Creating Commerce & Wealth in Communities

1. **Project Overview (Description of Proposal)**

    - **Housing Choice Voucher (Creating Consumers)**

2. **Impact on Economic Growth**

3. **Impact on Financial Companies, Communities, & Economy**

4. **Policy changes needed**

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Project Description:

The development of this project started approximately 10 years ago, my name is Louis H Thomas Jr, I am the owner and CEO of LHT Services, Inc. At the time that we first begin to look at the concept of creating a market of consumers through the utilization of the section (8) voucher, LHT Services, Inc was a minority owned, veteran owned, 8(a) certified, full service construction and real estate consulting and development firm. We have performed many types of contracts for the federal government, local municipalities, and large prime contracting firms. Our look at the section (8) (Housing Choice Voucher Program) (HCV) was prompted by the devastation that occurred on the Gulf Coast after Hurricanes Katrina, and Rita. During that period, there were thousands of vacant housing units throughout the region, and thousands of families living in travel trailers. We defined the need as having a process that could create commerce and stimulate the redevelopment of these properties.

The initial organizational process that occurred with regards to the management and coordination of those families living in travel trailers was begun with FEMA. However, the families were eventually processed into HUD's organizational management structure and subsequently managed by the area Public Housing Authority where the (travel trailer) temporary housing was located. When we began the process of contemplating who could buy these homes, this factor was also integrated with who needed the housing and as well as wo could benefit from the opportunities associated with homeownership. Because HUD was now managing most of the families living in travel trailers, and had begun the process of transferring the families from trailers to temporary and permanent housing through utilization of the Disaster Housing Assistance Payment program (DHAP) we began with the Housing Choice Voucher as the tool that could be used to and facilitate this process.

As you will see in the next section of this document "Housing Choice Voucher Creating a Market of Consumers" we did an extensive review of the voucher program, its history, its current use, and what we contemplated to be its next generation of use. Of course, this review of the HCV also required us to take a hard look at public housing authorities and their functions, as well as the future roles we believed they would have to play in the facilitation of wealth creation and economic development in the communities where they are located. The document was submitted to HUD in late 2009, we understand that it was vetted for four days, and was found to be accurate and within HUD's policy. In fact, after the document was presented, HUD's websites and information portals began to give extensive information on the HCV as a tool for homeownership creation.

The economic impact as well as the benefits to local businesses, communities, and the banking communities both retail and secondary markets will be discussed in the Economic Impact section of the document. The issues we have with bringing this tool to the markets will be disused in the legislative and policy section of this document.

White Paper: Homeownership Voucher Program, Creating a Market of Consumers

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I. Background Homeownership Voucher Program

A. Creation of the Homeownership Voucher Program

The Homeownership Voucher Program offers public housing agencies the administrative flexibility to expand homeownership efforts in their communities. The ideal to permit tenant-based rental assistance to be used as homeownership assistance was first authorized when the Housing & Community Development Act of 1992 created section 8(y) of the United States Housing Act of 1937. However the program as initially enacted only allotted for assistance to be given to families that purchased and occupied homes that were owned by family members, this of course proved to be not viable, and Congress subsequently amended section 8(y) as part of the Quality Housing and Work Responsibility Act of 1998. HUD issued the proposed and final rules for the Homeownership Voucher Program in 1999 and 2000 respectively.

B. Difference between Rental Voucher & Homeownership Voucher

The primary difference between the housing choice voucher rental program and the homeownership voucher program is that homeownership program participants use the monthly housing assistance provided by the voucher to help pay the homeownership expenses on a housing unit that they purchase, rather than to pay rent. Unlike the regulations applicable to many other HUD programs, the voucher homeownership regulations initially established mandatory requirements covering only a few areas of program operations, such as minimum income and employment requirements, mandatory pre-purchase counseling, and term limits on the provision of homeownership assistance. HUD in the final rule has allowed PHAs to impose additional requirements, such as requiring that households rent through the housing choice voucher program for at least a year before pursuing a homeownership voucher. Under the program, homeownership is considered a "special housing type," like shared housing or group homes. Like other special housing types Public Housing Authorities (PHAs) have the choice of whether or not to offer homeownership as part of their housing voucher programs. Therefore, the regulations give PHAs flexibility in tailoring the program to local conditions. The local PHAs in designing and implementing programs for their communities have actually shaped the programs around local opportunities and the local limitations. These factors included staff capacity, the availability of local partners, and lender support for the program, the housing market, as well as the characteristics of the PHA voucher population. Some PHAs, particularly those that began offering the program at the inception have made substantial progress in assisting program participants to purchase their homes. Other PHAs have only had a few closings per year.

II. Typical PHA Utilization Summary:

Currently, most PHAs identify purchasers only when a program participant that's interested in owning their home contacts them. Once contacted by a participant the PHA determines the eligibility of a participant. If it's determined that the voucher holder is qualified then the PHA recommends them to a homeownership training program. This homeownership program is normally a twelve to fifteen hour training program that's either administered by the PHA or a local partner (usually a local nonprofit agency, or a public agency). Once the homeownership program is completed the program participant makes a loan application with a participating lender. The lender would then qualify the participant for a loan using the underwriting guidelines that are typical of government insured loans. These guidelines will also utilize the income requirements that are authorized by the PHA under the Housing Assistance Payment (HAP) program. The HAP funding is authorized to pay towards a program participant's homeownership expense for a period of 15 years if the 1st mortgage is 20 years or longer. PHAs generally authorize the use of one of three financing models that define how the HAP subsidies are to be treated in the mortgage underwriting process by lenders. One approach is to use the **(HAP as Income)**, another is to use the **(HAP as an Offset)**, and the final financing model allows for **(a Bifurcated Mortgage Structure)**. Please review an example of each approach below.

III. Financing Models:

A. HAP as Income:

If a participant earns $1,800.00 a month, a PHA requirement is that no more than 30% of a purchaser's income can be used towards their housing expenses. In this case that would be $540.00 a month. Therefore, in a case where the housing expenses on a home that the participant is renting calls for an $850.00 a month payment; the amount of the HAP (voucher payment) needed by the participant would be $310.00 a month ($850.00 - $540.00) or $3,720.00 a year. Under the HAP as Income approach in the purchasing of a home the $310.00 a month would increase the income of the participant to $2,187.50 a month, ($1800.00 + ($310.00*1.25)). This approach increases the borrowing power for the program participant the least. Using typical underwriting guidelines that are blended with PHA guidelines a borrower will be allowed to use up to 30% of their income towards the payment of a mortgage (this includes principal, interest, taxes, insurances, and utility allowances). Under this scenario a program participant would have his borrowing power increased with the ability to pay a total of $656.00 a month instead of $540.00 a month. This increase allows a participant to borrow an additional $21,000.00 using a 5% interest rate in a loan that is amortized over a 30-year period the increase is approximated. This method of financing housing choice voucher recipients is the most widely

B. HAP as Offset:

This approach increases the participants borrowing ability the most. Using the same scenario described in the previous example whereby 30% of the borrower's income is $540.00. Using the financing model where the HAP (voucher payment) is used as an Offset the amount of PITI that a participant will have the ability to pay will increase from $540.00 to $850.00 ($540.00 + $310.00) a month. This increase allows a participant to borrow an additional $59,000.00 towards their mortgage. This approximated mortgage increase assumes a 5% interest rate amortized over a 30-year period. A refinancing will however be needed after the 15-year HAP period expires.

C. HAP as 2nd Mortgage:

This approach also increases the participants borrowing capacity although not as much as using the HAP as an Offset model. However, this approach does allow equity to be accumulated quicker by the homeowner, thereby allowing the participant to gain wealth and decrease their dependence on the subsidy. Using the scenario where the housing expense a participant can afford is $540.00 and the actual housing expenses they currently incur are $850.00 a month, the amount of HAP available to service a 2nd mortgage will be $310.00 a month. The HAP payment in this scenario will be used to service the debt on a 15-year second mortgage. The additional amount of funding that a purchaser can borrow in this scenario is approximately $41,000.00. There isn't a need to refinance after 15-years using this model.

IV. Implementation Opportunity

HUD and the lending community in various partnerships have developed many programs to create homeownership opportunities. These programs have utilized HOME & CDBG funding, below market interest rates in conjunction with tax exempt (MRBs) as well as secondary lender backed programs and grants that have been provided by National Foundations, as well as the FHLB Institutions. The LRA and the LHFA have defined affordability gaps, provided interim construction, and developed a number of programs and mechanisms for utilization by local financing agencies, the lending communities, local jurisdictions, and for developers to encourage housing development. These programs and financing vehicles were designed to stimulate the redevelopment of our communities however, the desired results of creating new consumers has not been achieved. Instead this problem has been further compounded by the economic issues that affect the country.

Most PHA's that provide a homeownership voucher program have not actively sought to integrate their homeownership programs with the partnerships that were mentioned earlier. The criteria that are required of the consumer to qualify to purchase a home by a PHA with regards to income criteria, employment requirements, and the utilization of government insured financing vehicles is the same requirements that are needed to qualify for a home using the programs that were designed by the partnerships that were mentioned earlier in this document. However, because there has been a lack of a structured organized proficient use of these mechanisms by the PHA community, an integration process that allows the qualified voucher recipients to become a homeowner via a market driven process has not been developed. LHT believes that only through a process of having this possible consumer base available to the lender finance community, the developer community, builders, and realtors will the desired results of creating consumers to stimulate development in this region begin to take place at the pace that's needed to drive measurable economic development.

The development of a process that will allow full utilization of the (HAP as a 2nd Mortgage) financing mechanism for the creation of new potential homeowners is where the opportunity lies for this region. This mortgage model will require a bifurcated loan structure, one that will allow the purchaser to qualify for their maximum loan, including (principal, interest, taxes, & insurance) in a 30 year mortgage. The second mortgage will be for a period of 15 years and will be secured by the HAP payment that the qualified purchaser is already receiving. The potential funding for this consumer can also include additional funding that is supplied by the LRA or through additional HOME and CDBG funding that's administered by a local jurisdiction and is currently being offered to consumers as soft second funding.

The opportunity to create a potential consumer with this financing scenario will ultimately come back to the purchaser's ability to borrow the first mortgage over a 30 year period; however the lenders that make this 1st mortgage to these families will probably be at the 40% to 60% loan to value ratios on the loan. Each of these loans will be insured using a government insured mortgage vehicle provided by FHA. Because there are no entities on the retail side or in the secondary market that are prepared to make loans to qualified families that will have the opportunity to use their housing choice voucher in a bifurcated financing structure LHT is suggesting that a mechanism that would encourage lenders to provide these loans be developed via HUD. The voucher financing that will be provided on a typical loan when combined with the first mortgage a consumer secures will be less than 100% of the value for each home. Given this scenario perhaps the MIP that a consumer pays for the mortgage insurance on their 30 year financing can be modified to cover the lender funding that's provided on the voucher financing. This financing insurance element will be essential to having lender involvement.

This program will not help every family that receives a housing choice voucher to become a homeowner, it would only help those voucher recipients that are gainfully employed and can qualify for a mortgage under the rules imposed by FHA, and other HUD regulated guidelines. In order to fully implement this consumer creation process we are going to have to work through the issues that currently prohibit the real estate industries and the lending institutions direct access to families that are qualified to use their vouchers in this type of financing structure. PHAs by the very nature of how the housing choice voucher program has been implemented have controlled the entire process. Therefore no lenders have bothered to tailor any kind of mortgage product to service this market of consumers because of the bottleneck that occurs when you have to work with each PHA, and you are limited by their capacity to function in an open market.

The creation of the housing choice voucher program and having it introduced to the nation via the PHA process was the logical approach to getting it started. LHT believes that the opportunity to introduce this program to its next generation of utilization exist right now in Louisiana. In order to fully attack the issues that are stacked against the creation of consumer markets in the state of Louisiana, PHA's will have to modify the way that have operated, it won't happen if they only do what they have always done. The creation of a new homeowner consumer base at the lowest level will help to facilitate economic development at the highest levels.

V: Summary:

The opportunity to create a large base of new consumers will allow those builders and developers that have wanted to begin construction in this state an opportunity to do that. These markets have already begun to be created with the programs that the LRA and the LHFA have begun to put in place. The development of a structure that will allow the voucher recipients to become homeowners using the financing model that's been advocated in this document will create low loan to value ratios on the first mortgages and this will encourage the lending community to participate on both the interim and takeout loans. Additionally, the structures that will be put into place here will ultimately take qualified families off of the section (8) rolls and give those that are not qualified yet, hope and something to work towards in their struggles to gain financial independence. I believe that this approach will eventually have national appeal to all of HUD.

LHT seeks to work with the local PHA's to implement this program. The redevelopment of this community will have a direct relationship to the role the PHA organizations will have in this region. Based on the way that FEMA and HUD worked the DHAP and HAP programs through the utilization of PHA's. It would be impossible to create consumer markets without PHA's playing a role in the facilitation of these markets because many of the displaced families are now under their direct control. PHA's will not only have the responsibility of insuring the creation of homeowners in the developments that they sponsor, the PHA's will also have the responsibilities of partnering with the jurisdictions and cities to create processes that will enhance development opportunities and create homeownership opportunities for all the families that have been placed under them as a result of the hurricanes that began in 2005. Additionally, the utilization of the housing choice voucher as discussed in this document will be a great wealth building tool, and it will help the lender communities begin to partake in the process.

Impact on Economic Growth:

There are currently nearly five million families that use the HCV to meet their monthly housing expense. If 10% of those families became homeowners each year and used their HCV to acquire a home for one hundred twenty thousand dollars it would create approximately $60,000,000,000.00 of equity for those families. The properties that could be purchased would include vacant and abandoned properties that currently exist in many of the communities where low wealth is so prevalent. In addition to these families being in position to buy redeveloped blighted properties, they would also be acquiring existing properties where sellers have trapped equity, these sellers would then be in a market to buy newer more expensive homes. This will probably result in an additional direct economic impact of more than $60,000,000,000.00 a year.

Once the community of HCV holders becomes aware of this program and become educated to the wealth building aspect of owning a home this will create a direct exit strategy for people who have historically generationally utilized a public housing subsidy. The economic impact that will be measured to the economy and in communities where growth has not occurred will be two to three times the direct impact. Cities and communities that have historically not had investment will be able to attract investment to these communities.

Impact of Financial Companies, Communities, & Economies

When we first started to write about the utilization of the HCV in a home buyer scenario the country was in the middle of the economic crises. At that time, there were very few lenders that were offering retail loans to HCV holders for homeownership opportunities. There wasn't a market because the HCV in a homeownership scenario was not a priority at HUD. However, over the years the number of lenders has increased, FHA now offers MIP to the consumers so as this method of purchasing a home becomes more in demand the lending community will develop mortgage products to accommodate this base of consumers.

This consumer base will give developers, builders, realtors, and lenders a base of new customers to service. It will give small businesses a chance to develop and participate in this new boom of opportunities that will be in existent throughout the country.

Policy Changes Needed:

Currently Public Housing Authorities (PHA's) can make decisions locally as to whether they want to offer the HCV homeownership program to their residents or not. They also make local individual decisions regarding whether they want to take vouchers from another municipality or participating jurisdiction immediately or make them wait a year. These two policies have hindered the growth and utilization of these programs. This HCV tool if properly utilized can be a very potent economic development tool whose impact would not only change lives but additionally will vastly improve communities and cities where it can be properly implemented. Although the policy that created Public Housing Authorities was very much needed to insure decent safe affordable housing opportunities for everyone in this country, now it may be time to tweak the policy as well as revisit the governess policies to ensure that direct authority can be shared with local municipalities and participating jurisdictions. Unless this type of change is made we believe that it will be impossible for city and county leaders to talk about improving blight, curtailing crime and creating economic development without the authority to make decisions in conjunction with housing authorities when so many of the potential consumers are directly affected by the policies of PHA's.

Conclusion:

We believe that the HCV is a tool that will allow families that have historically not had wealth to have the hope and opportunity to achieve it. Over the last seven or eight years we have made substantial progress regarding understanding the process of how to help PHA's and their residents to maximize this opportunity. We look forward to sharing it later. We are appreciative for the opportunity to give input towards fostering economic growth in this country.