the Community Resource Center include Realtors, appraisers, attorneys, title agencies, nonprofits and lenders, all of whom sign partnership agreements to provide:

- Quick and courteous service to customers;
- Dedicated people assigned to the center on a rotating basis;
- Commitment from the top of the organization; and
- Monthly reports on the status of referrals from the Center.

There are no fees for partners (although some partners do provide in-kind marketing support). Lending partners agree to provide copies of the HUD-1 forms so that the Center can track loan closings and customer fees. The loans receive a special bar code for tracking performance.

The City of Philadelphia is also an important partner. It operates a settlement cost grant program with no income limits for first-time homebuyers in the city. Many GE Capital customers qualify.

## **2. Marketing**

The Community Resource Center markets its services primarily on radio, especially African-American radio stations in the area, on interview shows and talk radio. Customer surveys are conducted at different stages in the process to ensure high-quality service. The sources of their customers are:

- Radio: 40%
- Word of mouth: 40%
- Lender referrals: 20%

The Center’s staff have developed a series of “core messages” that they try to incorporate in interactions with customers. These are:

- We want to help people buy homes even if they think they can’t;
- Affordable housing is housing people can truly afford;
- Our mission is to help people buy homes and to succeed as homeowners.
- Don’t say “consumers” or “minorities,” say “people.”

## **Partners**

Current lender partners include:

- ◆ Chase Manhattan Mortgage Corporation
- ◆ GMAC
- ◆ Norwest Mortgage

## **Resources**

No fees are charged to customers for counseling. GE Capital Mortgage funds the entire cost of the Center.

## **Results**

In six months, the Community Resource Center in Philadelphia achieved the following:

- Total customer contacts: 1,642
- Customer packages mailed out: 752
- Returned customer packages: 484
- Individual counseling sessions: 350
- Buyers ready in 6 months or less: 150
- Loan closings (estimated): 50

## **Factors in Success**

### **1. Business Plan**

A comprehensive business plan, detailing information-gathering objectives, costs and anticipated results, has kept the organization focused and productive.

### **2. Spelling Out Commitments**

Partnership agreements clearly delineate commitments and responsibilities from key service providers.

### **3. Convenience**

The Center's one-stop-shopping format is convenient and customer-focused. Resource Center staff are familiar with Philadelphia and its housing market.

### **4. Trust**

The Center focuses heavily on "bond marketing"—building relationships of trust with customers.

**For more information, contact:**

**Sheila Sellers  
Community Resource Center  
7167 Ogontz Avenue  
Philadelphia, PA 19138**

**(215) 224-9797  
(215) 224-8282 Fax**

**MTW #40**

# Closing Assistance Support (CASH) NHS of New York City New York, New York

## **Purpose**

NHS of New York City's Closing Assistance Support for Homebuyers (CASH) helps homebuyers meet out-of-pocket expenses of purchasing a home in New York City. Phase I of the program began in July of 1994; Phase II kicked off in November of 1995.

## **Market Served**

Several circumstances contributed to the development and growth of CASH.

- As an early member of the NeighborWorks Campaign for Home Ownership, New York City NHS sought an opportunity to leverage that status around resources and program development.
- Secondly, NHS's pre-purchase counseling showed that many potential purchasers fell just short of having the required cash for down payment and closing costs.
- Finally, the issue of higher rates of loan declination among minorities was prominent and of concern to financial institutions.

These circumstances contributed to NHS's efforts to develop a closing cost assistance product to help lenders serve markets they were having difficulty reaching on their own. The NHS wanted also to develop a product that could be delivered without excessive administrative costs.

## **Components**

In CASH, a consortium of eight financial institutions provided a loan of \$2 million at 6% to NHS of New York City. NHS loans the money to borrowers at 8% and repays the consortium.

Bankers Trust acts as the lead lender in this consortium and manages the funds. The lenders also put up a \$5,000 collection account to cover any potential delinquencies. The Uris Foundation and the Bank of Israel provide operating support to NHS, for CASH.

Borrowers' income should not exceed 165% of median. For a family of four, the income limit is \$75,570. Borrowers also must have successfully completed a mortgage counseling program, offered through the New York Mortgage Coalition (of which NHS is a member) or through banks participating in CASH.

CASH loans are available on one- to-four family homes, cooperatives, and condominiums. Borrowers must have a minimum down payment from savings of 8% of the purchase price. Homebuyers' first mortgage loan on homes and condominiums can have a loan-to-value ratio of up to 95%; for cooperatives the maximum loan-to-value ratio is 90%. For cooperatives, the maximum debt-to-income ratios are 33%/38%; for homes and condominiums the ratios are 38%/40%. The maximum CASH loan size is \$15,000 with an interest rate of 8% and a term of one to eight years. The average loan size has been about \$8,500; average family income has been \$45,000.

## **How CASH Works**

CASH was designed to be administered simply. All documents related to CASH are standardized that can be prepared quickly. The primary lender does the underwriting of the CASH loan, which is processed simultaneously with the first mortgage. The steps in processing a CASH loan are as follows:

- 1.** The first step for buyers is to go through mortgage counseling and be prequalified for a loan. The borrower then applies for a first mortgage at one of the lenders participating in CASH. If they need down payment or closing costs assistance, lenders refer them to NHS.
- 2.** The buyer and the NHS counselor fill out and sign the CASH application and submit it to the bank with the loan package.
- 3.** The bank underwrites the application and issues a conditional commitment. This conditional commitment and the completed CASH application are faxed to NHS.
- 4.** NHS issues the CASH loan commitment, the homeowner signs at NHS, and the CASH commitment is faxed back to the bank.
- 5.** The bank notifies NHS of the closing date, which is always a seven-day minimum.
- 6.** NHS prepares the CASH closing documents and a check, and sends these back to the bank, and closing takes place.

## **Lessons**

### **1. Reaching an Underserved Market**

CASH is an efficient tool for banks to use to expand their homeownership lending. In less than one year of CASH's second phase, 82 loans closed for \$684,973. In the first phase, 94 loans were made for a total of \$496,000. CASH is helping banks find a market of moderate-income buyers who are close to conventional but simply lack sufficient closing costs. CASH is structured so that the participating banks can use it for customers who approach them directly.

### **2. Using the Back-End Ratio**

In negotiations, NHS sought to have borrower debt associated with CASH counted in the back-end ratio. Since the CASH loan is not secured with a mortgage, this point was accepted. Also, by counting the CASH debt in the back-end ratio, more families were likely to qualify.

### **3. Administratively Efficient Process**

The objective of developing a useful loan product with minimum administrative burden for the NHS seems to have been met. The time spent in processing a CASH loan is generally around three hours.

**For more information, contact:**

**Josie Gonsalves  
NHS of New York City  
380 Flatbush Avenue Extension  
Brooklyn, New York 11201**

**(212) 645-6413**

**MTW #40**

## **NHS of Chicago Family Housing Fund Chicago, Illinois**

### **Purpose**

The Chicago Family Housing Fund is a first- and second-mortgage loan pool, primarily for financing purchase-rehabs.

### **Market Served**

Through the Family Housing Fund, Neighborhood Housing Services (NHS) of Chicago is attempting to address an unmet need--funds for purchase and rehabilitation of one- to four-unit properties in low- and moderate-income neighborhoods. Several important criteria needed to be met to ensure program success:

- Funds had to be flexible enough to meet the needs of a particularly sensitive market: first-time homebuyers.
- The program needed to be flexible enough to do substantial rehab which, in some cases, would exceed appraised value.
- At the same time, loans produced needed to be saleable on the secondary market.

### **Components**

Three lenders—Harris Bank, Cole-Taylor Bank, and Northern Trust—and NHS of Chicago staff were the core leadership in development of this program. This working group discussed both NHS experience in making purchase-rehab loans, the difficulties and high costs private lenders had experienced in attempting this kind of lending, and some possible options. The group developed a loan participation pool of first and second mortgages with a specific cost-recovery mechanism.

The core leadership group called together a number of lending institutions to explore this option. Lenders' reactions were positive. NHS asked that they commit to both the first and second mortgage pools. The amount of the first pool in 1993 was \$800,000. Since then, there have been two offerings to investors for the first mortgage pool and three offerings for the second mortgage pool. An offering for both was planned for early 1997.

The fund provides families interested in buying and renovating a one- to four-unit property with an 80% loan-to-value (LTV) first mortgage at a market rate and a second mortgage that can go up to 110% LTV at 5% for 15 years. The buyer is required to provide a 3% down payment. Proceeds of both the first and second mortgages come from the participation commitments of the lenders investing in the fund. A loan committee drawn from those lenders approves the loans.

A buyer applies to the Family Housing Fund only after an offer to purchase is in hand. NHS staff assist the buyer in developing the loan package and scope of work. The job is then bid out to qualified contractors and, upon receipt of bids, the Family Housing Fund committee reviews the final loan package for approval.

NHS advances funds required for closing. When the amount of loan proceeds outstanding reaches a certain point, a capital call is made to investors to fund the loans. When construction is complete, loans are offered for purchase to the lender investors. Lenders, in a specific order, can then purchase whole loans and servicing. They then have a HMDA-eligible loan, which they can sell on the secondary market or hold in portfolio.

The Family Housing Fund also allows participating lenders to use the second mortgage pools with their own first mortgages that they originate independently. This adds value to lenders by giving them a tool to help customers who may require down payment assistance or need gap financing.

## **Results**

The Family Housing Fund became operational in mid-1993. Since then, 240 families have been assisted in purchase-rehab; \$15.2 million has been loaned from the Fund. Seconds used by lenders on their own originations have leveraged another \$8 million in conventional financing. The average transaction is \$97,000.

Eighty percent of the borrowers have incomes of 80% of median income or less. Of these, 40% have incomes of less than 60% of median. Ninety percent of borrowers are minorities; 45% are single female heads of household.

## **Lessons**

### **1. Need for Purchase-Rehab Product**

In the Chicago community lending environment, the development of a purchase-rehab product filled a special need. Lenders' experience with purchase-rehab lending done on their own was generally unsuccessful, with high costs and modest results. As a result, lenders had substantial interest in becoming involved with the Family Housing Fund.

### **2. Value-Added for Lenders**

Along with providing direct first- and second- mortgage financing, lenders can use the seconds on their own originations. Thus the fund provides a new tool and added value for participating lenders.

### **3. Recovering Costs**

The fund is structured so that NHS of Chicago can recover the costs of helping families put together and carry out a purchase-rehab transaction. NHS works with buyers on finding contractors and monitoring construction as well as loan packaging.

**For more information, contact:**

**Bruce Gottschall**  
**NHS of Chicago, Inc.**  
**747 North May Street**  
**Chicago, IL**

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**(312) 738-2491 Fax**

**MTW #42**

**McLean County Coalition  
For Affordable Housing  
Bloomington-Normal, Illinois**

**Purpose**

The coalition has used its members' professional expertise to secure grant funding that then serves as down payment assistance grants for low- and moderate-income families in McLean County, Illinois.

**Market**

Bloomington, with its twin city Normal, has experienced steady growth over the last decade. Bloomington is home to State Farm headquarters, which employs 10,000; a Mitsubishi plant; and two universities. Agriculture also drives the economy. Affordable housing prices are high, ranging from \$45,000 to \$75,000. What housing is affordable needs rehabilitation. Area median income is \$37,850 for a family of four.

**Partners**

Community Action Agency, Citizens Savings Bank FSB and lender partners, Realtors, representatives of Bloomington and Normal, IL, city governments.

**Background**

In 1990, the local United Way chapter held a meeting of agencies concerned with providing for the community's "basic needs." Participants identified affordable housing as "a pressing concern and an

unmet need.” Later, enforcement of the Community Reinvestment Act brought the lending community together with the United Way, to consider housing concerns. United Way started a down payment assistance program; a social service agency, Community Action, in Bloomington took over administration of the program in 1995. The lenders’ coalition funds the down payment program.

### **Components**

- The McLean County Coalition for Affordable Housing has for three years received grants from the Illinois Housing Development Authority to fund a down-payment assistance program. In 1991, the coalition was awarded \$50,000; in 1994, \$100,000; in 1996, \$120,000.
- Down-payment assistance is available in grants of \$5,000 for low-income people and \$2,500 for moderate-income people, based on HUD income-eligibility guidelines. The program is for McLean County properties.
- Mortgage-loan applicants are required to pay part of the down payment. The applicant is responsible for 20% of the grant amount or \$500, whichever is greater.
- The Community Action Agency informs potential mortgage-loan customers who are eligible for down-payment assistance about lenders participating in the coalition. The customers then choose a bank with which to apply for a mortgage.

### **Resources**

Lenders pay dues to the coalition, based on their financial institution’s asset size, to cover administrative costs.

### **Results**

The coalition has provided 55 grants to low- and moderate-income county residents. The average grant has been \$2,700.

### **Lessons**

At the end of its first year, the coalition discovered the need to have a “seamless” program. Because of a lag in time before IHDA issued the second year’s check, the coalition came up short of funds. This created a period when the Community Action Agency had to turn away potential homebuyers needing down payment assistance. The word went out to Realtors and loan originators that the agency was having to turn away customers. The program lost out on media coverage. To eliminate that funding gap, the coalition now starts preparing to apply to IHDA for its next grant as soon as it receives funds for that ongoing year.

### **For more information, contact:**

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**Citizens Savings Bank, FSB**  
**301 Broadway**  
**Normal, Illinois 61761**

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(309) 452-4419 Fax

## MTW #43

# The 15th Avenue Cooperative Escondido, California

### **Purpose**

The program's objective is to expand ownership opportunities and the supply of affordable permanent housing in the City, and to increase stability and the quantity of larger-size multi-family units in the Centre City neighborhood.

### **Market Served**

The City of Escondido has a population of 130,000 and is located approximately 18 miles inland from the Pacific Ocean and thirty miles north of downtown San Diego. Overcrowding of rental units is a problem, particularly in the area around the 15th Avenue Co-op, the Centre City neighborhood. In this community, more than 25% of all units are overcrowded, compared with 10% citywide.

Three- and four-bedroom units are in short supply in Centre City. Within a two-mile radius of the Co-op was a total of only 24 three-bedroom rental units and no four-bedroom units. Escondido's homeownership rate is low (52%) and even lower in Centre City (29%). The City noted these conditions in its most recent consolidated plan.

### **Background**

Attempting to ameliorate these problems, the City joined with the North County Housing Foundation, a community-based developer specializing in low-income housing, to create the 15th Avenue Co-op. The development included acquisition and extensive rehabilitation of a severely deteriorated 16-unit complex of one- and two-bedroom units. North County Housing Foundation bought the building for \$425,000, which is less than \$27,000 per unit.

Twelve of the cooperative's 16 units are restricted to occupancy by households at or below 60% of area median income (\$26,350 for a family of four); four units are for household at or below 80% of median (\$35,100). However, current cooperative members have incomes of less than 50% of area median income.

### **Components**

The building was reconfigured to include four one- and two-bedroom units and 12 three- and four-bedroom units, with amenities such as security gates, storage areas, a unique screening wall and

outdoor entry to each unit. Site improvements included new landscaping, a playground and a community “gazebo” building for meetings and activities. Future cooperative members helped to gut the building and were involved with project and construction decisions and selecting materials, paint colors and floor coverings.

Residents were required to make an initial investment ranging from \$1,050 for a one-bedroom unit to \$1,700 for a four-bedroom unit. The amount of equity that residents earn on their investments is limited, a restriction intended to preserve the units’ long-term affordability. However, members are assured an annual return of at least 6% on this original equity investment and can pass the unit on to heirs.

Co-op members must attend a cooperative training program which includes instruction on group decision-making, budget and property management and other ownership skills. The co-op Board of Directors, with the management company, is responsible for filling vacancies, conducting interviews and certifying prospective residents’ incomes.

The 15th Avenue Co-op has annual financial and organizational audits to ensure that board decision-making is being conducted properly. Resale prices are limited to a 6% annual increase on residents’ equity investment. The North County Housing Foundation owned and managed the cooperative for the first year, then transferred these responsibilities to residents.

Residents of the 15th Avenue Co-op pay rents according to unit size, broken down as follows:

- A one-bedroom, one-bath unit costs \$400 per month.
- A two-bedroom, one-bath unit costs \$480 per month.
- A three-bedroom, two-bath unit costs \$565 per month.
- A four-bedroom, two-bath unit costs \$580 per month.

## **Resources**

The \$1.2 million project was funded mainly through loans from Bank of America and the Savings Association Mortgage Company (SAMCO) and grants from the City of Escondido and the HOME program. A third reserve account was established to pay down principal, in case mortgage payments increase in the loan’s eleventh year. Following are sources of funds for the 15th Avenue Co-op:

- Bank of America provided a construction loan in the amount of \$404,500.
- SAMCO provided \$400,000 in the form of a 9.5%, fixed-rate loan for ten years, with 30-year amortization.
- The City of Escondido set aside \$160,000 for rehabilitation at 3% for 30 years, deferred for the first ten years.
- HOME funds contributed a total of \$575,000--\$405,000 at 3% simple interest deferred for the first ten years and \$175,000 at 3% for 30 years with residual receipts.
- Local Initiatives Support Corporation provided pre-development financing of \$48,000.
- ◆ Developer/resident equity contributed \$24,450.

## **Results**

The 15th Avenue Co-op is designed to remain affordable to low-income households for a minimum of 55 years. Through this project, 16 families with little chance of becoming homeowners have the

opportunity to own and operate the housing in which they live. A 32-unit cooperative--Orange Place, to be developed by North County Housing Foundation and located a block from the 15th Avenue Co-op--is nearing construction.

The cooperative won the Association of Local Housing Finance Agencies' Meritorious Achievement Award, which recognizes affordable development projects that demonstrate tangible results, innovation, transferability, and unique opportunities. The project architect, Studio E, was awarded a Citation of Recognition from the San Diego Chapter of the American Institute of Architects, partly for "the recycling of a building that typical owners would have demolished and trucked to an increasingly crowded landfill."

## **Lessons**

### **1. Giving Residents a Voice**

In addition to enabling households to reduce their housing costs, cooperative housing gives residents an opportunity to have an equal voice in making important decisions related to their tenure. That is because co-op associations are run by an elected, volunteer Board of Directors composed of residents. This is a good example of true empowerment, which lower-income people rarely experience.

### **2. Replication**

The cooperative has strong community support. It has generated interest in limited-equity cooperatives in San Diego County and is a model for others interested in developing affordable limited-equity housing cooperatives.

### **3. Reaching Underserved Markets**

This was a good strategy to give people with incomes less than 50% of median—a group normally unable to buy single-family homes—more of a stake in their communities.

## **For more information, contact:**

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City of Escondido, Housing Division  
201 North Broadway  
Escondido, California 92029**

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**MTW #44**

# Housing Partnerships, Inc. Bartholomew County, Indiana

## **Purpose**

The program objective is to empower low-income households for the long term, through homeownership.

## **Market Served**

Housing Partnerships, Inc. (HPI) is a HOME-certified community-based housing development organization. The program is designed to serve families with incomes 35% to 80% of area median income. The program's emphasis is on families with incomes less than 60% of median; most have been less than 50%.

HPI's Homeownership Program participants are scattered throughout Bartholomew County (population 63,000), although the majority of participants have been Columbus residents (population 32,000).

## **Components**

The Homeownership Program is essentially a self-help housing program, incorporating both rehabilitation and new construction in existing neighborhoods.

The majority of HPI's homes are rehabs. Prospective homebuyers work 200 hours in the program before purchasing their homes. This requirement includes a ten-hour comprehensive homebuyer education course; homebuyers spend the remainder of the time on the job site, working through many aspects of the construction or rehabilitation process.

HPI adjusts the selling price of every house to meet the client's affordability level, calculating affordability at 30% of gross income. This level includes all housing costs—the mortgage, interest, taxes, homeowners insurance and utilities. The subsidies (from HOME and Federal Home Loan Bank Affordable Housing Program dollars and local contributions) are forgiven over 20 years. Buyers also can receive down payment assistance from HPI's revolving loan fund, which combines recaptured CDBG funds with contributions from seven local lenders.

Serving as the local HOME match, volunteers are an integral part of the program. They contribute nearly 6,000 hours annually, staff the Client Selection and Support Committee, conduct in-home interviews during the application process, and work alongside clients during construction and rehabilitation. The program does an annual Building Blitz, building a complete house, from the foundation up, in one week. Approximately 100 volunteers contribute about 800 hours during each Building Blitz.

## **Resources**

When the program began in 1990, donations from eight churches supported it, with matching grants from local foundations. With the condition that HPI would set aside a cash pledge account equal to 15% of the mortgage amount from the first five homes, Home Federal Savings Bank committed \$250,000 in fixed-rate mortgage financing.

After the program had depleted these seed funds, the City of Columbus provided about \$140,000 in recaptured CDBG funds.

In 1993, HPI developed a funding strategy that leveraged local donations of cash, materials, and volunteer time with FHLB AHP dollars and State of Indiana HOME funds. In addition to regular HOME program grants, HPI has received two capacity building grants and one project-specific pre-development grant. Also in 1993, three lenders joined with Home Federal Savings Bank to create a \$500,000 mortgage loan pool. Home Federal committed additional mortgage funds as part of an AHP grant application.

Resources used in 1995 (when 12 homes were completed) are typical of the program's funding strategy. The total 1995 project cost of \$960,000 was funded by the following sources:

- \$530,000 from first mortgage loans;
- \$320,000 from HOME;
- \$55,000 from AHP;
- \$55,000 from volunteer labor and donated materials.

## **Results**

- HPI has helped 28 families achieve homeownership.
- Two more houses are under construction.
- More than half of the homes purchased were gut rehabs.
- HPI received the Mayor's Spruce-Up Award for a home renovation in Columbus' historic district.

New homeowners in the program are paying less to own than they previously paid to rent. Blocks where homes were built or rehabbed have benefited from property upgrades.

## **Lessons**

### **1. Neighborhood Impact**

In planning specific projects, HPI tries to consider overall neighborhood impact. For example, HPI consciously seeks boarded and abandoned buildings for rehabs, to improve the neighborhood and to avoid displacing others. Also, when building new homes, HPI tries to choose floor plans that match the neighborhood's architectural vernacular.

### **2. Quality Investments**

The program's participants know, by their own work, that they are buying a home in good shape. Their roles as partners in the program build self-esteem. HPI guarantees each home against defects for one year and strives to maximize energy efficiency and minimize maintenance costs by using quality construction materials and methods.

### **3. Pre-Purchase Activity**

HPI requires clients to do buyer education and contribute sweat equity before closing.

### **4. Link to Other Programs**

This program fills a gap in the continuum of assisted housing needs. Several HPI homeowners graduated from the local housing authority's Family Self Sufficiency Program.

#### **For more information, contact:**

**Mark Lindenlaub**  
**Housing Partnerships, Inc.**  
**2158 Cottage Avenue**  
**Columbus, Indiana 47201**

**(812) 376-9458**

MTW #45

## **Topeka Opportunity To Own (TOTO)** **Topeka, Kansas**

### **Purpose**

TOTO, created after a town meeting concerning affordable housing, provides homebuyers whose income is 80% of area median or below, an opportunity to purchase a home.

### **Market Served**

TOTO operates in the city of Topeka, Kansas, which has a population of approximately 120,000; an estimated 20% to 25% are black or Hispanic. Much of the housing is older single-family wood frame dating from 1900 to 1920 and was vacant prior to the program's inception.

### **Components**

The first mortgage, financed using conventional underwriting, is a 30-year fixed-rate loan of up to 80% of the after-repair value of the house. This amount cannot exceed \$50,000. Buyers must put down 5% of their gross annual income or \$500, whichever is greater.

Participating lenders waive the loan origination fee, some documentation fees and set the appraisal cost at \$150. In addition, lenders hold repair funds in escrow until directed by the City to disperse them. They also maintain for five years a homeowner's maintenance account, funded with \$250 at closing and \$25 thereafter from each mortgage payment. Monthly payments, including the maintenance fee, average \$325.

The City provides a second mortgage for rehab of up to \$15,000, forgiven if the owner remains in the home for 10 years. Monthly payments are deferred.

City inspectors examine the prospective property and list needed repairs; help determine the purchase price, including rehab, with the bank; work with the buyers after the purchase to solicit bids; supervise the work and inspect the results. Most buyers move into the house before the rehab work is begun. The City is also involved in issuing payment for the contractors.

Kansas Department of Corrections' inmates do carpentry work on TOTO houses that need only carpentry rehab.

### **Partners**

- City of Topeka;
- Capitol Federal Savings and Loan;
- Bank IV;
- Commerce Bank;
- Mercantile Bank;
- Fidelity Bank;
- Housing and Credit Counseling Agency, a nonprofit, and
- Kansas Department of Corrections.

### **Resources**

The City of Topeka provides the second mortgage money from HOME and HOPE 3 funds, and matching funds, as required, from tax monies. The lending institutions set aside a total of \$5 million in mortgage money for TOTO. Lenders use their standard underwriting process to qualify buyers. Third mortgage money is sometimes available through the Federal Home Loan Bank of Topeka and is used instead of some of the funds provided by the City.

### **Factors in Success**

#### **1. Partnership Design**

The partnership arrangement—with no clear leader and a critical emphasis on communication and working out problems such as eligibility and underwriting differences—is a factor in TOTO's success. Using clear agreements, the committee grew to understand member organizations' differing needs and requirements, and worked to recognize and accommodate these needs.

#### **2. Homebuyer Education**

TOTO values homebuyer counseling as an essential component of a successful program.

### **3. Rehab costs**

TOTO incorporates any needed rehab into the purchase price to avoid costly repairs early in the loan, and to help ensure buyers can afford the purchase plus.

### **Results**

Since 1992, when TOTO made its first loan, 143 homes have been purchased under the program. There have been two foreclosures, and one or two serious delinquencies in which buyers were three months or more in arrears.

### **Lessons**

#### **1. Post-Purchase Counseling**

Cooperation and partnership are essential to making a program run smoothly. Partners are working on a method to ensure that TOTO buyers who are in arrears are offered help when the problems begin. This is part of the TOTO agreement, but due to different internal methods of serving accounts, some cases have not received swift attention.

#### **2. Loan Qualification**

Requirements, such as the ability of a potential buyer to qualify may differ among the partners, and these need to be both understood and addressed.

#### **3. Educating Real Estate Agents**

Real estate agents participate more fully in the program following specific education explaining the program and the required process.

**For more information, contact;**

**Glenn Briggs  
Topeka Economic and Community  
Development Department  
515 Kansas Avenue, Room 405  
Topeka, Kansas 66603**

**(913) 295-3711  
(913) 295-3800 Fax**

**MTW #46**

**CHIP  
Stephens Federal Savings and Loan**

# Toccoa, Georgia

## **Purpose**

This program offers 100% home financing with no down payment.

## **Market Served**

CHIP primarily serves first-time homebuyers who are creditworthy but cannot qualify for a loan that requires a 5% down payment.

Stephens Federal serves ten counties in northeastern Georgia, two hours' drive from Atlanta. The textile and poultry-processing industry used to be the region's primary employers, but the area now is home also to manufacturers offering assembly or production work. One county, where Stephens has its one branch, has become home to retirees and vacation-home buyers, which has driven up property values and brought in service jobs.

## **Components**

### **1. The CHIP Loan Product**

CHIP is 100% financing in the form of a 30-year, adjustable rate mortgage, for homes generally costing \$75,000 or less. The property must be owner-occupied and the borrower's primary home. At least one borrower must have been in the job currently held for two years or have graduated from a four-year college. Underwriting is flexible because these are portfolio loans to be retained in-house and not sold on the secondary market.

### **2. No Private Mortgage Insurance**

Private mortgage insurance (PMI) costs can combine with other costs to keep families out of homeownership. Stephens Federal says that because it is a portfolio lender, it has to be comfortable enough with a loan for it not to need PMI.

### **3. Community Investment Program**

Through this noncompetitive program, the FHLB of Atlanta advances funds to member banks at a reduced rate. By using the Community Investment Program and with the cooperation of closing attorneys and appraisers in reducing their fees, Stephens Federal was able to cut closing costs on its CHIP loans. Banks can use the FHLB Community Investment Program to support housing or economic development programs for people with incomes at or below 115% of the area median income.

### **4. Intensive Customer Service**

Stephens Federal took extra measures to instruct its loan officers about CHIP customers, who were generally anxious about the entire homebuying and lending process and its outcome. The bank does not require homebuyer education for this program, but has offered for four years a homebuyer

budgeting seminar. The bank also relies on individual loan officers to establish a relationship with each customer that embodies pre-purchase as well as post-purchase counseling.

Loan officers also were instructed to underwrite strictly. The bank made a commitment to inform CHIP customers as quickly as possible about the decisions on their loan applications. To that end, the bank cut its loan processing time on these applications to about two weeks.

The rapport loan officers have established with their CHIP customers is expected to help in future months if problems arise. The bank also says that time taken to form these relationships has been well spent because some of these borrowers have opened other types of accounts with the bank.

## **5. Marketing**

The bank intentionally did low-key marketing, in the form of a lobby display and flyers distributed to real estate offices and builders.

Real estate agents were pleased to be the primary conduit for the program, through their clients, their own published advertising and marquee outside their offices : “See us about no down-payment loans.”

One of the most effective marketing tools was a rate-sheet mailing to real estate agents that was routine but for the bag of chips attached. Agents said they also were pleased to have a better awareness of the bank’s portfolio products.

## **6. Loan Tracking**

CHIP loans are set apart from other loan types to help with tracking. The loan officer calls the borrower if a payment is more than ten days late.

## **Results**

In CHIP’s first six months, Stephens Federal closed 21 loans totalling \$1.3 million. Of these, 42% were to people of low- to moderate income; the remainder went to people with incomes of more than 115% of median income. The total available for CHIP is \$3.5 million.

## **Lessons**

### **1. Listening to the Real-Estate Community**

For four years, Stephens Federal has done an annual survey of real-estate agents, asking them what product line their customers need, how many government loans they’re doing, what prevents their customers from buying a home. Because the surveys consistently show down payment and closing costs to be customers’ biggest obstacles, the bank found a way to do CHIP.

### **2. New Markets**

In offering this new program, Stephens Federal unexpectedly discovered markets that it wasn’t serving. One of these consisted of

local people working in service jobs in an area experiencing an influx of tourists and retiree homebuyers.

Another market that emerged was homeowners interested in buying up from a starter home: When demand for starter homes picked up, this generated activity by owners of existing homes who decided to sell. Demand for existing homes was heavier because of an ongoing slowdown in new home construction.

CHIP first-time homebuyers did not turn out to be what the bank expected, which was the couple in their early twenties with a new baby. Customers have tended to be older, in their thirties and forties. Divorced people also were an unanticipated market segment.

### **3. Management Response**

Bank officers say they were surprised the money wasn't gone in 30 days but pleased with the program's steady and continuing results.

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**MTW #47**

**Inglewood NHS**  
**Family Housing Fund**  
**Inglewood, California**

#### **Purpose**

The Family Housing Fund is a first and second mortgage loan participation product developed by Inglewood, California, Neighborhood Housing Services. It provides a streamlined way of financing home purchase, helping first-time buyers with down payment and closing costs.

#### **Market Served**

Inglewood, California, is adjacent to Los Angeles International Airport. Like most Southern California housing markets, the entry price for home ownership is significant, with house prices in the \$145,000 to \$175,000 range. While Inglewood NHS has been successful in helping families below 80% of median income purchase homes with a mortgage subsidy product, this experience taught them that with a lower down payment product and without the additional requirements of private mortgage insurance, the window could be opened to more families at higher income levels.

## **Components**

NHS pulled together a meeting of those lenders it had been working with, to explore the feasibility of a first and second mortgage product. Particularly compelling to the 12 institutions represented at the meeting was the possibility of increasing loan production in minority census tracts. In the model discussed then, lenders saw the opportunity for getting a first mortgage and one-fifth of a second mortgage in census tracts where they had little market share.

Five financial institutions—Broadway Federal, Cenfed Bank, Hawthorne Savings, Western Financial, and Sumitomo Bank—signed on to work on the development of this product.

Several critical issues in development of the Family Housing Fund were laid out early on and addressed as NHS and the lenders put the product together. These issues included:

### **1. Identifying the Target Market**

Lenders and NHS needed to clearly understand what existing products were being offered in the market and where gaps existed. In addition, they needed to identify who likely customers might be, what they needed and how to reach them.

### **2. Financial and Operational Feasibility**

The lenders and NHS had to examine costs to NHS in developing this product and the capacities NHS needed to manage the program.

### **3. Policy Development**

The partnership of lenders and NHS developed loan policies, appraisal policies, interest rate risk management policies and loan servicing policies.

### **4. Operational Planning**

Issues here included determining the documents required and setting up the structure for loan approval.

## **Resources**

The product that emerged from these discussions was fairly straightforward. Participating lenders would each make a 75% first mortgage loan on a rotating basis. The lenders all agreed to use the same rate index—the Federal Home Loan Bank rate for 30 year fixed mortgages—so that there would be no differential in rate to the borrower. In addition, lenders pledged a \$1 million second mortgage pool with a maximum loan limit of \$40,000.

NHS and the lenders agreed to a set of fees based on a determination of what the cost of delivering the product would be to NHS. NHS determined that doing 30 loans would cost them about \$18,000 in uncompensated production cost. Each lender pays \$3,800 to participate in the Fund; \$2,000 is paid up front and \$50 is charged for each loan closing. NHS charges 1 to 3/4 points on the first mortgage to the borrower, a processing fee and an appraisal fee to cover expenses. The lender charges an underwriting fee, a title fee, a recording fee, a document preparation fee and receives .25 of points charged.

Each lender has a one-fifth participation in the second mortgage. The 30-year second rate is fixed at 5% to the lender, 6 1/2% to the borrower, with NHS keeping the interest rate spread.

First mortgages are made by each lender on a rotational basis. If one lender denies the loan, it goes to the next lender on the list. If a loan application is denied twice, it is withdrawn.

One lender, Broadway Federal, acts as the lead lender on the second mortgage pool. When a second is approved by the committee of lenders, the approval letter goes to Broadway Federal. They in turn request the participation amounts from the other lenders who then wire the money to Broadway Federal to be held in escrow until closing.

## **Lessons**

### **1. Time Allotment**

This product took more than a year to develop, particularly in getting people on board.

### **2. Fee Structure**

It was important for lenders to agree early to a uniform fee structure and uniform rates, to prevent rate differences among lenders participating in the pool. NHS also carefully reviewed its costs so that the fee structure that emerged could compensate NHS.

### **3. Loan purchase**

NHS assumed both Fannie Mae and Freddie Mac NeighborWorks product would be used to purchase the first mortgages originated in this program. Fannie Mae's product was unavailable in Inglewood. Lenders amended their seller-servicer agreements with Freddie Mac in order to use their product, a process which took four to eight weeks.

### **4. Dialogue**

This product's development had important spin-off value for NHS. With a regular forum for lenders to meet and discuss particular loans, the dialogue between NHS and its lender partners improved. Lenders learned more about the market; NHS learned more about the lending business.

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**MTW #48**

## **NeighborWorks® Campaign For Home Ownership Full-Cycle Lending**

### **Purpose**

NeighborWorks® Full-Cycle Lending, developed by Neighborhood Reinvestment Corporation and the national NeighborWorks® network, is a way to systematize the network's outreach to low- and moderate-income homebuyers in its national Campaign for Home Ownership.

### **Background**

The Campaign for Home Ownership, started in 1993, is a five-year initiative to help 10,000 people into homeownership and provide homebuyer education to 75,000 potential borrowers.

Full-Cycle Lending embodies the most successful home-ownership techniques used by the NeighborWorks® network's 173 member organizations.

### **Components**

Full-Cycle Lending is a system of borrowing and lending, addressing lower-income buyers' needs and barriers to homeownership. It includes these components:

#### **1. Partnership-Building**

The NeighborWorks® organization creates a partnership of residents, business and government leaders that designs a community revitalization plan.

#### **2. Pre-Purchase Homebuyer Education**

Homebuyers learn about the purchase process with a supportive organization that helps them develop financial management skills, clear up credit problems, find a home and coordinate the property's rehabilitation needs.

#### **3. Flexible Loan Products**

Local lenders work with NeighborWorks® organizations to create mortgage products the customer can afford, with features such as lower down payments and rehab loans even when the total cost exceeds the value of the home. Property casualty insurance and mortgage insurance companies provide products that allow for higher loan-to-value ratios.

Lenders can hold the loans in portfolio or package and sell them to Freddie Mac or Fannie Mae's secondary markets. Neighborhood Housing Services of America (NHTSA) purchases special-needs first mortgages as well as second- and third-mortgage rehabilitation loans. The secondary markets return funds to the lender, who recycles them by originating additional mortgages in the community.

#### **4. Property Services**

The NeighborWorks® organization inspects the property, offers technical assistance to the homebuyer and assists with rehab.

#### **5. Post-Purchase Counseling**

The NeighborWorks® organization trains new owners in home maintenance and budgeting and does early-intervention delinquency counseling to minimize or prevent defaults and foreclosures.

#### **6. Neighborhood impact**

Homeowners gain a stake in their communities; lenders reach a significant market in which risk has been mitigated; the tax base increases; and the nonprofit partnership is one step closer to achieving its goal of neighborhood self-sufficiency.

### **Resources**

Each NeighborWorks® network organization is locally controlled and receives most of its funding and financing from local sources. Additional support for NeighborWorks® organizations in the Campaign for Home Ownership is provided by Neighborhood Reinvestment Corporation and the following partners:

- Allstate Insurance Company
- Fannie Mae
- Freddie Mac
- State Farm Insurance
- United Services Automobile Association
- World Savings and Loan Association
- Chase Manhattan Bank
- Chemical Bank
- Citibank
- GE Capital Mortgage Corporation
- KeyCorp
- NationsBank
- Shawmut Bank (now Fleet)
- Mortgage Guaranty Insurance Corporation (MGIC)

- NHSA

## **Results**

In the campaign's first three and a half years, NeighborWorks® organizations and their local partners helped 8,274 people into homeownership, generating a total investment of \$544 million. Annual homeownership production of the NeighborWorks® network has increased by 300% since the campaign began.

NeighborWorks® Full-Cycle Lending received the National Excellence Award for the City Summit of the United Nations' Habitat II. As an award winner, Full-Cycle Lending was showcased at the Habitat II conference in Istanbul and is part of the Global Best Practices Initiative database.

## **Factors in Success**

The network's campaign has served as a national laboratory for rapid research and development. It has helped to create an effective system for providing homeownership opportunities to underserved markets.

The system, Full-Cycle Lending, focuses on preventive efforts—through education in both the pre- and post-purchase phase—to ensure long-term, successful home ownership. Borrowers build capacity and skills before they buy a home. Delinquency intervention helps cure problems before delinquent loans can turn into defaults. Full-Cycle Lending is a holistic approach to resolving neighborhood issues that attempts to address homeownership barriers systematically.

## **Lessons**

### **1. Outreach**

Outreach to underserved markets bridges the gap between families and home ownership. NeighborWorks® organizations have developed marketing and outreach efforts to reach lower-income, immigrant, female and minority borrowers.

### **2. Flexible Financing**

Flexible capital is key to making deals work. MGIC, Freddie Mac, Fannie Mae, NHSA, and hundreds of local governments and financial institutions have worked, through the network's campaign, to make capital available for first and second mortgages and grants.

Homes that low-income borrowers can afford are often older and in need of repair, in areas where appraised values are depressed. Financing and technical assistance for property rehab must be available to make home ownership attainable for these customers.

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**National Coordinator**

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**MTW #49**

**Home Ownership Works  
Community Development Agency  
Minneapolis, Minnesota**

**Purpose**

The goal of HOW is to revitalize the neighborhoods of Minneapolis by promoting homeownership and the rehabilitation of vacant or distressed properties.

**Market Served**

The program is designed to assist low- to moderate-income households residing in Minneapolis. HOW focuses on stable blocks scattered throughout the city that may have some property abandonment. The aim is to catalyze other reinvestment by bringing homeownership to these blocks and properties.

**Components**

The Minneapolis Community Development Agency (MCDA), a municipal department, began the HOW program. The program has three main components: an original HOW component, a HOPE HOW component and a lease-purchase option.

**1. HOW**

The traditional HOW program has no restrictions and is supported by local municipal funds. MCDA buys government foreclosure and tax forfeiture properties and makes major repairs, modernizing many homes in the process. Homes are sold at their post-rehab fair market value. Buyers can get a mortgage either from MCDA or a lender. The average subsidy put up by MCDA is \$25,000 per property.

**2. HOPE HOW**

Created after the program was awarded a HOPE III grant, the HOPE HOW component requires that participants be first-time homebuyers who are at or below 80% of the area median income.

MCDA's partner in the initiative is the Greater Minneapolis Metropolitan Housing Corporation, a nonprofit developer. For HOPE III properties, the Greater Minneapolis Metropolitan Housing Corporation acquires properties, writes specifications and monitors the rehab construction process.

### **3. Lease-purchase**

For the lease-purchase option, applicants with credit obstacles can assume a mortgage within a year, if guidelines are met. MCDA monitors, quarterly, financial situations and the physical condition of the property, through in-house inspections.

The HOW Program uses the Minneapolis-St. Paul Homeownership Center to provide comprehensive pre-purchase counseling and to pre-qualify many buyers. MCDA provides post-purchase counseling, which is important because most program participants are first-generation homeowners.

Monitored by local nonprofits and administered by MCDA, a unique mechanism enables buyers to earn credit toward their down payment by volunteering their time. Participants gain \$15 per hour for volunteering at social service agencies, although they must contribute a minimum of \$500 of their own funds to the down payment.

### **Resources**

A HOPE III implementation grant covers property acquisition, seller closing costs and real estate taxes on properties held by MCDA. The Minneapolis-St. Paul Family Housing Fund, a local housing intermediary, covers down-payment and closing cost assistance and provides eligible low-income families with a second mortgage. The second mortgage is an interest-bearing, equity-sharing, non-assumable loan of up to 20% of the purchase price, with a limit of \$15,000.

### **Results**

HOW has brought 70 households into homeownership, making the program one of the largest producers of rehabilitation property in Minneapolis. Many participants in the volunteer down-payment assistance plan have continued to volunteer even after they have acquired the down payment.

### **Lessons**

#### **1. Marketing**

Initially, HOW used local nonprofits to market homes. The need to achieve a higher scale of production necessitated other approaches. The HOW program now uses real estate agents to market homes, attracting more buyers to properties.

#### **2. Ease of Motion**

Not having governmental restrictions such as required public meetings and city council approval, the Greater Minneapolis Metropolitan Housing Corporation is able to buy properties at least one month

quicker than MCDA, which increases the availability of HOPE III homes. In addition, the Metropolitan Housing Corporation can perform tasks that the city agency cannot, including monitoring contractors and writing construction specifications.

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Development Agency  
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MTW #50

HomeSight  
Seattle, Washington

**Purpose**

HomeSight is a nonprofit community development corporation (CDC) that develops affordable homes and assists low- and moderate-income first-time buyers through down-payment assistance and homeownership education.

**Market Served**

HomeSight is involved in neighborhoods that have the largest concentrations of Seattle's low-income and minority populations and some of its most deteriorated housing stock. Seattle has one of the most expensive housing markets in the country, with the average home priced at around \$185,000.

Three CDCs working in the neighborhoods, primarily on rental housing, saw the need to expand homeownership, but none had the capacity to do this on their own. To reach the scale of new development needed, they formed a fourth CDC, HomeSight, to create a production system.

**Components**

HomeSight's approach has four components: housing development, homebuyer education, down-payment assistance and small-scale builder development.

**1. Housing Development**

Because local housing prices are so high, HomeSight focused on creating an inventory of homes affordable to low- and moderate income people. Initially, U.S. Bank of Washington funded construction loans for development and mortgage loans for buyers. This resource was expanded through HomeSight's participation in the National Community Development Initiative (NCDI), administered locally by Local Initiatives Support Corporation (LISC). NCDI is a partnership of private foundations that provide program-related investments and operating support.

HomeSight's construction credit line is more than \$8.2 million, including the NCDI commitments, additional support from U.S. Bank and new partners Washington Mutual Bank and the Fannie Mae/NBA (Seattle SuperSonics) Partnership. This level of support has enabled HomeSight to be aggressive in acquiring sites for development at a significant scale.

## **2. Down-Payment Assistance**

Qualified buyers purchasing a HomeSight home can get down-payment loans of up to \$40,000, depending on their income. Down-payment loans are designed to fill the affordability gap and are underwritten individually. Buyers are encouraged to save additional funds beyond the minimum amounts required.

HomeSight partners, the City of Seattle, the State of Washington, U.S. Bank, Washington Mutual Bank, the Federal Home Loan Bank, and HUD through the Nehemiah Opportunity Grant, have committed about \$5 million in down-payment assistance loans.

Down-payment assistance is available in a number of different ways. In one 28-unit development, Washington Mutual Bank offered a special savings plan for HomeSight buyers. The bank matched each dollar buyers saved with \$3, up to \$5,000.

## **3. Homebuyer Education**

All HomeSight Buyers must complete an education curriculum of 10.5 hours of classroom training and one-on-one counseling. Clients who need further work, usually in credit repair or debt ratio reduction, get ongoing education. Workshops have been added in mortgage default prevention and home maintenance.

Seafirst/Bank of America; Key Bank; the City of Seattle; and LISC/Fannie Mae support the homebuyer-education program.

## **4. Small-Scale Builder Development**

HomeSight is committed to creating jobs for neighborhood residents and involving women and minority-owned businesses in the development process. HomeSight tries to link small-scale builders with more experienced builders, to increase local participation and capacity.

## **Results**

HomeSight is in the midst of a five-year effort to build 155 homes. It has site control of all 155 units. More than 100—all of them built or under construction—are sold, for prices from \$100,000 to

\$138,000. Of 25 homes scheduled to be built, 14 are pre-sold. Sixty homebuyers have completed the education program and bought homes on the open market.

HomeSight's buyers pool and applicants are representative of the neighborhoods' multi-ethnic populations: 68% low-income, 30% moderate income; 79% are minorities; 47% are single-parent families.

### **Lessons**

#### **1. Cost Control**

HomeSight is successful in producing affordable housing because it has controlled costs at all levels: land acquisition, pre-development, construction, marketing, and operating.

#### **2. Competitive Pay**

The organization recognizes that the ability to sustain success is to hire qualified staff. HomeSight offers salaries at a level comparable to what the industry pays, enabling them to retain and recruit skilled personnel.

#### **3. Education Requirement**

HomeSight is firm about the requirement that homebuyers complete designated educational programs and have lean credit for a least a year prior to buying a home.

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## **Appendix A**

### **America's Community Bankers**

### **Housing Opportunities Committee**

**Committee Chairman**  
Mr. Mark K. Milligan  
Vice President/Secretary  
State Savings Bank  
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Mr. Bunny Stokes Jr.  
President  
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Mr. David E.A. Carson  
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Mr. Bruce G. Hillstrom  
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Mr. Kenneth Koranda  
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Mid America Federal Savings Bank  
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Mr. C. William Landefeld  
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## Appendix B

### State Housing Finance Agencies

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Cynthia A. Marshall  
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## Appendix C

### Federal Home Loan Bank Programs

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New York	Federal Home Loan Bank Seven World Trade Center 22nd Floor New York, NY 10048-1185	NJ, NY, PR, VI	Joseph Gello Community Investment Officer Community Investment and Affordable Housing Program Operations	(212) 441-6824 FAX: 441-6859
Pittsburgh	Federal Home Loan Bank 601 Grant Street Pittsburgh, PA 15219-4455	DE, PA, WV	James C. Chaney, Senior Vice President Community Investment	(412) 288-7316 FAX: 288-4578
Atlanta	Federal Home Loan Bank 1475 Peachtree Street, NE Atlanta, Ga 30309, Mail to: P.O. Box 105565, Atlanta, GA 30348	AL, DC, FL, GA, MD, NC, SC, VA	Robert Warwick Vice President Community Investment Services  Fred Wacker Assistant Director Community Investment Services	(404) 888-8435 FAX: 888-5648  (404) 888-8441
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Chicago	Federal Home Loan Bank 111 East Wacker Drive Chicago, IL 60601	IL, WI	Charles Hill Executive Vice President Community Investment	(312) 565-5705 FAX: 565-5823
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Dallas	Federal Home Loan Bank 5605 N. MacArthur Blvd. 9th Floor Irving, TX 75038	AR, LA, MS, NM, TX	Sonia Armstrong Brown Vice President Affordable Housing Program	(214) 714-8647 FAX: 714-8577
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Seattle	Federal Home Loan Bank 1501 4th Avenue Seattle, WA 98101-1693	AK, GU, HI, ID, MT, OR, UT, WY, WA	Judith C. Dailey Vice President	(206) 340-8708 FAX: (206) 340-2485
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## Appendix D Introduction to Social Compact

### **Mission**

Social compact is a coalition of more than 400 leaders from diverse sectors of the financial services industry who have joined forces to increase investment in America's at-risk neighborhoods, urban and rural.

Drawing on John Locke's thesis of a covenant between members of society and the community from which they have prospered, Social Compact mobilizes industry leaders to join forces with effective neighborhood development organizations to recreate sustainable neighborhood markets.

### **Strategies Leading by example, Social Compact...**

1. Publicizes proven effective partnership strategies for strengthening neighborhoods and successfully doing business in developing neighborhood markets.
2. Equips national decision makers with a unique 'on-the-street' pragmatic partnership perspective of what is really working and the implications of public policy alternatives.
3. Mobilizes senior corporate officers through peer-to-peer outreach and first-hand neighborhood exposure to join forces with effective community development organizations.
4. Brings the disciplines and resources of the private market to the business of community development.

### **Primary Activities**

- The OUTSTANDING COMMUNITY INVESTMENT AWARDS build on a national competition and selection process to identify model partnership strategies for strengthening and successfully doing business in underserved communities. The award-winning partnerships represent diverse sectors of the industry and a spectrum of community intervention strategies. Each of the award-winning nonprofit partners receives a major grant to further their work, and the partnership serves as a national resource in the coming year.

Practitioners from across the industry and community development field join forces to identify the award-winning partnerships which are the focus of a prestigious series of national award events in Washington, D.C. The judging process provides a unique forum for national leaders

and local practitioners to jointly define neighborhood investment behavior valued by industry and community alike.

- NEIGHBORHOOD FORUMS draw together national regulatory, corporate, media and community leaders in a neighborhood setting to showcase model strategies of award-winning partnership, expand support for local efforts and pursue possibilities for partnership responses to challenges confronting neighborhoods.
- CONGRESSIONAL SITE VISITS provide informal opportunities for staff to draw on the pragmatic insights and experiences of award-winning partnership.
- EXCELLENT INFORMATION includes: Case Studies of Partnership Achievement -- 'how-to' analyses of successful partnership strategies; Neighborhood Partners -- an annual directory of all Social Compact Industry and Neighborhood Partners geared to fostering partnerships; and Neighborhood Connections -- a national referral and information program on hundreds of industry and nonprofit partners with solid experience in partnership-based neighborhood development.

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## Appendix E

### Glossary

**Adjustable-rate mortgage (ARM).** Mortgage on which the interest rate periodically goes up or down on the basis of changes in a specified index. A cap limits how much the rate can increase or decrease.

**Affordable Housing Program (AHP).** The purpose of the AHP is to subsidize the interest rates for advances (loans) and to provide direct subsidies to Federal Home Loan Bank System member institutions engaged in lending for long-term, very-low, low- and moderate-income owner-occupied and affordable rental housing. The program is designed to encourage members to undertake creative efforts and increase their participation in and support for efforts directed toward increasing the district's supply of affordable housing. Loans by member institutions using AHP subsidies should meet prudent, flexible, and innovative underwriting standards that do not expose members to undo

risk. For further information write Federal Housing Finance Board, 1777 F Street, NW, Washington, DC 20006 or call (202) 408-2848.

**Amortization.** Gradual repayment of a mortgage by installments.

**Appraisal.** A professional opinion of the market value of a property.

**Appreciation.** Increase in property value.

**Assessed value.** Property value, assessed for taxation purposes.

**Assumable mortgage.** A mortgage that a buyer can take over when a home is sold.

**Block grants.** Grants made by HUD on a formula basis.

**Cash reserve.** A lender requirement that buyers have sufficient cash remaining after closing to make two monthly mortgage payments.

**Closing.** A meeting for a buyer to sign mortgage documents and pay closing costs, to finalize sale of a property. Also called "settlement."

**Closing costs.** Expenses (over and above the price of the property) incurred by buyers and sellers in transferring ownership of a property. Also called "settlement costs."

**Commitment letter.** A lender's formal offer to agree to lend money to a homebuyer.

**Community Development Block Grants (CDBG).** CDBG funds are used to develop viable urban communities, by providing decent housing and suitable living environments and expanding economic opportunities, principally, for persons of low and moderate income. All CDBG activities and projects must either: principally benefit low- and moderate-income persons; aid in the prevention or elimination of slums or blight; or meet other urgent community needs.

**Community Housing Development Organization (CHDO).** A private nonprofit organization that: is organized under state or local law; has no part of its net earnings inuring to the benefit of any member, founder, contributor, or individual; is tax exempt; does not include a public body; provides affordable housing to low- and moderate-income people; has housing expertise; and has a history of serving the community.

**Community Investment Program (CIP).** The purpose of the Federal Home Loan Banks' (FHLB) Community Investment Programs is to provide funds for community-oriented mortgage lending through member institutions, which means providing loans to: finance home purchase by families whose incomes do not exceed 115% of the area median income; finance the purchase of rehabilitation of housing for occupancy by families whose incomes do not exceed 115% of the area median income; finance commercial and economic development activities that benefit low- and moderate-income families (defined as 80% of the area median income) or activities that are located in low- and

moderate-income neighborhoods; and projects that include a combination of these activities. For further information contact: Federal Housing Finance Board, 1777 F Street, NW, Washington, DC 20006, (202) 408-2576.

**Comprehensive Housing Affordability Strategy (CHAS).** Authorized by Title I of the Cranston-Gonzalez National Affordable Housing Act (Pub. L. 101-625, 104 Stat. 4079), the CHAS includes a description of the jurisdiction's consultations with social service agencies regarding the housing needs of children, elderly persons, persons with disabilities, homeless persons, and other persons served by such agencies. It shall also include a summary of the citizen participation process, and a description of the efforts made to broaden public participation in the development of the CHAS.

**Condominium.** A form of property ownership in which a homeowner holds title to an individual dwelling unit and an interest in common areas of a multi-unit project.

**Conventional mortgage.** Any mortgage covering a loan that is not insured or guaranteed by the federal government.

**Convertible ARM.** An adjustable-rate mortgage that can be converted to a fixed-rate mortgage under specified conditions.

**Cooperative.** A type of multiple ownership in which the residents of a housing complex own shares in the corporation that owns the property, giving each resident the right to occupy a unit.

**Covenant.** A clause in a mortgage that obligates or restricts the borrower and that, if violated, can result in foreclosure.

**Credit report.** Report of an individual's credit history from a credit bureau, used by a lender in rating a loan applicant's creditworthiness.

**Deed.** Legal document conveying title to a property.

**Deed of trust.** Document used in some states instead of a mortgage; title is conveyed to a trustee rather than to the borrower.

**Default.** Failure to make a mortgage payment on time or to comply with other requirements of a mortgage.

**Delinquency.** A loan in which a payment is overdue but not yet in default.

**Depreciation.** Decline in a property's value; opposite of "appreciation."

**Down payment.** The part of the purchase price which the buyer pays in cash.

**Earnest money.** A deposit made by the potential home buyer to show that he or she is serious about buying the house.

**Easement.** Right of way giving a person other than the owner access to a property.

**Equal Credit Opportunity Act (ECOA).** Federal law that prohibits lenders from denying mortgages on the basis of the borrower's race, color, religion, national origin, age, sex, marital status, or receipt of income from public assistance programs.

**Equity.** Homeowner's financial interest in a property. Equity is the difference between the fair market value of a property and the amount still owed on the mortgage.

**Equity loan.** A loan based on the borrower's equity in his or her home.

**Escrow.** Holding of documents and money by a neutral third party. Also, an account into which a homeowner pays money for taxes and insurance.

**Fair Credit Reporting Act.** Consumer protection law that regulates disclosure of consumer credit reports by consumer credit reporting agencies and establishes procedures for correcting mistakes on credit records.

**Fannie Mae.** A federally established and sponsored private corporation, under HUD's general supervision, that provides a secondary market for mortgages.

**Federal Housing Administration (FHA).** Part of HUD that has responsibility for carrying out the mortgage insurance programs of the National Housing Act.

**FHA mortgage.** Mortgage insured by the Federal Housing Administration.

**First mortgage.** A mortgage that has first claim in the event of default.

**First-time homebuyer.** For purposes of the HOME Program, an individual who has not owned a home during the three-year period before the purchase of a home with HOME assistance.

**Fixed-rate mortgage.** Mortgage on which the interest rate does not change over the life of the loan.

**Forbearance.** Lender's postponement of foreclosure to give the borrower time to catch up on overdue payments.

**Foreclosure.** Legal process by which a mortgaged property may be sold when a mortgage is in default.

**Freddie Mac.** A federally established and sponsored private corporation, under HUD's general supervision, that provides a secondary market primarily for conventional mortgages.

**Government National Mortgage Association (Ginnie Mae).** Federal corporation, a part of HUD, that provides a secondary market for federally guaranteed mortgages.

**Graduated payment mortgage.** A mortgage under which payments are comparatively low initially and then increase over a specified period before reaching a constant level.

**Home Investment Partnership Act Program (HOME).** A block grant program intended to promote public and private sector partnerships for using available resources to ensure an adequate supply of affordable housing for very low- and low-income families.

**Homeowner's insurance.** Insurance policy that combines personal liability coverage and hazard insurance coverage for a dwelling and its contents.

**HOPE.** HUD grant program for funding, planning and implementation to increase homeownership opportunities for low-income families in public and Indian housing, multifamily properties, and government-held single family homes.

**Housing Finance Agencies (HFAs).** Housing Finance Agencies are organizations with statewide or local authority to administer a variety of homeownership and rental housing programs, including the Mortgage Revenue Bond (MRB) program, the HOME Investment Partnerships program, and, in the case of most states, the Low Income Housing Tax Credit program. For information, contact the National Council of State Housing Agencies at (202) 624-7710 or the Association of Local Housing Finance Agencies at (202) 857-1197.

**Interest.** The fee charged for borrowing money.

**Interest reduction payments.** Periodic assistance payments by HUD to mortgagees to permit lower interest rate payments by low-income families (varying with fluctuations in income) on HUD-insured mortgages financing homes, rental housing, or cooperative housing. See sections 235 and 236 of the National Housing Act.

**Late charge.** Penalty a borrower pays for making a mortgage payment after the due date.

**Lease-Purchase Mortgage Loan.** An alternative financing option that allows low- and moderate-income homebuyers to lease a home from a nonprofit organization, with an option to buy. Each month's rent consists of principal, interest, tax and insurance (PITI) payments on the first mortgage, and an extra amount for deposit to a savings account for a down payment.

**Lien.** A legal claim against a property that must be paid off when the property is sold.

**Loan servicing.** Collection of mortgage payments from borrowers and related responsibilities of a loan servicer.

**Loan-to-value percentage (LTV).** Relationship between the unpaid principal balance of the mortgage and the appraised value of the property.

**Low-income families.** For purposes of the CDBG program, a family whose income exceeds 50% of the median family income of the area involved, but does not exceed 80% of median family income for that area.

**Moderate-income families.** Families whose annual income does not exceed 80% of median income for the area, with adjustments for smaller and larger families.

**Moderate rehabilitation.** Rehabilitation that is less comprehensive than substantial rehabilitation, such as repair or replacement of the heating or electrical system of a project.

**Mortgagee.** A lender who is conveyed a security interest in real property under a mortgage.

**Mortgage insurance programs.** Generally, the insured loan programs carried out by HUD, through FHA, under the National Housing Act.

**Mortgage interest rate.** The rate of interest in effect for the monthly payment due.

**Mortgage note.** A legal document obligating a borrower to repay a loan at a stated interest rate during a specified period of time; the mortgage note is secured by a mortgage.

**Mortgage Revenue Bond (MRB) Program.**

The MRB program uses a federal income tax exemption on interest earned on qualified mortgage bonds, to finance below-market interest rate mortgages and other homeownership assistance to low- and moderate-income homebuyers. Homebuyers participating in the MRB program must have incomes below area median income (or 115% of the area median income for large families) and must purchase homes that generally are required to have a purchase price below the state or area median purchase price.

**Mortgagor.** A borrower who conveys a security interest in real property under a mortgage.

**Negative amortization.** A gradual increase in the mortgage debt that occurs when the monthly payment is not large enough to cover the entire principal and interest due. The amount of the shortfall is added to the unpaid principal balance to create "negative" amortization.

**Origination fee.** A fee paid to a lender for processing a loan application; it is stated as a percentage of the mortgage amount.

**Owner financing.** A property purchase transaction in which the property seller provides all or part of the financing.

**PITI.** Principal, interest, taxes, and insurance—the components of a monthly mortgage payment.

**Points.** A lender's one-time charge to increase the yield of the loan; a point is 1 percent of the amount of the mortgage.

**Pre-payment penalty.** A fee that may be charged to a borrower who pays off a loan before it is due.

**Pre-qualification.** Process of determining how much money a prospective home buyer will be eligible to borrow.

**Principal.** Amount borrowed or unpaid. Also, the part of the monthly payment that reduces the outstanding balance of a mortgage.

**Private mortgage insurance (PMI).** Insurance by nongovernment insurers that protects lenders against loss if a borrower defaults. Secondary market institutions, before they will buy a loan from a lender, generally require private mortgage insurance on loans with loan-to-value (LTV) percentages greater than 80 percent.

**Purchase and sale agreement.** Contract signed by the buyer and seller stating terms and conditions of selling a property.

**Qualifying ratios.** Guidelines applied by lenders to determine how large a loan to grant a homebuyer.

**Real estate agent.** A person licensed to negotiate and transact the sale of real estate on behalf of the property owner.

**Real Estate Settlement Procedures Act (RESPA).** Consumer protection law that requires lenders to give borrowers advance notice of closing costs.

**Refinancing.** Process of paying off one loan with the proceeds from a new loan, using the same property as security.

**Second mortgage.** A mortgage that has a lien position subordinate to the first mortgage.

**Secondary mortgage market.** The buying and selling of existing mortgages.

**Settlement.** See **Closing**.

**Substantial rehabilitation.** Improvements of a property from substandard to safe and sanitary conditions. This can vary from gutting and reconstruction to accumulated deferred maintenance. It may also involve conversion of residential property to residential use.

**Survey.** A drawing or map showing the precise legal boundaries of a property, the location of improvements, easements, rights of way, and other physical features.

**Title.** A legal document showing a person's right to or ownership of a property.

**Title search.** A check of the title records to ensure that the seller is the legal owner of the property and that no liens or other claims are outstanding.

**Transfer tax.** State or local tax payable when title passes from one owner to another.

**Truth-in-Lending.** Federal law requiring lenders to fully disclose, in writing, the terms and conditions of a mortgage.

**Underwriting.** Process of evaluating a loan application, in terms of the borrower's creditworthiness and quality of the property, to determine the lender's risk in making that loan.

**VA loan.** Loan guaranteed by the Department of Veterans Affairs.