HOT-PHA
Homeownership Through Public Housing Assistance

The Homeownership Through Public Housing Assistance ("HOT-PHA) is a transformative program developed by NACA for public housing authority Housing Choice Voucher ("HCV") recipients ("Participants"). This innovative initiative allows Participants who seek to become first-time homeowners to combine their HCV with the NACA Mortgage to purchase a home with the same below market interest rate and the NACA buy-down option. Participants can own their home – free and clear – without a mortgage in 15 years resulting in an immediate significant wealth gain for the homeowner. It is truly a game changer that housing authorities nationwide are now starting to use, and at no additional cost to them.

The major aspect of the program is that the rental payment (i.e. HCV Payment) that goes to the landlord will now go to the lender to pay a significant amount of the Participant's monthly mortgage payment. The HCV Payment is apportioned between the mortgage payment (i.e. PITI) for a 30-year mortgage term with the remaining balance going towards an accelerated principal reduction using a 15-year amortization. For the elderly and disabled who receive 30 years of HCV payments, the payments are applied to the mortgage payments for the 30-year term with no accelerated principal balance reduction. Thus, the monthly mortgage payments are structured to pay-off the mortgage once the duration of HCV Payments is completed.

HOT-PHA program uses NACA's comprehensive counseling and NACA's Best in America Mortgage in conjunction with the HCV. The existing HUD/PHA homeownership program has had very limited success, primarily due to the few available mortgage products, restrictive underwriting guidelines and other program restrictions. Furthermore, those who historically purchase through the HUD program have higher incomes. The HOT-PHA program overcomes these obstacles and is designed to have Participants become homeowners on a larger scale.

HOT-PHA Participants must adhere to every one of NACA's requirements for homebuyers, which includes comprehensive counseling and full-documentation underwriting. The only significant enhancement is that the Participant's mortgage payment is supplemented with the HCV. Participants who are not disabled must work full-time and have savings to pay for escrows and reserves for the purchase transaction. Funds can come from the Participant directly, from the Participant's savings through the Family Self-Sufficiency ("FSS") program, or from other government programs. In addition, HOT-PHA can be combined with grants and subordinated financing offered by government entities to increase the Participant's access to available properties in the local real estate market.

Benefits for all Parties:

The HOT-PHA program will become the first sustained program enabling Participants to move from dependence to affordable long-term homeownership and greater financial independence. This is a private sector initiative that utilizes the existing HUD homeownership regulations without the need for additional government assistance. It is truly one of the few programs that people across the political spectrum can support because of its benefits to Participants, public housing authorities, lenders and communities.

Participants:

Participants will likely be the first in their families to become homeowners and have real opportunities to provide stability and accumulate wealth for themselves and generations to follow. Participants can build wealth through home equity, which in many instances will exceed more than one hundred thousand dollars. Participants will now have the means to break out of the cycle of public dependency and become financially independent. This program promises to be a true game changer for recipients of public housing assistance nationwide.

Public Housing Authority:

The program will significantly reduce the costs of lifetime HCVs borne by the Public Housing Authority (“PHA”) and achieve its ultimate mission of ending dependence on government housing assistance. Currently, PHA/HUD is obligated to make rental payments for the lifetime of the Participants. The HOT-PHA ends government assistance within 15 years and saves the government 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:

The mortgage issued through this program is of high quality and will easily meet a lender’s CRA obligations. A significant portion of 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 15-year amortization results in immediate equity that can cushion the Participant’s financial obligations. Thus, even if mortgage payments are interrupted or stopped as a result of extenuating circumstances, default or foreclosure can be avoided.

Public Policy:

The HOT-PHA moves people off public housing assistance and into homeownership, thus promoting neighborhood stabilization. It has bipartisan support, including support from critics of public housing assistance. This program is a national model that can become a major part of housing authorities’ policies because it provides unprecedented benefits to Participants and to the government.

HOT-PHA Program:

The NACA Mortgage is the perfect mortgage product to provide homeownership utilizing the HCV payment. The Standard Payment allows Participants to purchase a reasonably priced home in a variety of markets. The HOT-PHA program is structured to replicate the existing HCV rental program. While HUD regulations require many public housing tenants to be employed full-time, very few of these tenants have sufficient income to qualify for and meet the requirements necessary to buy a reasonably-priced home. NACA's rigorous underwriting criteria and comprehensive housing counseling will ensure that Participants will have a track record of steady employment or verified future income (i.e. elderly or disabled), is ready for homeownership, and understand and accept the responsibilities of homeownership.

The Standard Payment is based on the number of bedrooms required by the Participant based on family size and composition. NACA will pre-approve the Participant for their maximum purchase price based on the Standard Payment. The Participant's mortgage payment will be calculated to pay off the mortgage in 15-years. This calculation ensures 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, Participants will need minimum required funds of at least $2,500 and more depending on the area and other factors, which include the following: Purchase & Sale earnest money deposit, home inspection fee, pre-paid insurance, prepaid taxes, prepaid interest and a reserve equal to at least one mortgage payment. Participants could use their Family Self-Sufficiently funds, personal savings, and funds from other sources for the minimum required funds, and/or use such sources to buy-down the interest rate. If the funds are used to buy-down the interest rate, the Participants can purchase a higher priced home or have a lower monthly mortgage payment.

The Standard Payment is paid directly to the lender each month. This comes from the Participant's account with both their portion of the payment and the PHAs. The lender applies it first to the required mortgage payment for a 30-year term and then the remaining (i.e. the Accelerated Principal Payment) to the outstanding principal towards the 15-year amortization. This significantly reduces the total interest payments and time period to pay-off the mortgage resulting in paying-off the mortgage in 15 years. For handicapped, disabled or elderly Participants the amortization period is 30-years since they would receive the Standard Payment for the life of the mortgage (i.e. 30-years).

NACA's Purchase Program

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-purchase counseling. The post-purchase counseling program includes access to financial assistance and ongoing housing counseling.

Major lenders have committed $20 billon to the NACA Mortgage with $15 billion in commitments coming from Bank of America. NACA uses character-based full document underwriting guidelines. Over more than twenty years, NACA has originated over 70,000 mortgages through its Purchase Program with an exceptionally low foreclosure rate currently at 0.00012% (ie. About one-hundredth of one percent). This demonstrates the effectiveness of providing an affordable mortgage and 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, 20 or 30 years fully amortizing
- Buy-down to permanently reduce the interest rate to virtually zero percent
    - 15-year – each one percent permanently reduces the interest rate by 0.25%.
    - 30-year – each one percent permanently reduces the interest rate by 0.167%.
- 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, and Participants are aided in these types of purchases by NACA's Home and Neighborhood Development ("HAND") department. Participants can finance the cost of significant repairs to be completed after closing on the mortgage. The funds are held in a separate rehab escrow account and disbursed after completion and inspection of the required repairs.
- Second Lien:
  A second lien is placed on the property by NACA to ensure that Participants live in the home and do not obtain an unaffordable home equity loan that puts the home at-risk. This lien can be subordinated if the Recipient receives subordinated financing from local government entities.

NACA Underwriting

NACA's standard full document underwriting is based on the principles of character-based lending. This contrasts to industry standard risk-based lending criteria utilizing credit score, debt-to-income ratio and loan-to-value. The following is a summary of the major NACA underwriting criteria:

- Credit Score – no consideration of the credit score.
- Payment History – Reasonable on-time payment history over the past 24 months with a focus on the past 12 months, including the Participant's rental payment. Participant is only responsible for accounts reasonably within his/her control.
- Mortgage Payment – The mortgage payment is the lower of: 1) Housing Authority Approved Maximum Mortgage Payment or 2) Participant's Mortgage Payment calculated on the property

acquisition cost. This is based on a mortgage term of 30-years to be paid-off over fifteen years (i.e. using a 15-year amortization).

- Debt Ratio - Calculated taking the HCV Participant's portion plus monthly liabilities divided by the Participant's gross monthly income. The PITIA plus debts cannot be greater than 43%.
- HAP - The Housing Assistance Payment is the mortgage payment minus the Participants' Payment.
- Participants' Payment – The Participant pays 30% of their gross income towards the Mortgage Payment, less allowable deductions such as utilities. 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 a consideration when underwriting the mortgage.
- Minimum Required Funds – Funds needed by Participants for the home inspection, property taxes, insurance escrows, prepaid interest and reserves.
- Employment - Steady employment for at least the past 24 months (unless retired or disabled).
- Income - Income for at least the past 24 months with likelihood of continuation.
- Debt – Charge-offs do not need to be addressed. Collections within the most recent 24 months must be resolved or in an approved payment plan.
- Inspection – Must pass HUD inspection requirements with a licensed inspector.
- Principal Acceleration Agreement – Participants are provided documentation to ensure they understand and agree that part of the Mortgage Payment will be used to pay-off additional principal so that the mortgage is paid-off by expiration of the HCV payments.

HOT-PHA Program Requirements:

- Must be an HCV recipient.
- Cannot be in default on the rental/ housing payments.
- Must have a minimum of 12 months on time rental/ housing payments.
- Family Stability – Participants must have steady rental occupancy without frequent changes demonstrating responsibility and readiness for long-term homeownership.
- Minimum income - minimum hourly wage multiplied by 2,000 hours.
- Employment – average of 30 hours per week for at least a year.
- 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 home.
- Attend a NACA homebuyer workshop.
- Pre-Purchase Counseling - Meet with a NACA Housing Counselor and complete homeownership counseling. The counseling prepares Participants for homeownership and the associated responsibilities.
- Post-Purchase Counseling – Have a NACA post-purchase counselor assigned to provide ongoing support for as long as the Participant has his/her home. While the counselor is available as needed, there is 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.

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 and 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 this term. The elderly or disabled receiving 30 years of assistance 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 unit passes Housing Quality Standards (“HQS”). The HQS utilizes either the HUD or PHA standard. This standard should consist of what the private sector currently uses when the required repairs will be completed after the mortgage closes. In such cases, the inspector will 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 will determine whether the unit passes the HQS.

8. Section 982.630 – Homeownership option: Homeownership counseling
NACA is the largest HUD approved counseling intermediary and provides about twenty percent of the counseling in the country. NACA provides both pre and post-purchase counseling that far exceeds HUD requirements. NACA’s comprehensive housing counseling has been recognized as the national standard.

9. Section 982.640 – Homeownership option: Recapture of homeownership assistance:
Participants will 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 will be zero.

MAXIMUM MORTGAGE AMOUNTS

EXAMPLES

The following maximum mortgage amount example uses the Standard Payment, based on number of bedrooms, as the mortgage payment. It shows the maximum purchase loan amount using three different amortizations (i.e. pay-offs). For Participants who purchase a property for less than the Standard Payment, the HAP and Participants' payments will decrease but the term of the mortgage will remain the same.

Criteria

- Minimum Required Funds - $2,500 to $3,500
- Current Interest Rate: 3.0%
- Property Tax and insurance:
    - 15 yr. 18% of total PITI
    - 30 yr. 23**%** of total PITI

Bedrooms	Studio	1 BR	2 BR	3 BR	4 BR	5 BR	6 BR
Standard Payment - Low	**$625**	**$737**	**$915**	**$1,145**	**$1,261**	**$1,450**	**$1,667**
15-year Amortization	$74,212	$87,512	$108,648	$135,958	$149,732	$172,174	$197,940
30-year Amortization	$114,147	$134,603	$167,111	$209,118	$230,304	$264,822	$304,454
Standard Payment – Med	**$745**	**$881**	**$1,060**	**$1,326**	**$1,466**	**$1,658**	**$1,906**
15-year Amortization	$88,462	$104,610	$125,865	$157,450	$174.074	$196,871	$226,319
30-year Amortization	$136,064	$160,902	$193,594	$242,175	$267,744	$302,810	$348,103
Standard Payment - High	**$1,313**	**$1,509**	**$1,860**	**$2,327**	**$2,564**	**$2,948**	**$3,333**
15-year Amortization	$155,906	$179,179	$220,857	$276,309	$304,451	$350,047	$395,762
30-year Amortization	$239,801	$275,597	$339,702	$424,994	$468,278	$538,410	$608,725