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 all the benefits of the NACA Mortgage to purchase a home. Participants can own their home – free and clear – without a mortgage in 20 years or less, resulting in a significant wealth gain for the homeowner and long-term financial independence. It is a truly groundbreaking program that housing authorities nationwide are now starting to use, and at no additional cost to them.

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. Participants receive NACA's comprehensive pre- and post-purchase counseling and NACA's Best in America Mortgage (i.e., no down payment, no closing costs, no fees, no mortgage insurance at a below market fixed rate) in conjunction with the HCV.

HOT-PHA PROGRAM

The NACA Mortgage is the perfect mortgage product to provide homeownership utilizing the HCV payment. The HOT-PHA program is structured to replicate the existing HCV rental program using the Payment Standard to allow Participants to purchase a reasonably priced home in a variety of markets. 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), are ready for homeownership, and understand and accept the responsibilities of homeownership.

The Payment Standard is based on the number of bedrooms required by the Participant depending on family size, composition, and the neighborhood (e.g., zip code) where it is applied. NACA will pre-approve the Participant for their maximum purchase price based on the PHA approved Payment Standard and a 15-year, 20-year or 30-year loan term. The HCV payments will pay for 15-years or up to 30 years for elderly or disabled Participants. If the Participant purchases a home with a mortgage payment (e.g., principal, interest, taxes, insurance) less than the Payment Standard, the remaining amount is applied to the principal which accelerates the loan amortization reducing the mortgage term. Since the HCV pays for 15-years, except of elderly or disabled Participants, the accelerated principal reduction would decrease this gap. If there is no additional principal reduction, after 15 years the Participant would have over 75% equity with the 20-year amortization and a conservative two percent increase in annual property value. The Participant is well positioned to own their property with no mortgage payment in less than 20 years.

This is the ideal program for families to permanently transition out of public assistance for housing and begin to build generational wealth. The eligibility criteria for the Housing Choice voucher make it so that all recipients that use the NACA Mortgage to purchase will close with CRA applicable loans. The Payment Standard that goes to the landlord will now go to the lender paying the Participant's monthly mortgage payment. The Payment Standard secures the Participant's mortgage payment for 15 years since the PHA adjusts their payment to address future changes in the Participant's income, family size or composition. In addition, the PHA may increase the Payment Standard to account for increase costs of living and changes in the housing market. The Participant would contribute 30% of their income towards the Payment as they are currently required. The Housing Choice Voucher pays the difference between thirty percent of the recipient's income and the actual PITI payment in the NACA HOT-PHA program. If the Member's income goes down, the Housing Choice Payment from the PHA increases thereby virtually eliminating risk. This Participant's portion is the same whether the Payment Standard is used to pay rent to a landlord or a mortgage payment to the lender. Elderly or disabled Participants would receive the Standard Payment up to 30 years to pay off the mortgage.

Participants must adhere to 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.

While the NACA mortgage does not require down payment or closing costs, Participants will need minimum required funds of at least $2,500 or 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. Funds can come from the Participant directly, from the Participant's personal 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. This can be used to buy-down the interest rate, which would allow the Participant to purchase a higher priced home or have a lower monthly mortgage payment.

HOT-PHA Operations

The approved Payment Standard is paid directly to the lender each month by the Participant and the PHA. The lender applies it first to the required mortgage payment for a 20-year term and then the remaining (i.e., the Accelerated Principal Payment) to the outstanding principal. 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).

The HOT-PHA is the most effective use of NACA's Best in America Mortgage for low-income individuals and families. 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 documented 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 0.012% (i.e., 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.
    - 15-year – each one percent permanently reduces the interest rate by 0.25%.
    - 30 or 20-year – each one-and-a-half percent permanently reduces interest rate by 0. 25%.
- Property Types:
  The eligible properties are single family, condos and co-ops, new construction or existing. 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 Payment Standard based on the Participants required number of bedrooms and other PHA factors.
- 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.
- Debt Ratio - Participant's Payment plus the Participant's monthly liabilities divided by the Participant's gross monthly income not exceeding 43%.
- Minimum Required Funds – Funds needed by Participants for the home inspection, property taxes, insurance escrows, prepaid interest and reserves.
- Employment - Steady employment with one or different employers 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.

REQUIREMENTS

Below are the requirements for all the parties participating in the HOT-PHA.

Participant Program Requirements

- HCV Recipient – Must have met and continue to meet the requirements.
- Payment History - 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 – minimum average of 30 hours per week for at least a year.
- Homebuyer Workshop - Attend a NACA homebuyer workshop.

PHA Requirements

- Payment Standard - used for the mortgage payment and principal reduction regardless of mortgage amount. If Payment Standard is greater than the mortgage payment, the remainder is applied to the principal which reduces the number of payments to pay off the mortgage from the original 240 months term.
- Mortgage Payment - The Payment Standard divided into mortgage payments directly to the lender for the PHA's share and Participant's share.
- Provide Access to all recipients of HCV - FSS program are encouraged but not required since upon graduation they have the Minimum Required Funds and potentially additional funds to permanently reduce the interest rate to afford a higher price home.
- Outreach – Communicate to HCV Recipient including emails, texts, flyers and other outreach to lean about the program by attending a NACA Homebuyer Workshop dedicated to the POT-PHA.
- Grants - Access to grants funds to benefit Participants in permanently reducing the interest rate and/or mortgage principal.

NACA Requirements

- Mortgage - Provide access to NACA's Best in America Mortgage.
- Homebuyer Education - Provide free Homebuyer Workshop
- Provide Pre-Purchase Counseling - Meet with a NACA Housing Counselor and complete homeownership counseling. The counseling prepares Participants for homeownership and the associated responsibilities.
- Provide Homebuyer's Education Certificate.
- Provide 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.

BENEFITS FOR ALL PARTIES

The HOT-PHA program will become the first sustained program enabling Participants to move from financial 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 significant wealth through home equity. 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 or less 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. Furthermore, the program changes the landscape of local communities allowing more inclusive and diverse neighborhoods.

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 20-year or less 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.

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 co-ops. 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 more than thirty percent of the housing 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., paying-off). For Participants who purchase a property for less than the Payment Standard, 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
- Grant / government entity subordinated financing 3% of the loan amount applied to buy-down
- Below Market current interest rate:
    - 30-year term: 4.50%
    - 20-year term: 3.875%
    - 15-year term: 3.50%
- Grant Funds for Buy-Down with NACA's below market current interest rate:
    - 30-year term:
    - 20-year term:
    - 15-year term:
- Property Tax and insurance:
    - 15 yr. 18% of total PITI
    - 20 yr. 19% of total PITI
    - 30 yr. 23% of total PITI

Bedrooms	Studio	1 BR	2 BR	3 BR	4 BR	5 BR	6 BR
Payment Standard - Low	**$625**	**$737**	**$915**	**$1,145**	**$1,261**	**$1,450**	**$1,667**
15-year Amortization	$75,521	$89,054	$110,562	$138,354	$152,371	$175,208	$201,429
20-year Amortization	$88,265	$104,082	$129,220	$161,701	$178,083	$204,775	$235,420
30-year Amortization	$100,803	$118,867	$147,576	$184,672	$203,381	$233,863	$268,862
Payment Standard – Med	**$745**	**$881**	**$1,060**	**$1,326**	**$1,466**	**$1,658**	**$1,906**
15-year Amortization	$90,021	$106,454	$128,083	$160,225	$177,141	$200341	$230308
20-year Amortization	$105,212	$124,418	$149,697	$187,263	$207,034	$234,149	$269,173
30-year Amortization	$120,157	$142,092	$170,962	$213,864	$236,444	$267,411	$307,410
Payment Standard - High	**$1,313**	**$1,509**	**$1,860**	**$2,327**	**$2,564**	**$2,948**	**$3,333**
15-year Amortization	$158,654	$182,337	$224,750	$281,179	$309,816	$356,216	$402,737
20-year Amortization	$185,427	$213,107	$262,677	$328,628	$362,098	$416,328	$470,699
30-year Amortization	$211,767	$243,379	$299,990	$375,311	$413,535	$475,469	$537,563