



Home Ownership through Public Housing Assistance ("HOT-PHA")

Developed By: NACA

Introduction:

The purpose of this document is to design a transformative homeownership program for public housing authority Housing Choice Voucher recipients (“Participants”). This innovative new program will allow Participants who are first-time homeowners to utilize their Housing Choice Voucher (“HCV”) to purchase a home of their own through NACA’s home ownership program. Participants will become homeowners and own their home without a mortgage in 10 to 15 years depending whether they have a 15 or 30-year term.

This project, called the Home Ownership through Public Housing Assistance (“HOT-PHA”), will use NACA’s extraordinary counseling and mortgage program in conjunction with the HCV. NACA’s existing homeownership program is designed to help low- and moderate-income individuals achieve homeownership, and NACA’s program has already achieved tremendous success. The existing HUD/PHA homeownership program has had very limited success primarily due to the restrictive underwriting guidelines of the few available mortgage products, the terms of these mortgage products, and program restrictions. Also those who have purchased homes had higher incomes. NACA’s mortgage overcomes each of these obstacles to obtain success on a large scale.

Participants must adhere to all of NACA’s requirements for all homebuyers including full-document underwriting. Participants must work full-time and have savings for escrows and reserves for the purchase transaction. Funds can come from the Participant directly, Participant’s savings through the Family Self-Sufficiency (“FSS”) program, or other government programs. The HOT-PHA supplements the Participant’s income with the mortgage payment based on the HCV payment to the landlord.

Benefits for all Parties:

The HOT-PHA program will become the first sustained program where Participants can obtain affordable long-term homeownership. This is a private sector initiative that utilizes the existing HUD homeownership regulations without the need for additional government assistance. The HOT-PHA programs provides unprecedented benefits for Participants, Housing Authority, lender, and public policy as identified below. It is truly one of the few programs that everyone across the political spectrum will support.

Participants:

Participants is likely to be the first homeowner ever in his/her family and have an opportunity to provide stability for themselves and generations to follow. The HOT-PHA will allow Participants to build wealth through homeownership generating in many instances over one hundred thousand dollars in wealth (i.e. equity with the payoff of the mortgage). The Participant and his/her family would be out of the cycle of dependency and now financial independent. This is truly a game changer.

Public Housing Authority:

The Public Housing Authority (“PHA”) significantly reduces their costs and achieves their ultimate mission of ending a Participant’s depending on government assistance. Currently PHA/HUD is obligated to make rental payments for the Participant’s lifetime. The HOT-PHA ends government assistance within 10 to 15 years saving hundreds of thousands of dollars in rental

payments for that Participant. It also makes additional vouchers available without requiring additional government assistance. In compliance with the Quality Housing and Work Responsibility act, this assists the PHA in achieving the goal of making homeownership available for public housing recipients.

Lender:

This is a very high quality mortgage that meets the lender's CRA obligations. The mortgage payment is virtually guaranteed by the PHA. The Participant is approved based on stable income, on-time payments and full documentation underwriting. In addition, the Accelerated Principal Payment, described below, provides a cushion that provides for immediate equity and even if the mortgage payment, is not paid due to extenuating circumstances, it would not result in default or foreclosure.

Public Policy:

The HOT-PHA promotes neighborhood stabilization through affordable home ownership. It has bi-partisan support particularly from critics of public housing assistance. This program is a national model that can become a major part of housing authority's policies providing unprecedented benefits to Participants and the government.

HOT-PHA Program:

NACA's mortgage is the perfect mortgage product to provide homeownership utilizing public housing authority assistance. NACA has designed the program to create a pathway to homeownership whereby the Participant can pay off the entire mortgage during the years in which he or she receives HCV funds. In fact, Participants will be able to own their home outright in fewer than 10 years with a 15-year mortgage or 15 years with a 30-year mortgage. The HCV payments are sufficient to purchase a reasonably priced home as demonstrated in the exhibits for a variety of markets.

The HOT-PHA program is structured to replicate the existing HCV rental program. The NACA mortgage uses the Standard Payment as the Mortgage Payment and not income. Even though Participant(s) must work full-time as defined by HUD, very few Participants would have sufficient income to qualify for a realistic purchase price. NACA's rigorous underwriting criteria and comprehensive housing counseling program ensures that the Participant has a track record of steady employment and understands and accepts the responsibilities of homeownership.

The HOT-PHA program utilizes the Mortgage Payment defined above, consisting of the Standard Payment by family size for the mortgage with two components: 1) Monthly Mortgage Payment - approximately 70% of the Standard Payment; and 2) Accelerated Principal Payment - approximately 30% of the Standard Payment. The Standard Payment is paid in two parts directly to the lender into the Participants account: 1) PHA pays the HAP, and 2) Participant pays the Participant Payment. The lender combines both payments and applies it first to the required mortgage payment and then the remaining (i.e. the Accelerated Principal Payment) to the outstanding principal. This significantly reduces the total interest payments thus reducing the time period to pay-off the mortgage (i.e. mortgage term). The Standard Payments for handicapped, disabled or elderly Participants are guaranteed for the life of the mortgage and payments for such individuals would not require Accelerated Principal Payments.

The Standard Payment is based on the number of bedrooms required by the Participant based on the Participant's family size and composition. NACA will pre-approve the Participant for their maximum purchase price based on the Standard Payment. If the Participant purchases a home for less than the maximum purchase price, the Participant mortgage payment will be reduced by calculating to pay off the mortgage in 10 years for 15-yr mortgage or 15 years for 30-yr mortgage. NACA does this calculation to ensure that the Participant's home is completely paid off with the HCV payments. The PHA locks in the Participant's mortgage payment for the term of their payments regardless of future changes in the Participant's family size or composition. The HAP may change with the PHA's re-evaluation of the Participant's income which may change the mix of the HAP and Participant's Payment.

While the NACA mortgage does not require down payment or closing costs, the Participant will need minimum required funds ranging from \$2,000 to \$3,500. This consists of the following: Purchase & Sale earnest money deposit, home inspection fee, pre-paid insurance, pre-paid taxes, and a reserve of at least one month mortgage payment. Participants could use their Family Self-sufficiently funds, savings and funds from other sources for the minimum required funds and to buy-down the interest rate if they choose to do so. If the funds are used to buy-down the interest rate, the Participant could purchase a higher priced home.

NACA:

The HOT-PHA is the most effective use of NACA's Best in America Mortgage for low income individuals and families. Participants receive NACA's comprehensive pre and post counseling. The post-counseling program assistance includes access to financial assistance and ongoing housing counseling.

NACA has \$13 Billion committed to this mortgage product by some of the nation's major lenders for its 30-year and 15-year mortgage (i.e. known as the "Wealth Builder Mortgage"). NACA uses character-based full-doc underwriting guidelines. Over the past twenty years, the payment performance of the many thousands of NACA homeowners has been very strong with a very low foreclosure rate. This demonstrates the effectiveness of providing an affordable mortgage along with comprehensive counseling to low and moderate income borrowers.

NACA Mortgage:

NACA provides the best mortgage in America with these extraordinary terms:

- No down payment required
- No closing costs (lender paid)
- No fees
- Loan-to-value -100% for purchase and 110% for purchases with a rehab
- No consideration of credit score
- Below market fixed interest rate
- Term of 15 or 30 years fully amortizing
- Buy-down to permanently reduce the interest rate to virtually zero percent
 - 15-year – each one percent reduces interest rate by 0.50%.
 - 30-year – each one percent reduces interest rate by 0.25%.
- Property Types:

The eligible properties are single family, condos and co-ops. Participants can purchase homes anywhere they want based on the maximum mortgage payment for which NACA qualifies them.

- **Purchase & Renovation:**
Eligible properties include those requiring all levels of renovations which would be aided by NACA's Home and Neighborhood Development ("HAND") department. The Participant could finance the cost of significant repairs to be completed after closing on the mortgage. The funds would be held in a separate rehab escrow account to be disbursed after completion and inspection of the required repairs.
- **Second Lien:**
A second lien is placed on the property to ensure that the Participant lives in the home and does not obtain an unaffordable home equity loan or refinance that puts the home at-risk.

NACA Underwriting & Program Requirements:

1. **Credit Score** – no consideration of the credit score. Qualification based on last 12 to 24 months of payment history.
2. **Mortgage Payment** – The mortgage payment is the lower of 1) Standard Payment or 2) Participant's Mortgage Payment calculated on the property acquisition cost, the mortgage term (i.e. 30 or 15-year) for a pay off in ten years for the 15-year mortgage and fifteen years for the 30-year mortgage. Since the lender would receive the Mortgage Payment regardless of the Participant's income, there is no consideration of housing or debt ratios.
3. **HAP Payment** - The Housing Assistance Payment is the Mortgage Payment minus the Participant's Payment.
4. **Participant's Payment** – The Participant pays 30% of their gross income, less allowable deductions including utilities, towards the Mortgage Payment. This may change periodically per the PHA's policies, which changes the amount paid by the PHA (i.e. HAP Payment). It does not impact the Mortgage Payment and therefore is not considered in underwriting the mortgage.
5. **Minimum Required Funds** – the homebuyer funds needed for the home inspection, tax and insurance escrows, prepaid interest and reserves.
6. **Employment** - Steady employment for at least the past 24 months.
7. **Income** - Income for at least 24 months with likelihood of continuation.
8. **Payment History** – On-time payments the Participant's control over the past 12 -24 months including the Participant's Payment.
9. **Debt** – Charge offs and collections that occurred in the most recent 24 months resolved or in an approved payment plan.
10. **Family Stability** – Participant has steady rental occupancy without frequent changes in apartments demonstrating responsibility and readiness for long-term homeownership.
11. **Inspection** – Must pass HUD inspection requirements with a licensed inspector.
12. **Principal Acceleration Agreement** – Participant is provided documentation to ensure he/she understands and agrees that part of the Mortgage Payment will be used to pay-off additional principal. It will explain that this is necessary to have the mortgage paid-off prior to expiration of the HCV payments.
13. **Program Requirements:**
 - a. Must be receiving a HCV.
 - b. Cannot be in default on the rental/ housing payments

- c. Must have a minimum of 12 months on time rental/ housing payments
- d. Minimum income - minimum hourly wage multiplied by 2,000 hours
- e. Employment – average of 30 hours per week for at least a year.
- f. Debt-to-Income – Should not have a debt-to-income ratio exceeding 43%.
- g. The FSS program is encouraged but not required. The FSS funds upon graduation are important in having the Minimum Required Funds and to permanently reduce the interest rate to afford a higher price house.
- h. Attend an approved homebuyer workshop.
- i. Pre-Counseling - Meet with a NACA Housing Counselor and complete homeownership counseling. The counseling prepares Participants for homeownership and the associated responsibilities.
- j. Post-Purchase Counseling – Have a NACA post-purchase counselor assigned to the Participant for as long as they have their home to provide on-going support. While the counselor would be available as needed, there would be a regularly scheduled counseling session at least once every three months after closing for the first year and bi-annually thereafter. This counseling includes budgeting, financial planning, home maintenance and upkeep, financial services, etc.

NACA also provides other assistance to the Participant. This includes financial assistance and help applying for modifications, forbearances, etc. NACA has established peer committees of fellow homeowners to provide support and decide whether to offer financial assistance if a Participant is delinquent on his/her Mortgage Payments, has repair issues, or other issues.

HUD Guidelines:

The Housing Authority can implement the HOT-PHA within the existing HUD guidelines including the following:

1. Section 982.635 - Homeownership option: Amount and distribution of monthly homeownership assistance payment.
This section defines the mortgage payment that includes the following: principal, interest, taxes, home insurance, allowance of maintenance expenses, allowance for costs of major repairs and replacements. Importantly, this section does not limit the amount of the principal payment. It also states that the HAP payment can be paid by the Housing Authority directly to the lender.
2. Section 982.632 – Homeownership option: Financing purchase of home; affordability of purchase
This section allows the PHA to “establish requirements or restrictions concerning debt secured by the home.” The PHA can thus require that the Participant’s Mortgage Payment include the accelerated principal payment. All PHA financing or affordability requirements would need to be described in the PHA administrative plan.
3. Section 982.634 – Homeownership option: Maximum term of homeownership assistance:
The maximum term of assistance is fifteen years if the initial mortgage has a term of twenty years or greater, or ten years if less. The accelerated principal payment with the

NACA mortgage allows for full pay-off within the term of assistance. The elderly or disabled would not require the accelerated principal payment.

4. Section 982.625 – Homeownership Options: General
This section allows for NACA's no down payment mortgage if the PHA can demonstrate in its Annual Plan that it has the capacity, or will have the capacity, to successfully operate a HUD/PHA homeownership program. There is no requirement for a minimum credit score, minimum savings, or other limitations. This allows NACA's Best in America mortgage to be effectively utilized.
5. Section 982.627 – Homeownership option: Eligibility requirements for families
This section defines the minimum income and employment that are incorporated in the program requirements.
6. Section 982.628 – Homeownership option: Eligible units
Property types can be single family, condos or coops. Properties can also be new construction if the unit is under construction or already built.
7. Section 982.631 – Homeownership option: Home inspections and contract of sale
This section requires a home inspection by a licensed inspector to determine that the units passes Housing Quality Standards ("HQS"). The HQS would utilize either the HUD or PHA standard. This standard should consist of what the private sector currently uses when the required repairs need to be completed after the mortgage closes. In such cases, the inspector would verify that the rehab escrow funds are sufficient to complete the required repairs and the funds would only be released upon verification by the inspector of the completed work. The lenders holding the mortgages have approved and support this process and have determined that the units pass the HQS.
8. Section 982.630 – Homeownership option: Homeownership counseling
NACA is the largest HUD certified counseling intermediary providing about twenty percent of the counseling in the country. NACA provides both pre and post counseling that far exceeds the HUD requirements. NACA's comprehensive housing counseling has been recognized as the national standard.
9. Section 982.640 – Homeownership option: Recapture of homeownership assistance:
The Participant would not have to repay any of the homeownership assistance since they would be receiving the HAP for ten years and at the end of ten years the homeownership assistance subject to recapture would be zero.

Example of HOT-PHA Rochester, N.Y

The following example uses the Standard Payment based on number of bedrooms as the mortgage payment. It shows the maximum purchase price and payment allocation for the HAP and Accelerated Principal Payment. It also shows the pay-off time period with the interest saved using the Accelerated Principal Reduction. The combination of the Mortgage Payment and extra principal payment would have the mortgage completely paid-off in under 10 years for the 15-year mortgage and in under 15 years for the 30-year mortgage. If the Participant purchases a property for less than the Standard Payment, the HAP and Participant payments would decrease but the term of the mortgage would remain the same.

	Studio	1 BR	2 BR	3 BR	4 BR	5 BR	6 BR
Payment Standard	\$625	\$737	\$915	\$1,145	\$1,261	\$1,450	\$1,667
30-Year Mortgage:							
PITI Payment (68%)	\$425	\$501	\$622	\$779	\$857	\$986	\$1134
Accelerated Principal Reduction (32%)	\$200	\$236	\$293	\$336	\$404	\$464	\$533
Minimum Required Funds	\$2,176	\$2,311	\$2,524	\$2,802	\$2,940	\$3,167	\$3,429
Maximum Purchase Price – 30-year							
Current Interest Rate – 3.5%	\$67,000	\$81,000	\$103,500	\$133,000	\$147,000	\$171,500	\$199,000
Pay-off	14yr 2m	14yr 2m	14yr 7m	15yr 5m	14yr 10m	14yr 11m	15yr 0m
Interest Saved	\$23,258	\$27,824	\$35,109	\$42,838	\$49,132	\$57,010	\$65,849
15-Year Mortgage:							
PITI Payment (70%)	\$438	\$516	\$641	\$802	\$883	\$1,015	\$1,167
Accelerated Principal Reduction (30%)	\$187	\$221	\$274	\$343	\$378	\$435	\$500
Minimum Required Funds	\$2,100	\$2,217	\$2,404	\$2,646	\$2,267	\$2,965	\$3,193
Maximum Purchase Price – 15-year:							
Current Interest Rate- 2.875%	\$48,500	\$58,500	\$74,500	\$95,500	\$106,000	\$123,000	\$142,500
Pay-off	8yr 10m	8yr 11m	9yr 0m	9yr 1m	9yr 2m	\$9yr 2 m	9yr 2m
Interest Saved	\$4,793	\$5,714	\$7,165	\$9,058	\$10,012	\$11,560	\$13,331

*Exceptional Area Payment
Standard

*Higher HAP if purchase in certain areas

Rochester NY:
Property tax: 10.70% of assessed value
Insurance: \$774 annual premium with \$65 per month

**<http://www.bankrate.com/calculators/home-equity/additional-mortgage-payment-calculator.aspx>

Example of HOT-PHA Boston, MA

The following example uses the Standard Payment based on number of bedrooms as the mortgage payment. It shows the maximum purchase price and payment allocation for the HAP and Accelerated Principal Payment. It also shows the pay-off time period with the interest saved using the Accelerated Principal Reduction. The combination of the Mortgage Payment and extra principal payment would have the mortgage completely paid-off in under 10 years for the 15-year mortgage and in under 15 years for the 30-year mortgage. If the Participant purchases a property for less than the Standard Payment, the HAP and Participant payments would decrease but the term of the mortgage would remain the same.

	Studio	1 BR	2 BR	3 BR	4 BR	5 BR	6 BR
Payment Standard	\$1,313	\$1,509	\$1,860	\$2,327	\$2,564	\$2,948	\$3,333
30-Year Mortgage:							
PITI Payment (68%)	\$892	\$1,026	\$1,265	\$1,582	\$1,744	\$2,005	\$2,266
Accelerated Principal Reduction (32%)	\$420	\$483	\$595	\$745	\$820	\$943	\$1065
Minimum Required Funds	\$3,192	\$3,437	\$3,873	\$4,451	\$4,746	\$5,223	\$5,509
Maximum Purchase Price – 30-year							
<u>Current Interest Rate – 3.625%</u>	\$146,000	\$170,000	\$212,500	\$270,000	\$302,000	\$350,000	\$396,000
Pay-off	14yr 5m	14yr 6m	14yr 8m	14yr 9m	14yr 10m	14yr 11m	14yr 11m
Interest Saved	\$52,083	\$60,314	\$74,911	\$94,563	\$105,015	\$121,280	\$137,109
15-Year Mortgage:							
PITI Payment (70%)	\$919	\$1,056	\$1,302	\$1,629	\$1,795	\$2,063	\$2,333
Accelerated Principal Reduction (30%)	\$394	\$453	\$558	\$698	\$769	\$884	\$1,000
Minimum Required Funds	\$3,006	\$3,217	\$3,598	\$4,103	\$4,360	\$4,774	\$5,150
Maximum Purchase Price – 15-year							
<u>Current Interest Rate- 3%</u>	\$110,000	\$124,500	\$155,000	\$196,000	\$218,500	\$252,000	\$285,000
Pay-off	9yr 2m	9yr 1m	9yr 1m	9yr 2m	9yr 2m	\$9yr 2 m	9yr 2m
Interest Saved	\$10,923	\$12,477	\$15,437	\$19,396	\$21,472	\$24,717	\$27,597

Boston MA:

Property tax: 12.5% of assessed value

Insurance: \$900 annual premium with \$75 per month

**<http://www.bankrate.com/calculators/home-equity/additional-mortgage-payment-calculator.aspx>

Example of HOT-PHA Worcester, MA

The following example uses the Standard Payment based on number of bedrooms as the mortgage payment. It shows the maximum purchase price and payment allocation for the HAP and Accelerated Principal Payment. It also shows the pay-off time period with the interest saved using the Accelerated Principal Reduction. The combination of the Mortgage Payment and extra principal payment would have the mortgage completely paid-off in under 10 years for the 15-year mortgage and in under 15 years for the 30-year mortgage. If the Participant purchases a property for less than the Standard Payment, the HAP and Participant payments would decrease but the term of the mortgage would remain the same.

	Studio	1 BR	2 BR	3 BR	4 BR	5 BR
Payment Standard	\$745	\$881	\$1,060	\$1,326	\$1,466	\$1,658
30-Year Mortgage:						
PITI Payment (68%)	\$507	\$599	\$721	\$902	\$997	\$1,127
Accelerated Principal Reduction (32%)	\$238	\$282	\$339	\$424	\$469	\$531
Minimum Required Funds	\$2,297	\$2,482	\$2,729	\$3,096	\$3,288	\$3,552
Maximum Purchase Price – 30-year						
Current Interest Rate – 3.5%	\$74,100	\$89,300	\$109,400	\$139,000	\$154,500	\$176,000
Pay-off	13y 8mo	13y 9mo	13y 11mo	14y 0mo	14y 1mo	14y 1mo
Interest Saved	\$ 26,526	\$ 31,743	\$38,584	\$ 48,699	\$54,018	\$ 61,373
15-Year Mortgage:						
PITI Payment (70%)	\$522	\$617	\$742	\$928	\$1,026	\$1,161
Accelerated Principal Reduction (30%)	\$223	\$264	\$318	\$398	\$440	\$497
Minimum Required Funds	\$2,178	\$2,342	\$2,555	\$2,873	\$3,040	\$3,272
Maximum Purchase Price – 15-year:						
Current Interest Rate- 2.85%	\$55,400	\$66,700	\$81,400	\$103,400	\$115,000	\$131,000
Pay-off	8yr 9mo	8yr 9mo	8yr 10mo	8yr 10mo	8yr 11mo	8yr 11mo
Interest Saved	\$ 5,610	\$ 6,691	\$ 8,105	\$10,209	\$ 11,315	\$12,827

Worcester MA:

Property tax: \$19.22 per \$1000 of assessed value

Insurance: \$660 annual premium with \$55 per month

**<http://www.bankrate.com/calculators/home-equity/additional-mortgage-payment-calculator.aspx>