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# The National Homeownership Strategy: Partners in the American Dream



# **The National Homeownership Strategy: Partners in the American Dream**

**U.S. Department of Housing and Urban Development**

**May 1995**



THE WHITE HOUSE

WASHINGTON

May 2, 1995

Our nation's greatest promise has always been the chance to build a better life. For millions of America's working families throughout our history, owning a home has come to symbolize the realization of the American Dream. Yet sadly, in the 1980s, it became much harder for many young families to buy their first homes, and our national homeownership rate declined for the first time in forty-six years. Our Administration is determined to reverse this trend, and we are committed to ensuring that working families can once again discover the joys of owning a home.

This past year, I directed HUD Secretary Henry G. Cisneros to work with leaders of the housing industry, with nonprofit organizations, and with leaders at every level of government to develop a plan to boost homeownership in America to an all-time high by the end of this century. *The National Homeownership Strategy: Partners in the American Dream* outlines a substantive, detailed plan to reach this goal. This report identifies specific actions that the federal government, its partners in state and local government, the private, nonprofit community, and private industry will take to lower barriers that prevent American families from becoming homeowners. Working together, we can add as many as eight million new families to America's homeownership rolls by the year 2000.

Expanding homeownership will strengthen our nation's families and communities, strengthen our economy, and expand this country's great middle class. Rekindling the dream of homeownership for America's working families can prepare our nation to embrace the rich possibilities of the twenty-first century.

*Bill Clinton*

## Foreword

I am honored to present *The National Homeownership Strategy* for the consideration of the American people. The strategy was prepared in response to a request from President Clinton. On Nov. 5, 1994, the President called for a national effort to lift America's homeownership rate to an all-time high by the end of the century. He directed me to develop a National Homeownership Strategy to reach this goal and to form a national partnership of the private, public, and community sectors to carry out the strategy.

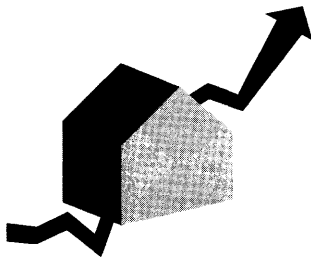
Homeownership is the American dream, but the dream has been fading since 1980, when the national homeownership rate slipped into decline after 46 years of steady growth. Although the homeownership rate has risen over the past 2 years, it is still well below its historic peak. Reviving the trend toward greater homeownership is vital to our Nation's families, communities, and economic prosperity.

The goal of this strategy is ambitious: to generate up to 8 million additional homeowners from 1995 through the year 2000. The strategy recommends a series of concerted actions to help middle-income and low-income families, racial and ethnic minorities, families with children, and young adults overcome current barriers to homeownership. These actions will be undertaken by private industry, national nonprofit organizations, nonprofit community groups, and Federal, State, and local governments working in cooperation at the national, State, and local levels.

Working as partners in this way, we can translate strategy into achievement, making the dream of homeownership a reality for millions of hard-working people and building a better future for all Americans.



Henry Cisneros  
Secretary of Housing  
and Urban Development



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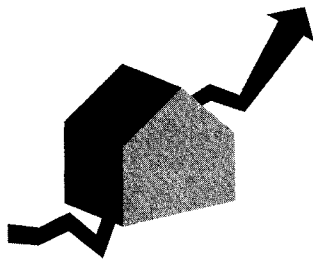


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## CHAPTER ONE

# THE NATIONAL HOMEOWNERSHIP STRATEGY

### PURPOSE

The purpose of the National Homeownership Strategy is to achieve an all-time high level of homeownership in America within the next 6 years through an unprecedented collaboration of public and private housing industry organizations. The strategy was prepared by the U.S. Department of Housing and Urban Development (HUD), under the direction of Secretary Henry G. Cisneros, in response to a request from President Clinton.

Based on the research and advice of literally hundreds of national experts, program specialists, and practitioners in all aspects of the homeownership process, this report represents the best thinking and the best ideas to expand homeownership to millions of households by the end of the year 2000.

The National Homeownership Strategy is an action document, not an academic exercise. It is a call to action and a resource for thousands of national, State, and local organizations in the private and public sectors. The National Homeownership Strategy is based on the premise that specific, plausible actions, implemented through the collaboration of national, State, and local housing partners, can make a difference in expanding homeownership levels in the United States to an all-time high.

The heart of the National Homeownership Strategy is contained in this report's 100 proposed action items. The fundamental commitment of the homeownership strategy is that these 100 actions be carried out through a national partnership and a series of State and local partnerships. These 100 actions are designed to generate up to 8 million additional homeowners by the end of the year 2000. While each of the participating organizations are already undertaking activities to increase homeownership, a broad-based, active partnership

is the only way that America can achieve record high homeownership by decade's end. No Federal program, nor any combination of Federal policies and programs alone, can generate the millions of additional homeowners that the President and the partners are committed to creating.

This chapter discusses the importance of homeownership, the primary themes of the strategy, the importance of shared approaches, and the proposed goals of the national partnership. A summary of the 100 proposed actions appears at the end of the chapter.

### WHY HOMEOWNERSHIP?

Most scholars, public policy makers, industry analysts, and civic and community leaders agree that supporting homeownership is good for America, and will produce four fundamental benefits:

1. **Homeownership is a commitment to personal financial security.** Through homeownership a family acquires a place to live and raise children and invests in an asset that can grow in value and provide the capital needed to start a small business, finance college tuition, and generate financial security for retirement.
2. **Homeownership is a commitment to strengthening families and good citizenship.** Homeownership enables people to have greater control and exercise more responsibility over their living environment.
3. **Homeownership is a commitment to community.** Homeownership helps stabilize neighborhoods and strengthen communities. It creates important local and individual incentives for maintaining and improving private property and public spaces.



4. **Homeownership is a commitment to economic growth.** Homeownership helps generate jobs and stimulate economic growth. The design, construction, and rehabilitation of homes employs local labor and uses a vast array of American-made products and services. Homebuilding has often led the economic recovery from national recessions due to its strong job multiplier effect and because increased housing starts and home sales represent renewed economic confidence.

Owning a home serves as one of the main symbols of economic and social success and is a primary aspiration for most Americans. Recent surveys indicate that 86 percent of all adults prefer to own a home, and two-thirds of all renters would buy a home if they could afford one.

Homeownership creates economic prosperity for families and communities and acts as a dynamic generator of economic growth. Every new home creates 2.1 jobs directly related to construction, and many more jobs through increased demand for household goods and services.

Because homebuilding and homeownership contribute to national prosperity, the expansion of homeownership in this Nation has been supported for many years by public-private partnerships. From the Homestead Act in 1862 to the GI Bill of Rights in 1944, key Federal Government innovations such as the Federal Housing Administration (FHA), Department of Veterans Affairs (VA) home loan guaranty program, Department of Agriculture's Rural Housing and Community Development Service, Federal Home Loan Bank System, Fannie Mae, Ginnie Mae, Freddie Mac, and others have mobilized private capital to enable the average working family to buy a home with little or no down payment.

## BACKGROUND

In the spring and summer of 1994, Secretary Henry Cisneros met with leaders of major national organizations from the housing industry to solicit

their views about establishing a national homeownership partnership. In August 1994 these planning sessions culminated in a historic meeting at which industry representatives agreed to the formation of working groups to help develop the National Homeownership Strategy.

The working groups met frequently from late August through mid-December. Overall, more than 50 organizations and hundreds of people were engaged in the working group process. These working groups are listed below.

- ★ Establishing Goals.
- ★ Cutting Financing and Transaction Costs and Increasing Availability of Financing.
- ★ Cutting Production Costs.
- ★ Targeting Areas and Building Communities.
- ★ Opening Markets and Targeting Underserved Populations.
- ★ Improving Homeownership Education and Counseling.
- ★ Raising Awareness and Expanding Opportunities.
- ★ Determining Governance.

## STRATEGY THEMES

The National Homeownership Strategy combines private and public sector resources and commitments to implement three broad approaches designed to make homeownership more affordable, accessible, and available. The goal of reaching all-time high national homeownership levels by the end of the century will be accomplished by:

- ★ **Cutting the costs of homeownership**, including financing, production, and transactions costs and fees, to make homeownership more affordable, make financing more available, and simplify the homebuying process to make it easier to purchase and own a home.



Streamlining transaction costs, expanding creative financing and public gap financing, and making technological improvements in loan underwriting will reduce the costs of homeownership. Changing conventional methods of design and building less expensive houses will enable many more low- and moderate-income families to purchase homes. Regulatory reforms will allow developers and builders to reduce the costs of land assembly, housing construction, and home rehabilitation, making homeownership more affordable for willing homebuyers who are now priced out of the housing market.

- ★ **Opening markets for homeownership**, to increase choice and remove barriers, making homes, mortgage financing, and property insurance more available and affordable for every American.

Across all income levels, African-American and Hispanic-American households have lower homeownership rates compared to other groups with comparable incomes. At the same time, low- and moderate-income households are much less likely than higher income households to own homes. Breaking down racial and ethnic barriers and increasing access for other underserved households will extend homeownership opportunities to millions of families and enable minority households to own homes in a much wider range of communities.

- ★ **Expanding opportunities for homeownership**, to raise awareness and make homeownership a reality for millions of people through education and counseling, information technology, communications media, and community involvement.

Many would-be homeowners are not aware that they can own a home with—or more often without—special assistance. Broad-based outreach and marketing will spread the word to young and old, low- and moderate-income as well as more affluent households, minority families, and new immigrant populations that they can indeed become successful homeowners. Targeted

education and counseling can train millions of individuals and families in the basic financial practices and technical skills needed to purchase and maintain a home.

All 100 actions contained in the National Homeownership Strategy support one or more of the three themes.

## SHARED APPROACHES

All of the housing industry organizations that participated in the development of the National Homeownership Strategy work day-in, day-out assisting American households to become homeowners. Whether for profit, social benefit, or community stability, every housing industry participant strives to enhance opportunities for first-time homeownership. Over time, these organizational efforts have generated one of the highest levels of homeownership among all developed Nations in the world.

If each housing industry participant performs its homeownership functions in an efficient manner, the national level of homeownership should increase over the next 6 years. If so, then why are these organizations making a commitment to the National Homeownership Strategy and actively engaging in a long-term partnership to expand American homeownership? The answer is that with greater collaboration comes “synergy”—a realization that the whole can be greater than the sum of its parts.

The National Homeownership Strategy suggests that much more can be achieved by collaboration among housing industry participants; that by establishing common goals, working together, sharing successes and improving the flow of information, the national partnership can more dramatically increase homeownership levels in the United States by the end of the century.

Hence, the National Homeownership Strategy clearly acknowledges that by working together to solve obstacles to homebuying, we can collectively and individually achieve greater progress. Virtually



all of the actions contained in the report will benefit measurably from a shared approach. For example:

- ★ Nonprofit homeownership counseling providers, private mortgage insurers, secondary market investors, associations representing lending institutions, Federal agencies, and State and local governments can improve homeownership counseling by collaboratively establishing a national training center and curriculum.
- ★ National and local partners can improve understanding and use of innovative downpayment alternatives, such as lease-purchase and homebuyer savings clubs.
- ★ Homebuilders, Federal agencies, and associations representing State and local governments can agree to disseminate examples of fast-track planning reviews of affordable home developments.
- ★ National and local partners, including financial institutions, secondary market investors, the Federal Government, State and local governments, and national nonprofit housing organizations, can improve industry understanding of public-private financial leveraging approaches.

These are a few of the many collaborative actions that will help achieve all-time high levels of homeownership in America.

## **NATIONAL HOMEOWNERSHIP GOALS**

Given the actions and collaborative approaches described in this report, the members of the partnership propose to generate up to 8 million additional homeowners by the end of the year 2000, which translates into a national homeownership rate of up to 67.5 percent.

Despite its many benefits, homeownership has increasingly slipped out of reach for many Americans. From 1940 to 1980, the national

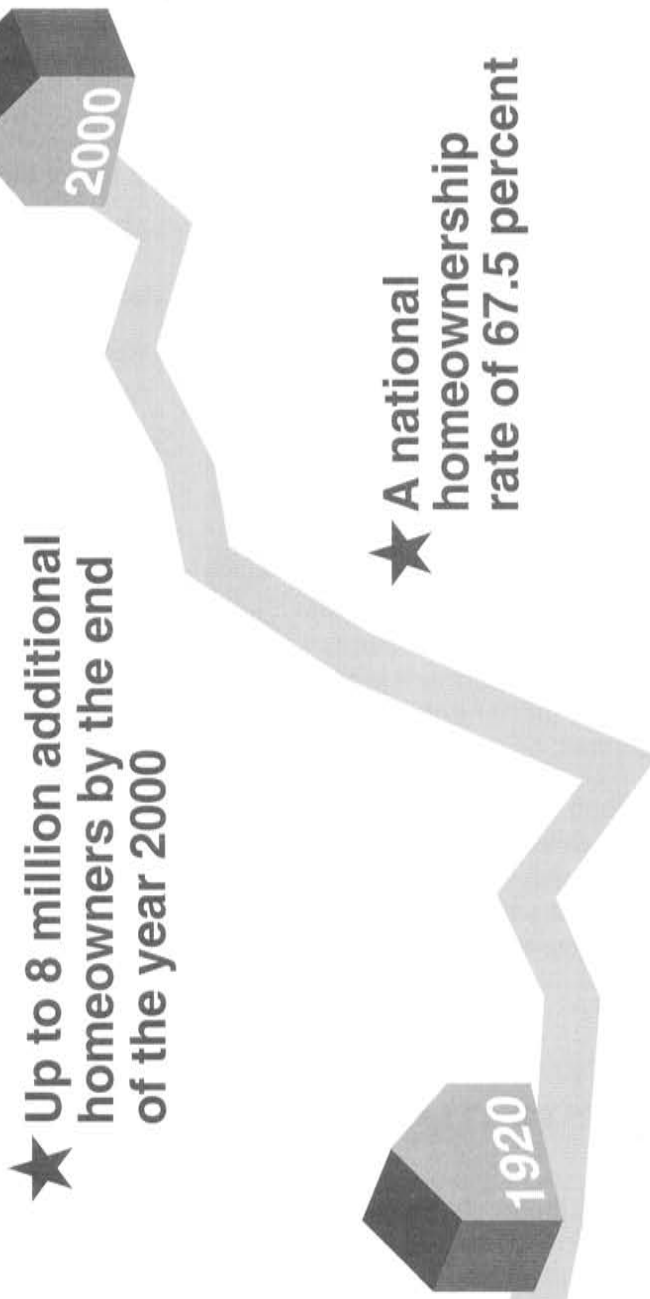
homeownership rate rose from 43.6 percent of all households to 65.6 percent. Since 1980, the overall ownership rate has declined to a current rate of about 64 percent. While this rate has been increasing in the past 2 years, the Nation's homeownership rate is still well below its historic peak.

Although higher income households headed by persons over 45 years of age have held steady, the homeownership rates for younger households and those with lower incomes have faced a much more difficult situation. Between 1980 and 1991, homeownership rates for households headed by persons under the age of 35, both married and single, fell by nearly one-fifth, from 44.5 percent to 37.8 percent. In the same decade, homeownership rates for moderate-income households fell by 10 percent, with a 17-percent drop for low-income households. And the homeownership rate for very low-income families with children declined from 37 percent to 29 percent.

In addition, homeownership rates remain substantially lower among minorities than among whites. In 1993, 43 percent of African-American households and 40 percent of Hispanic households were homeowners, compared with 70 percent of non-Hispanic white households. This gap exists regardless of income levels: both higher income and lower income minorities are less likely to own their homes than white households of comparable incomes.

The National Homeownership Strategy will attempt to help all American households become homeowners, including middle-income families. However, the statistics presented above point to a special responsibility and an important opportunity to target underserved populations and communities, including low- and moderate-income households, minorities, young adults, families with children, legal immigrants, people with disabilities, Native Americans, and residents of inner-city neighborhoods and rural areas.

# National Homeownership Rate





## **NEXT STEPS**

Issuance of the National Homeownership Strategy is an important milestone in the march towards establishing a viable, long-term partnership. The strategy contains 100 actions for the partnership to implement. These proposed actions are statements of what can be accomplished. The actions are the foundation—the starting point—of steps that should be taken to increase homeownership opportunities.

Each of the participating national organizations will sign a partnership agreement that identifies the actions and describes the specific contributions they will make to support the National Homeownership Strategy. The partnership agreements are discussed more fully in the next chapter.

Partnership agreements have already been signed by more than 50 national organizations. Over time, it is expected that the number of national, State, and local organizations becoming partners in this process will continue to grow, further enhancing opportunities for collaboration.

The partnership also will form a governance structure designed to guide this landmark homeownership initiative through the year 2000. Recommendations regarding the roles of a governance structure are discussed in more detail in the next chapter.

## **SUMMARY OF THE NATIONAL HOMEOWNERSHIP STRATEGY CONTENTS**

The 100 actions contained in these chapters often refer to steps that the “partnership” should undertake in the general sense. In effect, the 100 actions in this report represent recommendations for the partners. The partnership agreements prepared by each of the participating organizations provide the specific contributions needed to support each of these actions.

Chapter 2 of this report summarizes the partnership agreements and proposed long-term structure of the partnership. Chapters 3 through 8 include

discussions of key elements of the National Homeownership Strategy. Below is a list of the subjects for each chapter.

Chapter 3: Production.

Chapter 4: Financing.

Chapter 5: Building Communities.

Chapter 6: Opening Markets.

Chapter 7: Homeownership Education and Counseling.

Chapter 8: Raising Awareness.

## **NATIONAL HOMEOWNERSHIP STRATEGY**

### **LIST OF PROPOSED ACTIONS**

#### **PRODUCTION**

Action 1:

Assessing Regulatory Impacts on Affordable Homeownership

Action 2:

Modernizing Planning, Zoning, and Subdivision Laws

Action 3:

Education and Technical Assistance for Regulatory Reform

Action 4:

Consensus Building and Mediation Techniques for Affordable Homeownership

Action 5:

Statewide Standards for Impact Fees

Action 6:

Models of Regulatory Flexibility and Development Controls

Action 7:

Expanded Research on Regulatory Reform

Action 8:

Building Code Reform



Action 9:  
Education and Outreach for Higher Density  
Home Construction

Action 10:  
Fast-Track Administrative Review Procedures for  
Starter Homes

Action 11:  
Removing Barriers to Mortgage Financing for  
Starter Homes

Action 12:  
Stock Plans and Guidance Materials for Starter  
Homes

Action 13:  
Flexible Regulations to Accommodate Home  
Rehabilitation

Action 14:  
Home Rehabilitation Research

Action 15:  
Technical Evaluation and Guidance Materials  
for Energy Conservation

Action 16:  
Affordable Home Technology Program

Action 17:  
Information, Training, and Technical Assistance  
for Innovative Technologies

Action 18:  
Affordable Home Design and Construction Awards

Action 19:  
Stock Plans for Building Affordable Homes

Action 20:  
Enhanced Homebuilding Product Evaluation

Action 21:  
HUD Technical Evaluations of Homebuilding  
Products

Action 22:  
Research on Technological Innovation for  
Affordable Homes

Action 23:  
Regulatory Review of Manufactured Homes

Action 24:  
State Participation in Manufactured Homes

Action 25:  
Cooperative Research for Manufactured Homes

Action 26:  
Manufactured Home Industry Initiatives

Action 27:  
Zoning and Land Development Reform for  
Manufactured Homes

Action 28:  
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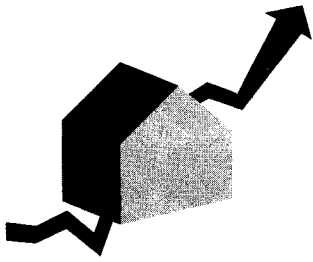


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## CHAPTER TWO

# PARTNERSHIP STRUCTURE

This chapter briefly discusses the means by which participating organizations will become partners in this process, and the governance structure that will help the partnership achieve the homeownership goals over the next 6 years.

### PARTNERSHIP AGREEMENTS

The strategies and actions contained in the National Homeownership Strategy are the foundation for creating a national partnership as reflected in the partnership agreements. Partnership agreements are intended to be good faith commitments that the partners are making to each other and to the partnership as a whole, rather than a legally binding obligation to the Federal Government or to any other entity. The partnership agreements serve as a mutual pledge, enforceable by the goodwill and corporate conscience of each partner. These agreements list the specific contributions of the respective organization in support of the 100 actions in the National Homeownership Strategy.

Each partnership agreement contains a general statement of purpose, applicable to all partners, along with two attachments that explain the partners' contributions:

Attachment A is a list of the actions—drawn from the 100 actions in the National Homeownership Strategy—that the partners will take over the next 6 years.

Attachment B describes the specific contributions that each partner will undertake over the next 6 years to support the actions listed in Attachment A. These contributions include existing initiatives that the partners will expand, as well as new initiatives.

### NATIONAL PARTNERS IN HOMEOWNERSHIP

The National Homeownership Strategy and the partnership agreements are essential to ensure success. Yet many previous reports with comprehensive, thoughtful recommendations have gathered dust on office bookcases. Therefore, in order to organize the partnership's efforts, keep the strategies and actions on course, and ensure long-term accountability, a governance structure should be created by the participating organizations.

The appropriate governance structure should:

- ★ Create ownership of the process and goals and ensure that top policymakers “buy in.”
- ★ Foster creativity, idea sharing, and information exchange, and forge new partnerships.
- ★ Ensure focus, continuity, and accountability, and promote strong leadership.
- ★ Communicate that it is a genuine public-private partnership and not an indirect method for Federal agencies to influence private action.

After review of alternative structures, we will establish a framework to govern the activities of the partnership and to carry out the National Homeownership Strategy.

The structure should communicate that this is a public-private partnership and not a government program. To be successful, however, the partnership structure should remain close to, and be aware of, new Federal housing, community development, and economic policy directions. We therefore propose that there continue to be significant ties to the President and the Secretary of HUD. The partnership structure should ensure continued focus, continuity, and accountability. At the same



time, by specifying a completion date the partners can ensure that an organization does not become an end in itself.

The proposed characteristics of such a partnership structure are described more fully in the summary below.

**Name:** National Partners in Homeownership or National Council on Homeownership

**Legal Authority:** To be determined

**Composition:** Membership should be composed of all partners, defined as organizations entering into partnership agreements. A smaller executive committee or steering committee, selected by the membership, can assist in oversight activities and establishing policy.

Standing or ad hoc committees can be formed to address specific policies or issues, or to assist in carrying out the functions of the partnership. Membership on subcommittees need not be restricted to partners, but subcommittees should be chaired by a participating member appointed by the chairperson of the partnership structure.

**Oversight:** Oversight can be provided by a chairperson and a vice chairperson. The chairperson, vice chairperson, and partnership coordinator (staff), under the supervision of the chairperson, would possess the authority to act on behalf of the partners on a daily basis, conforming to any general policies and specific directives established by the membership.

**Staffing:** A small staff is recommended, consisting of a partnership coordinator, a second professional staff person, and an administrative support person. There are two alternatives for acquiring staff resources: (1) hire staff using monetary contributions from the members, foundations, or other sources, or (2) obtain contributions of staff time from the members, through a "loaned executive" approach. The partnership also should consider requesting HUD to assign one full-time staff year to this effort during the term of the partnership.

**Timing:** The partnership structure should be established quickly upon execution of the partnership agreements and should be designed to "go out of business" at the end of the 6-year effort.

**Accountability:** Partnership agreements set forth the activities and strategies to be undertaken by each partner over the course of the 6-year effort. The partnership structure should establish overall homeownership goals and interim benchmarks, as opposed to individual partner report cards.

**Additional Partners:** Although the partnership will be large and inclusive, much activity should, by necessity, take place outside of Washington, D.C., with organizations, institutions, and even individuals not currently participating in this effort. As a result, secondary organizations should be formed and designated "community partners."

## **Roles and Responsibilities of the Partnership:**

Although the specific roles of this entity will be established by the partners, possible responsibilities might include the following:

1. Encouraging development of smaller partnerships by serving as a catalyst to unite organizations and individuals in carrying out projects or other efforts to support the National Homeownership Strategy.
2. Encouraging and assisting State and local governments to participate in homeownership activities and facilitate development of grassroots efforts.
3. Maintaining a central information clearinghouse to share ideas and distribute information.
4. Providing technical assistance to partners and member organizations.
5. Maintaining partnership accountability and tracking overall progress in achieving goals.



6. Recognizing and publicizing successful efforts of the partners.
7. Advising the President of the United States, the Secretary of HUD, and other housing leaders on matters relating to the homeownership goals.
8. Working with partners to encourage preparation of special reports and studies on topics of critical interest.
9. Recommending measures to coordinate activities of Federal, State, and local government agencies, private institutions, and individuals.
10. Encouraging training and education in the field of homeownership in cooperation with appropriate public and private agencies and institutions.
11. Preparing an annual report of partners' activities, including progress toward achieving the National Homeownership Strategy goals.
12. Coordinating formal and informal meetings of various partnership committees.

## LOCAL PARTNERSHIPS

For the National Homeownership Strategy to succeed, organizations and individuals at State and local levels must be motivated and mobilized to implement the partnership's strategies to increase homeownership. Groups or persons that have direct contact with potential homebuyers or that can influence local homeownership resources should be informed and deployed to administer those components of the partnership's action plan that are relevant to their particular circumstances and missions.

In addition, information must flow freely back and forth between members of the partnership and local organizations so that lessons may be learned from successes and failures, progress will be reported, and any guidance or recommendations will be considered and distributed.

The partnership should also seek to use other channels of communication to provide as much

information as possible to a wide range of people, including local housing providers not affiliated with national partners.

National partners can play a significant role in fostering local activity. Yet the emergence of viable local partnerships should not be orchestrated at the national level using an overly prescriptive model. Rather, local partnerships must grow differently in each community, reflecting the skills, knowledge, long-term relationships, leadership capabilities, and current policies and programs of local housing organizations. At a minimum, however, national partners should:

1. Ensure effective communication. National partners should transmit information regarding the National Homeownership Strategy to their members and affiliates. This information should be designed to encourage these community partners to adopt the goals and recommendations of the National Homeownership Strategy. It also should describe clearly and understandably how to implement those recommendations. For example, once the partnership is established and the national partners have agreed to their contributions, each partner should communicate its goals to each of its affiliates with information regarding how to meet those goals by the end of the year 2000.
2. Provide motivation and leadership. National partners should explain to their members and affiliates how the National Homeownership Strategy benefits them. State and local partners should then try to organize efforts to generate enthusiasm and provide structure for community activities.
3. Maintain information, progress reports, reporting, and acknowledgments. Partners should collect and disseminate information about the National Homeownership Strategy, including descriptions of recommended actions, successful programs, and progress reports on national efforts. Partners should also develop recognition or awards programs to publicize and reward successful efforts under this initiative.



If so requested, the partnership structure should prepare and disseminate such information to local groups on behalf of the partners.

The following is a list of the National Partners in Homeownership as of June 1, 1995.

## **THE NATIONAL HOMEOWNERSHIP STRATEGY: PARTNERS IN THE AMERICAN DREAM**

56 Organizations Have Signed Partnership Agreements by 6/1/95

American Bankers Association

American Institute of Architects

American Land Title Association

American Planning Association

America's Community Bankers

Appraisal Institute

Association of Community Organizations for Reform Now (ACORN)

Association of Local Housing Finance Agencies

Center for Neighborhood Technology

Community Development Financial Institutions Fund

Corporation for National Service

Council of American Building Officials

Council of State Community Development Agencies

Enterprise Foundation

Fannie Mae

Federal Home Loan Bank System

Freddie Mac

Habitat for Humanity International

Housing Assistance Council

Local Initiatives Support Corporation (LISC)

Manufactured Housing Institute

Mortgage Bankers Association of America

Mortgage Insurance Companies of America

National American Indian Housing Council

National Association for the Advancement of Colored People (NAACP)

National Association of Affordable Housing Lenders

National Association of Counties

National Association of County Community and Economic Development

National Association of Home Builders

National Association of Real Estate Brokers

National Association of Realtors

National Bankers Association

National Community Development Association

National Community Reinvestment Coalition

National Conference of States on Building Code Standards

National Congress of Community Economic Development

National Cooperative Bank

National Council of La Raza

National Council of State Housing Agencies

National Fire Protection Association

National Foundation of Consumer Credit



National Foundation of Manufactured Home  
Owners

National Hispanic Housing Council

National Low Income Housing Coalition

National Neighborhood Coalition

National Trust for Historic Preservation

National Urban League

Neighborhood Reinvestment Corporation

Resolution Trust Corporation

Social Compact

U.S. Department of Agriculture

U.S. Department of Housing and Urban  
Development

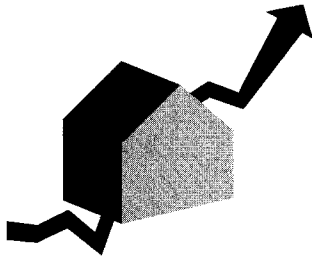
U.S. Department of Veterans Affairs

United Homeowners Association

United States Conference of Mayors

Urban Land Institute





## CHAPTER THREE

# PRODUCTION

### OVERVIEW

The National Homeownership Strategy proposes a series of actions to promote homeownership by reducing the costs of building new homes and rehabilitating existing homes. In a competitive environment, lower production and development costs will translate into more affordable prices for new and rehabilitated homes. More affordable prices will increase the pool of eligible homebuyers, expand home sales, and lead to higher homeownership rates.

### KEY PRINCIPLES

The strategies and actions in this chapter reflect the following principles:

- ★ A successful strategy must be collaborative in nature and build on the direct involvement and support of many distinct interest groups and constituencies involved in the housing development process.
- ★ Although high production costs are a national problem, the specific causes and many of the solutions vary significantly across regions and within regions.
- ★ Innovative, cost-effective methods to rehabilitate the older housing stock can expand homeownership opportunities, particularly in central cities, and should play a major part in any overall strategy for cutting production costs.
- ★ Steps to reduce production costs must be consistent with existing market mechanisms and should not compromise public health, safety, environmental protection, or State and local autonomy.

- ★ Cutting production costs to expand homeownership should include technical assistance to housing providers to offer a broader variety of alternative housing types and options than are currently available.
- ★ In reducing production costs, it is important to develop housing that is not only affordable but also enhances the neighborhood and the community.
- ★ A program to lower production costs cannot succeed if it is designed as a short-term quick fix. Substantial cost reductions are more likely to result from many small steps than from a few great leaps, requiring a broad vision in program design and attention to detail in implementation.
- ★ Successful results will require sustained, multiyear commitments from the Federal Government and every other private and public organization with a significant role to play. As the primary Federal agency charged with promoting homeownership, HUD should take a leading role in organizing, coordinating, promoting, and supporting specific initiatives to reduce housing production costs.

### STRATEGIES

There are five major strategies for expanding homeownership by cutting production costs:

1. Reduce regulatory barriers to affordable homeownership.
2. Expand the supply of starter homes.
3. Eliminate barriers to cost-effective home rehabilitation.



4. Stimulate technological innovation in homebuilding.
5. Eliminate regulatory and financing barriers to the availability of manufactured housing.

## **Reduce Regulatory Barriers to Affordable Homeownership**

**STRATEGY:** *The partnership should undertake a 6-year cooperative effort to encourage regulatory reform and stimulate the reinvention of State and local housing development approval processes to lower costs and expand supply by eliminating any unnecessary, excessive, or duplicative regulatory barriers to the production of affordable homes.*

**Issues and Impediments:** Regulating housing development is primarily a State and local responsibility. State and local governments use this authority to protect the health, safety, and welfare of their citizens. Also, State and local governments regulate housing development to promote public objectives: planned growth, fire safety, energy efficiency, environmental protection, quality of life, and others. Although most development regulations are intended to promote safe and livable communities, they come at a price—increased costs of construction.

Numerous housing policy studies have demonstrated that many communities have unnecessary or duplicative regulations that can be modified to reduce production costs without compromising valid public objectives. Antiquated State planning laws, overly stringent subdivision standards, exclusionary zoning practices, and outdated building and development standards all impede the production of affordable homes. In some cases these requirements are intentionally designed to limit density of development, exclude low-income families, or minimize future public costs of infrastructure maintenance. In many other instances they exist primarily because of inertia, tradition, lack of information about potential alternatives, or the lack of time and expertise required to rewrite

applicable laws and regulations. Efforts to implement significant reforms, especially with regard to land development and zoning issues, have had only limited success.

Regulatory barriers to affordable housing often reflect important and sensitive local issues, including the values of self-governance. To the extent that the Federal and State governments propose regulatory revisions, they should do so with an appreciation and concern for the regulatory role and authority of local governments. Of equal importance are local concerns about neighborhood quality, income mix, and other issues that are often imbedded in existing regulations. In the collaborative spirit of this partnership, participants should be prepared to discuss these sensitivities and seek new solutions to regulatory barriers that do not undermine legitimate local concerns.

### **Action 1: Assessing Regulatory Impacts on Affordable Homeownership**

The partnership should urge HUD to lead a Federal effort to review existing Federal regulations and policies to assess their cumulative impact on housing costs and develop alternative policies to mitigate adverse impacts. Also, Federal agencies proposing regulations that affect housing costs should evaluate the impacts of their proposals on homeownership and develop options to mitigate adverse impacts on production and operating costs.

### **Action 2: Modernizing Planning, Zoning, and Subdivision Laws**

The partnership should work in cooperation with the American Planning Association to support and complete the Growing Smart Initiative—a program for modernizing America’s planning, zoning, and subdivision control laws. Within 3 years, this effort will produce model legislation for State governments to consider in reforming their community planning and land development enabling legislation. Reforms will include a variety of legislative options and alternatives such as comprehensive



planning requirements, housing elements, “fair share” standards, and State goals and policies to be implemented through local developmental controls.

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The Portland, Oregon, area’s unique Metropolitan Housing Rule, under the Statewide Planning Program, has stimulated affordable housing and friendly land-use and zoning requirements in more than two dozen jurisdictions surrounding the city of Portland. The rule has kept housing costs down by requiring the area’s 27 jurisdictions to decrease lot-size requirements. Towns and counties are thus mandated to plan and allocate growth areas for meeting their fair share of the region’s affordable housing needs.

One community, for example, had planned for only 371 additional multifamily dwellings in its comprehensive plan, which was adopted in 1978. Between 1985 and 1989, having revised its plan and zoning to meet the Metropolitan Housing Rule requirements, the jurisdiction witnessed development of 1,981 multifamily units.

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Regulatory reform envisioned through the Growing Smart Initiative has already helped promote affordable homeownership in the State of Oregon. Oregon law now requires localities to prepare comprehensive plans identifying vacant land available for development, estimate what will be needed to meet future needs, and make land allocations and zoning to meet projected housing needs. Together with statutes that provide for settling land-use disputes and streamlining local permit procedures, Oregon’s Statewide Planning Program is helping developers build lower cost homes.

#### Action 3: Education and Technical Assistance for Regulatory Reform

The partnership should initiate an education and technical assistance effort to promote the concept of regulatory reform among State and local governments. For example, partners should focus on the impact of State regulations on the cost of housing and provide technical assistance to encourage review and reform of State planning and enabling

legislation. To help local governments modernize their zoning and related development controls, the partners should help: (1) develop specific technical guidance materials on recommended housing standards, land-use types, and development criteria; (2) assist local governments in the review of existing ordinances to promote voluntary reform; and (3) develop alternative regulatory tools.

#### Action 4: Consensus Building and Mediation Techniques for Affordable Homeownership

To promote affordable housing projects for low- and moderate-income families, members of the partnership should utilize problemsolving, consensus-building, and mediation techniques to achieve multijurisdictional agreements for acceptance and development of affordable housing. Within 2 years, partners should establish a demonstration technical assistance and training center that will develop joint problemsolving skills to facilitate the acceptance of affordable housing.

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The 1969 Massachusetts Zoning Appeals Law, more commonly known as the “Anti-Snob” Zoning Law, was one of the Nation’s first statewide efforts to open the suburbs to low- and moderate-income housing.

To enforce this law, the Commonwealth created a comprehensive permit system and a board where appeals of local development decisions could be made. As a result, Massachusetts has increased the availability and acceptance of affordable housing in many areas of the Commonwealth.

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In Hartford, Connecticut, 26 jurisdictions used consensus-building techniques to negotiate “fair share” targets for affordable housing and develop a means for each jurisdiction to pursue actions appropriate to their circumstances. This voluntary compact approach to meeting regional housing needs signaled the beginning of a change in thinking about local housing policy. As a result of the agreement, more than 4,000 units of low- and moderate-income housing were built in these communities.



## Action 5: Statewide Standards for Impact Fees

Under West Virginia Code, Chapter 124, Article 7-20-1, Fees and Expenditures for County Development; Local Powers Act, impact fees may not exceed a proportionate share of the costs required to accommodate new development. Before requiring payment of any authorized fee, the county must show evidence that some reasonable benefit from any capital improvement is realized by the development project. Planning requirements also require adoption of a countywide comprehensive plan, comprehensive zoning ordinance, subdivision control ordinance, formal building permit process and review system, including the State building code, and capital improvements. In addition, standards of service must be developed and maintained for capital improvements that are funded by the fees.

The partnership should encourage statewide standards for impact fees on new construction that are legally defensible, fair, and enforceable. Many impact fee systems do not clearly define the types of facilities that can be financed by impact fees, nor require a "rational nexus" test for the amount of the fee, the nature of the facility, and the benefit to the development, nor eliminate disproportionate burdens on lower cost housing. Although 23 States now have statewide legislation regarding impact fees, such legislation should be expanded to most States within the next 6 years.

## Action 6: Models of Regulatory Flexibility and Development Controls

The partnership should establish a series of continuing demonstration projects to promote regulatory reform of housing development. For example, partners should support demonstrations that show how to build low-cost, high-quality housing by taking full advantage of regulatory flexibility and reforms. Also, partners should initiate demonstration projects to reinvent the administration of

development controls, by reducing the average time for housing project review and approval and actual development by 50 percent without undermining quality, environmental protection, or meaningful citizen input.

In 1982, HUD initiated the Joint Venture for Affordable Housing (JVAH) as a public-private partnership to reduce housing costs by changing unnecessary regulations and encouraging the use of innovative construction design and materials. Cost savings of up to 30 percent were documented for each home built as part of the JVAH program in communities across the Nation.

As a result of the JVAH, single-family home developments were built in communities across the Nation, where local officials agreed to review regulations and simplify approval processes. For example, Phoenix used the JVAH project as an opportunity to review and modernize its entire set of approval-processing procedures. Under the new procedures, the builder saved over 3 months in processing time, with interest and overhead savings totalling \$2,198 per house in 1984, or about 5 percent of the average home sales price.

## Action 7: Expanded Research on Regulatory Reform

Members of the partnership, including Federal, State, and local governments, should expand research efforts to:

- ★ Prepare model land use regulatory standards and housing development guidance materials for consideration and use by State and local governments.
- ★ Identify and analyze State and local land development review and approval processes and systems; document the length of time required, the causes and extent of delays that are commonly encountered, and the impact of delays on affordable homeownership; and develop appropriate recommendations for consideration by State and local governments.



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## Action 8: Building Code Reform

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For more than two decades, the Commonwealth of Virginia has been a leader in the establishment and enforcement of building code regulations. Today all 170 of the State's building departments enforce the Uniform Statewide Building Code for standard construction, maintenance, and fire-safety regulations and procedures. This code provides criteria for design elements such as energy and water conservation, retrofit requirements, production of manufactured homes, and new construction requirements, including conformity with national electrical, gas, plumbing, and mechanical standards. Many of these requirements directly affect housing affordability, safety, and durability.

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The partnership should work to eliminate those barriers in building codes and code administration that limit affordable homeownership. Specifically:

- ★ Partners should encourage and support State and local governments to adopt and maintain the latest edition of the applicable model building codes promptly after publication and without technical amendment. State and local partners also should work with model building code organizations to improve the consistency of code administration and minimize potential for conflicting interpretations of the codes, through ongoing training and wide dissemination of code interpretations to interested parties.
- ★ When proposing code requirements, model building code organizations should explicitly consider the potential impacts of code changes on housing affordability; production cost, including operation costs; as well as public health and safety.
- ★ State governments should promote greater efficiency in the regulation of modular home construction by participating in interstate agreements that facilitate reciprocity in the regulation and approval of modular homes. Increasing single unit access to a wider range of housing

markets will generate cost savings through scale economies.

- ★ Local governments already recognize the value of consistent code administration. For example, the city of Lancaster, California, organized a task force to expedite the application, review, and approval process for new development and new uses for existing development. In Hawaii, Maui County has established a committee to identify and introduce new and creative ordinance changes to strengthen the development of affordable housing.

### Expand the Supply of Starter Homes

**STRATEGY:** *The partnership should establish a National Starter Home Initiative to promote expanded production of starter homes for first-time homebuyers and encourage the private market to increase the supply of starter homes for all families who want and can afford to buy them.*

**Issues and Impediments:** The new entry-level or starter home is fast becoming a thing of the past. Construction of single-family detached homes that are 1,200 square feet or less has diminished dramatically in the past 25 years. In 1970, 36 percent of new single-family homes were less than 1,200 square feet; by 1992 that figure had dropped to 10 percent. During the same period, the median new home size grew from 1,385 square feet to 1,920 square feet, and prices increased accordingly.

Homebuyers with equity from the sale of their previous homes have demanded larger homes. First-time homebuyers who typically have little savings have been forced to purchase older homes, leaving the new home market to the tradeup buyers.

New homes also include amenities that buyers might forgo in exchange for lower purchase prices. Recent studies have found that although potential homebuyers desire larger homes, they would



accept an affordable home with unfinished space for future expansion or a smaller than typical home on a small lot if it is both attractive and affordable.

In addition, housing types common at the turn of the century, such as two-family dwellings (duplexes and flats) and homes with accessory apartments that provide rental income to help pay the mortgage, are not being built today due to zoning restrictions, lending and appraisal guidelines, local development standards, local government concerns regarding absentee ownership, and market preferences. Many of these housing alternatives, more available in older cities, can give lower and moderate-income families the ability to become first-time homebuyers.

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Communities of “court homes,” called Los Abanicos, located in Rancho Santa Margarita, California, are a new single-family housing concept of building innovator RGC. Los Abanicos are single-family homes that offer the privacy of mini-cul-de-sac living.

The homes are typically arranged in courts of seven or eight units apiece, separated by minimal side yards and front setbacks. The builders took advantage of every inch of space in figuring how to fit the units together.

Los Abanicos is specifically tailored for the first-time homebuyer. The innovative all-included approach includes every aspect of the home in the purchase price.

Eight styles of floor plans are available, with residences ranging from 870 to 1,474 square feet. In the first 14 weeks that Los Abanicos was on the market, it registered 81 sales, nearly 6 sales a week.

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Whatever the causes, the trend toward building larger homes has pushed many first-time buyers out of the new home market. Removing regulatory barriers and taking affirmative steps to increase the production of smaller single-family homes and alternative “income generating” homes will expand homeownership opportunities for first-time buyers.

#### Action 9: Education and Outreach for Higher Density Home Construction

The partnership should undertake a comprehensive education and outreach initiative to promote zoning for higher density single-family homes. Partners should encourage local zoning reform by reviewing land supply, local development regulations, and zoning requirements in major housing market areas and providing technical assistance to local governments. The partnership should also implement a program of education for land developers, home builders, and mortgage lenders on the market potential and desirability of smaller starter homes.

#### Action 10: Fast-Track Administrative Review Procedures for Starter Homes

The partnership should develop and disseminate to State and local jurisdictions a model system to fast-track all administrative review procedures for homes that meet established starter home criteria.

For example, the city of Louisville, Kentucky, has significantly streamlined its development process by consolidating all local permitting, inspection, licensing, and code enforcement functions and creating a Red Tape Reduction Office. Developers of affordable housing and other projects now experience less paperwork, fewer delays, and virtually no regulatory confusion.

#### Action 11: Removing Barriers to Mortgage Financing for Starter Homes

The partnership should review lending and appraisal guidelines to identify barriers to mortgage financing for small starter homes and similar arrangements that facilitate first-time homeownership, such as two-family homes and homes with accessory apartments. Steps should be taken to reduce or eliminate such barriers.

#### Action 12: Stock Plans and Guidance Materials for Starter Homes

The partnership should build on current design competitions that promote homeownership by



developing and disseminating stock plans and guidance materials for high-quality starter homes. Plans should reflect broad customer preferences at both the national and regional levels.

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In response to a challenge by the Citizen's League of Grand Rapids, Michigan, to the Greater Grand Rapids Home Builders Association, local builders designed a prototype house using the latest building materials and incorporating simple construction and design, energy efficiency, a maintenance-free exterior, expandability, and contemporary styling.

This building method allows modest-income families to achieve homeownership and allows for growth as incomes increase and/or families expand. The benefits of this approach include not burdening the household with a large mortgage, thereby enabling them to save funds to add on to the house and possibly use their own skills for finishing work.

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## **Eliminate Barriers to Cost-Effective Home Rehabilitation**

**STRATEGY:** *Because the older existing housing stock can serve as a major resource for affordable homeownership with renovation or rehabilitation, the partnership should undertake a strong effort to reduce the cost of rehabilitation and to reduce the regulatory barriers to low-cost, affordable rehabilitation.*

**Issues and Impediments:** Many households that have previously been excluded from homeownership, including minority and lower income families, reside in central cities where the housing stock is older and opportunities for new construction are limited. Thus, any large effort to expand homeownership among these families must include rehabilitation of the housing stock in these areas.

Home rehabilitation reflects a continuum from minor fixup, through remodeling and renovation, all the way to total "gut" rehabilitation, with each action

presenting technical and financial issues requiring regulatory flexibility.

Although some communities have already developed flexible regulatory and administrative processes to accommodate home rehabilitation, many others have not. Given the wide range of conditions and choices, home rehabilitation entails difficult regulatory challenges.

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The State of New Jersey is currently developing model rehabilitation standards to be adopted throughout the State. The project will be completed by the fall of 1995. The goal of this effort is to create a more predictable and uniformly enforceable regulatory system related to rehabilitation, thus increasing productivity and reducing costs.

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In the past building codes generally required that when a given percentage of a structure was replaced, the entire building had to be brought up to new construction code requirements. Over the years improvements have been made in the regulatory system to accommodate home rehabilitation. In the late 1980s HUD developed a series of rehabilitation guidelines to permit localities, in a flexible manner, to make choices and tradeoffs in building codes, standards, and other requirements and thereby make cost-effective rehabilitation feasible. The model building code organizations have also made significant strides in accommodating home rehabilitation in their code structures.

New or emerging requirements in areas such as lead-based paint abatement, asbestos removal, energy efficiency, fire safety, and protection from natural hazards represent further constraints to cost-effective home rehabilitation. Other new requirements involve off-street parking accommodations and zoning restrictions intended for new construction, or design rules more appropriately applicable to new construction. Although many of these requirements protect public health and safety, they can add to costs, deter rehabilitation, and inadvertently lead to abandonment or disinvestment rather than improvement of existing structures.



Moreover, developing and applying new and innovative products and technologies is also a problem in the home rehabilitation industry. Rehabilitation contractors frequently adopt and modify technologies that have been developed for new construction and are not necessarily cost-effective for home rehabilitation. Furthermore, dissemination of information on innovative rehabilitation systems and technologies is largely ineffective due to the fragmented nature of the industry.

### Action 13: Flexible Regulations to Accommodate Home Rehabilitation

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The city of San Diego was able to facilitate the cost-effective construction of single-room occupancy (SRO) hotels and thus foster the production of affordable housing by actively working to waive a number of building code requirements.

For example, prior to San Diego's SRO revolution, builders were required to provide a 1:1 ratio of parking spaces to living units. Local officials realized that this requirement was irrelevant to SRO hotels, where residents are unlikely to own cars. Since parking spaces cost as much as \$20,000 each, a waiver of the 1:1 requirement and subsequent construction of fewer spaces resulted in considerable savings.

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The partnership should work with model code groups to initiate a national effort to ensure that State and local building codes and related regulatory systems accommodate affordable home rehabilitation and renovation. This should include a comprehensive program to disseminate information on the latest regulatory tools as well as technical assistance and training on interpreting, enforcing, and administering the regulations.

### Action 14: Home Rehabilitation Research

The partnership should work with the home remodeling and rehabilitation industry to undertake a research program for developing cost-effective rehabilitation technologies and techniques specifi-

cally focused on individual component systems of the home such as foundations, mechanical systems, and electrical systems and on the problems of lead-based paint and energy efficiency.

### Action 15: Technical Evaluation and Guidance Materials for Energy Conservation

The partnership should establish a technical evaluation and dissemination program and develop guidance materials to accelerate the adoption of cost-effective energy conservation technologies in home rehabilitation and remodeling.

### Stimulate Technological Innovation in Homebuilding

**STRATEGY:** *The partnership should lead a public-private effort to accelerate adoption of technological innovation in the homebuilding industry to increase the use of innovative new technologies and produce less costly and more energy- and resource-efficient new homes.*

**Issues and Impediments:** Technological innovation has been a major force in reducing the costs of housing construction. If today's homes were built with the technologies of 50 years ago, they would cost far more than they do. Continuing innovation in homebuilding technologies offers further opportunities to cut production costs. Innovative methods and materials also have great potential for improving energy efficiency and promoting the efficient use of natural resources. The key to success on each front is to accelerate the rate of adoption of technological innovations.

Although the methods and materials used to build homes have evolved significantly over the years, technological innovation in homebuilding remains painfully slow. This is reflected in the lengthy period, sometimes as much as 40 or 50 years, between the time when new homebuilding technologies become available and the time they become standard practice.





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Engineering analysis and testing have resulted in widespread acceptance of many changes in traditional wall-framing techniques. Many of the OVE (optimum value engineered) techniques were developed and tested by the National Association of Home Builders National Research Center.

In Valdosta, Georgia, Gary Minchew has long been a proponent of the OVE framing system. His detailed cost recording system provided a unique breakdown of where costs were saved with OVE. Total cost savings amounted to more than \$1,200 per unit when compared with conventional construction.

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Many factors complicate and inhibit attempts to accelerate the use of new technology in homebuilding:

- ★ The chain of production for housing includes many components, and the communication between different segments is frequently poor or nonexistent.
- ★ The construction process is horizontally fragmented among multiple trade subcontractors whose cooperation is essential for successful change, but their cooperation may not be forthcoming when dealing with new technologies and methods.
- ★ The costs of changing to new technologies can be high, and obtaining sound technical information to permit intelligent decisions about the use of new technologies can be very expensive.
- ★ New technologies often enter the market at higher prices than those of their competitors, even though they can offer substantial cost savings compared to the technologies they replace.
- ★ Manufacturers and homebuilders can impede the processes of new product evaluations for code approval.

- ★ Despite their long-term savings potential, innovative technologies often increase the immediate cost of construction, particularly for low- and moderate-priced homes.
- ★ Homebuilders are reluctant to modify traditional methods and materials due to concerns about market acceptance, the risks of product failure, and fear of exposure to potential future legal liability from purchasers or subsequent owners.

The action items described below address each of the principal barriers to more rapid adoption and greater use of technologically innovative products and processes in homebuilding.

#### Action 16: Affordable Home Technology Program

The partnership should initiate a National Affordable Home Technology Program to show how innovative construction methods, materials, products, and development practices can help build affordable and energy-efficient homes and subdivisions. The partners should have under construction at least 10 subdivisions demonstrating innovative technologies and land development techniques.

#### Action 17: Information, Training, and Technical Assistance for Innovative Technologies

Members of the partnership should undertake an effort to raise awareness about how technological innovation can promote affordable homeownership. For example, members might sponsor a national program of training and technical assistance to the homebuilding industry designed to reduce builder costs of adopting innovative technologies. In addition, the partners should share technical and marketing experiences through seminars, workshops, exhibits, demonstrations, and newsletters to communicate the message that by increasing housing industry productivity, technological innovation can increase the affordability, quality, and energy efficiency of new homes.



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## Action 18: Affordable Home Design and Construction Awards

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Habitat for Humanity is planning to build a 200-unit affordable-housing development in Homestead, Florida, with the active participation of the steel industry. All of the homes will be built out of steel framing donated by the steel industry.

Research on steel framing has been a cooperative effort of the National Association of Home Builders, the American Iron and Steel Institute, and HUD. Under this project, it will be possible for HUD to station researchers at the Homestead site during the framing and finishing stages.

Observations will be made on practical installation problems encountered during the development process. The Homestead site will provide an opportunity to create a living laboratory to create improved construction efficiency, resulting in lower installation costs.

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The partnership should sponsor annual partnership awards to recognize exemplary achievements in the design and construction of both subsidized and market-rate affordable and/or lower cost homes. This program will provide the foundation for an outreach program in which recipients of awards will participate in a series of benchmark seminars and workshops to educate builders about exemplary techniques of design and construction.

## Action 19: Stock Plans for Building Affordable Homes

The partnership should explore the feasibility of developing and disseminating a series of stock affordable housing plans for use by the building industry. The designs would emphasize quality high-density homes that are easy to construct and would identify opportunities for incorporating new technologies.

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Frost-protected shallow foundations are foundations for slab-on-grade construction, a practical alternative in regions where more costly deep-foundation construction methods are used.

Stemwall foundations bear directly on the soil without the need for a separate spread footing. This type of foundation can reduce housing construction costs by eliminating the need for separate spread footings, thereby reducing labor and material costs.

Materials that can serve as an alternative to lumber or plywood, such as engineered wood products, light-gauge structural steel, and concrete systems represent a new class of structural products that have evolved over the last two decades.

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## Action 20: Enhanced Homebuilding Product Evaluation

To accelerate the introduction of new products and promote their broad acceptance, the partnership should undertake an effort to improve the product evaluation process. Efforts should include:

- (1) accelerating the development of a nationally recognized, comprehensive evaluation process with evaluation criteria for different classes of products based on objective technical research, and
- (2) working with product evaluation service representatives, new home warranty providers, property insurers, and homebuilders to link product approval to coverage under new home warranties or other insurance arrangements.

## Action 21: HUD Technical Evaluations of Homebuilding Products

HUD should review the scope, procedures, and use of the current HUD Technical Suitability of Products program and its Ex-Tech 233 program. HUD also should develop a plan to expand and promote broader recognition of the program to alleviate concerns about product liability.



By promoting the use of new or improved building products that are technically suitable for HUD housing programs, the Technical Suitability of Products program serves as a quasi-official product evaluation system. However, inadequate staffing and constrained financial resources limit the number of new products approved each year.

HUD's Ex-Tech 233 program provides FHA mortgage insurance for environmental technologies and protection for lenders if experimental technologies fail. However, this program is rarely used. HUD should work in cooperation with the homebuilding industry to make the Ex-Tech 233 program more applicable to current needs. Revisions should include streamlining paperwork requirements and integrating the program with the current FHA minimum property standards and mortgage insurance procedures. HUD also should develop and implement a method for extending coverage of the program beyond FHA-financed homes.

#### Action 22: Research on Technological Innovation for Affordable Homes

The partnership should develop a public-private housing research agenda for guiding both private and public research efforts to develop new technologies for affordable, energy-efficient, resource-efficient housing. Partners also should develop a private-public funding mechanism to support continuing dialogue through periodic roundtables, conferences, and workshops involving government agencies, manufacturers, engineers, architects, academics, homebuilders, and others to identify research needs and priorities.

#### **Eliminate Regulatory and Financing Barriers to the Availability of Manufactured Housing**

***STRATEGY: The partnership should initiate a series of major regulatory, administrative, legislative, research, and educational initiatives to eliminate barriers to the availability of***

***quality, affordable manufactured housing and to its acceptance among State and local regulatory agencies and financing entities.***

**Issues and Impediments:** Manufactured housing is a major source of affordable housing, especially for many lower and moderate-income families living in rural and suburban areas. In 1994 over 300,000 manufactured homes—one out of every five single-family homes built—were added to the national housing stock.

Most purchasers of manufactured homes who would not otherwise be able to purchase a home express satisfaction with their home. Yet, prospective homebuyers face Federal, State, and local regulatory, as well as financing, barriers. Some of these barriers stem, in part, from the public's perception of the quality, safety, and durability of manufactured housing.

There is general support among the homebuilding industry, consumer groups, and government regulators that the following initiatives will increase the availability of manufactured housing:

- ★ Continuation of a Federal preemptive building code and a uniform enforcement system to facilitate interstate commerce and ensure affordability.
- ★ Fair and timely administration of construction standards.
- ★ Strong Federal-State regulatory cooperation.
- ★ Establishment and enforcement of State installation standards and other appropriate regulatory programs.
- ★ Effective, market-driven consumer warranties.
- ★ Access to the full range of housing finance resources.

Manufactured housing has a unique status—it is the only housing built under a Federal preemptive code. As such it is the only form of housing in



which the Federal Government, working in cooperation with private industry and State and local governments, plays the leading role in the construction process. The performance nature of the HUD code, with emphasis on value engineering and uniform enforcement, has allowed a range of technological innovations in the use of materials and procedures.

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North Carolina has one of the most comprehensive and successful State programs for manufactured housing in the nation. Key elements of the program include:

**Consumer Complaint Tracking**—Staff process and handle complaints.

**Training in Home Setup and Anchoring**—The State trains dealers and sets up companies on proper techniques for installing and handling.

**Setup Standards**—The State will publish a manual on generic setup requirements for all manufactured homes.

**Tie-Down Requirements**—North Carolina has required tie down of all manufactured and mobile homes since 1970.

**Third-Party System**—A third-party inspection agency has been used since 1970 to enforce State restrictions and relicensing requirements.

**Warranty Program**—North Carolina requires a 12-month warranty on all new homes for “substantial” defects that affect the performance of the home.

**Licensing**—Manufacturers, setup companies, dealers, and sales persons all must be licensed by State agencies.

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For a number of reasons—legal considerations of property title and taxation, sales and distribution systems, zoning and land-use patterns, and family income—most manufactured homes are owned as personal property rather than as real estate. Such ownership requires that these homes be financed with consumer loans rather than with conventional home mortgages. Homebuyers who wish to locate

their manufactured homes on land they own or are purchasing deserve access to mortgage financing. There now are barriers to placing a mortgage on a property that includes a manufactured home. Manufactured home financing has evolved along a separate path from other single-family home financing. As a result, communication between traditional mortgage lenders and the manufactured housing industry has been somewhat limited. Because the demand for locating and financing manufactured homes as real estate is growing, the partnership should work to break down the barriers to mortgage financing so that purchasers of manufactured homes are not unfairly denied access.

Similarly, many urban and suburban communities limit the availability of manufactured homes through regulatory and zoning practices. As a result, manufactured housing has evolved as a primarily rural form. Under many local zoning- and ordinance-related development controls, such housing is either completely excluded because it is not considered a single-family dwelling, or it is relegated solely to manufactured home parks.

### Action 23: Regulatory Review of Manufactured Homes

HUD should work in cooperation with State and local governments, private industry, and consumers to review and update its current system of regulating manufactured housing. This effort should include, but not be limited to:

- ★ Adopting a consensus-based process and streamlined procedures to promote timely updates and the development of standards to ensure that manufactured housing is both a safe and affordable form of housing.
- ★ Reviewing the current private inspection system to ensure effective inspections.
- ★ Promoting the availability of consumer protection that is equal to or broader than protection for other forms of single-family residences.



### Action 24: State Participation in Manufactured Homes

California has led the way in the use of manufactured homes in traditional subdivisions. As a result of State legislation permitting HUD-code homes to be developed in single-family neighborhoods, there has been greater public acceptance of manufactured housing.

For example, using local redevelopment funds, the Poway Redevelopment Agency in Poway, California, developed the Haley Ranch Estates. The Haley Ranch Estates consist of 65 rental units starting at \$250 a month, which is well within reach of families earning low and moderate incomes.

The partnership should improve and strengthen the role of State governments in manufactured housing. For example, partners should encourage more States to assume regulatory responsibilities, develop appropriate installation standards and inspection procedures, and evaluate the adequacy of consumer protection programs.

### Action 25: Cooperative Research for Manufactured Homes

The partnership should initiate cooperative research and demonstration efforts to accelerate the development of technologies for manufactured housing. Specifically, HUD and the manufactured home industry should:

- ★ Evaluate new technologies for potential use in the next generation of manufactured homes to achieve efficiency, affordability, quality, and durability.
- ★ Initiate cooperative research efforts to develop cost-effective and safe installation technologies to obtain private financing.
- ★ Initiate education and dissemination efforts to accelerate research into innovative, efficient, and effective construction practices.

### Action 26: Manufactured Home Industry Initiatives

The partnership should determine the feasibility of establishing programs to improve nationwide installation standards and enforcement and generate an industrywide consensus on warranties that offer consumers comprehensive coverage on both the manufactured home and its installation. Working together, home manufacturers, retailers, and other industry segments should:

- ★ Provide technical assistance to State governments and encourage them to establish installation standards and corresponding enforcement programs.
- ★ Identify and promote voluntary industry guidelines for market-driven warranties offering consumers comprehensive coverage of manufactured homes that includes installation.

### Action 27: Zoning and Land Development Reform for Manufactured Homes

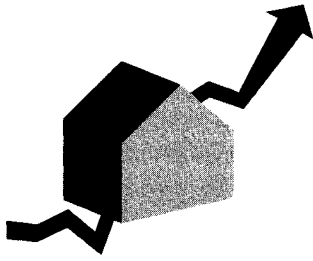
The partnership should identify and promote zoning and land development policies that are more conducive to manufactured housing. As part of this initiative, partners should develop model legislation for States and localities to adopt that prohibits exclusion of manufactured housing solely on the basis of HUD certification. The partners also should produce design and land development criteria and guidance materials for use by housing developers and local governments, to facilitate inclusion of manufactured housing in their jurisdictions. To supplement these efforts, the partnership should offer a cooperative program of education and technical assistance to encourage nationwide acceptance of the model legislation within 6 years.

### Action 28: Access to Financing for Manufactured Homes

The partnership should undertake a comprehensive program to expand the availability of financing for purchasers of manufactured homes who wish to own their homes. This program should include:



- ★ An improved and simplified FHA financing program to replace the existing FHA Title I home modernization program.
- ★ Simplification of the FHA 203(b) program for manufactured housing.
- ★ Provision for adequate loans to cover installation of manufactured homes.
- ★ Review of the technical criteria for acceptable manufactured home installation standards.
- ★ Review of the appraisal guidelines of manufactured homes.
- ★ Education and marketing on the availability of mortgage financing for manufactured homes.



## CHAPTER FOUR

# FINANCING

### OVERVIEW

The cost, terms, and availability of mortgage financing are of critical importance to the level of homeownership. Indeed, the substantial rise in homeownership rates after World War II can be traced not only to increasing prosperity, but also to the widespread availability of long-term, low-downpayment, fully amortizing first mortgage loans.

America's current mortgage finance system usually provides a steady and reliable source of market-rate mortgage money, but the transaction costs linked to home purchase and financing remain stubbornly high. In addition, the current housing finance system does not adequately serve all financing needs, especially those characteristic of older, urban neighborhoods, certain rural communities, and low-income borrowers.

There is widespread expectation that the mortgage finance system, and indeed the housing system generally, is on the verge of a period of dramatic change stemming from industry consolidation, redesigned processes, and the application of automation. It is vital that this change in the mortgage finance system be guided by a commitment to increase opportunities for homeownership for more families, particularly for low- and moderate-income and minority families, and to increase the national homeownership rate to an all-time high.

For many potential homebuyers, the lack of cash available to accumulate the required downpayment and closing costs is the major impediment to purchasing a home. Other households do not have sufficient available income to make the monthly payments on mortgages financed at market interest rates for standard loan terms. Financing strategies, fueled by the creativity and resources of the

private and public sectors, should address both of these financial barriers to homeownership.

The current housing finance system includes a large number of participants: secondary market entities, government and conventional lenders and insurers, for-profit and not-for-profit enterprises, firms with national scope and those with local expertise. Each of these has a contribution to make, and progress requires both appropriate competition and cooperation among these participants. What these participants share is a commitment to extending the benefits of homeownership.

### KEY PRINCIPLES

The strategies and actions in this chapter reflect the following principles:

- ★ No single financing strategy will suffice to increase homeownership rates; the variety in housing markets, homebuyer needs, and property characteristics will necessitate multiple answers to financing issues.
- ★ Competition among housing and mortgage industry participants is a driving force in reducing financing costs, but competition increasingly must be supplemented with cooperation and collaboration to share ideas and leverage resources.
- ★ Changes in lending processes designed to reduce financing costs must not compromise consumer or investor protections.
- ★ The housing finance system must effectively combine national and international capital markets with local housing expertise.
- ★ Progress in reducing financing costs and increasing the availability of financing must



benefit underserved populations, reach diverse property types, and help strengthen communities.

- ★ New information technologies are creating opportunities to reduce costs by reengineering both the mortgage process and the real estate sales process. Whenever possible, savings should be passed on to consumers through an open, competitive marketplace.

## STRATEGIES

The financing recommendations contained in this chapter are reflected in 23 actions that support three primary strategies. These strategies are based on the following subjects:

1. Cut transaction costs.
2. Reduce downpayment and mortgage costs.
3. Increase availability of financing.

### Cut Transaction Costs

**STRATEGY:** *The partnership should support analysis, publication of information, and education regarding the transaction costs associated with homeownership and should support efforts to reduce these costs by retooling the mortgage loan borrowing process.*

**Issues and Impediments:** Transaction costs cover the professional and technical services necessary to complete the purchase of a home. These costs can vary widely among lenders, governmental jurisdictions, and service providers—even within geographic locations. Professional and technical service costs may include fees for the home purchase, attorneys, property appraisals, title review and insurance, loan processing, loan document preparation, and credit reports. The cost of these services is largely paid, directly or indirectly, by the homebuyer.

Transaction costs can add significantly to the upfront cash needed to purchase a home. Moreover, the home purchase process does not

contain adequate consumer education and counseling to encourage comparison shopping for professional and technical services, identify less expensive sources for these services, and reduce transaction costs for the homebuyer. Also, purchase of home transaction closing services typically is undertaken by each individual household, precluding cost savings that might accrue from volume purchase of such services. For example, negotiating discounts for bulk purchase of title insurance and property appraisals is not a general practice.

Finally, homebuyers often are unaware, particularly at the early stages of the homebuying process, of the total cash required for the transaction. They tend to focus primarily on downpayment needs and can become disillusioned when they realize that the accompanying closing costs can add thousands of dollars to their upfront cash needs.

### Action 29: Alternative Approaches to Homebuying Transactions

The partnership should explore alternative methods of processing title insurance, appraisals and legal services, to reduce transaction costs for the homebuyer without increasing risk to the mortgagee or investor. For example, lenders and secondary market investors are increasingly looking at ways to lower appraisal costs by applying sophisticated decision models to their property databases. To explore such alternatives properly, the partnership should also directly involve representatives of the appraisal and title insurance industries.

### Action 30: Technological Improvements in Mortgage Financing

The partnership should initiate industry efforts to develop and use technological and legal infrastructure to streamline and automate origination processes. These efforts include electronic data interchange, a whole loan-book entry system, electronic repositories for property transaction information, and other efforts to reduce the costly, paper intensive, and often duplicative processes currently associated with mortgage loan origination.





Technological advances in recent years designed to automate and streamline loan underwriting can dramatically reengineer the mortgage loan borrowing process. Yet, many lenders are not taking sufficient advantage of computerized loan origination systems to lower costs.

For example, use of automated underwriting services, such as Freddie Mac's new Loan Prospector and Fannie Mae's new Desktop Underwriter, can result in significant loan processing improvements. Such improvements include reductions of up to 20 to 30 days in underwriting and processing time, faster loan settlements, less paperwork, greater lender assurances of loan acceptability by the secondary market purchaser, and a less intrusive loan application process. Automation improvements are likely to reduce processing costs to lenders by more than 20 percent.

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Freddie Mac's Loan Prospector is being tested by selected lenders nationwide. Investors Lending, Inc., in Fresno, California, has used this new underwriting system to reduce paperwork and speed loan processing. Investors Lending is able to fax applications to Freddie Mac and fund loans in as little as 8 days.

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Secondary market investors are also automating the process for purchasing mortgages from originating lenders. Freddie Mac, for example, offers an electronic mortgage information network that can connect the lender with information regarding current loan pricing and commitments, as well as such third-party services as homeowners insurance and credit bureaus.

#### Action 31: Lender Processing Time Reductions

Members of the partnership, including organizations representing home mortgage lenders, appraisers, secondary market investors, and government agencies involved in lending, should design procedural and technological improvements to measurably reduce processing times.

Historically the mortgage loan process has taken 30 to 60 days from application receipt to loan approval. The system is dependent upon timely receipt of income, employment, credit, and down-payment verifications; property value determinations; and other loan requirements. For the lender loan processing can be time consuming and staff intensive. For the consumer long loan processing intervals can cause uncertainty and risk associated with fluctuations in interest rates. Shortening the processing time from application to closing will reduce hedging costs for secondary market participants and funding uncertainty for portfolio lenders. Long processing timeframes inevitably add to the costs of obtaining a mortgage for the homebuyer.

For its part FHA should continue to streamline its single-family home mortgage insurance program by emphasizing product competitiveness and incorporating operational changes that reduce processing times. Shorter loan-processing times can lower costs generally borne by home purchasers.

#### Action 32: Standardize Homebuying Settlement Procedures

The partnership should support standardization of settlement closing instructions. This standardization can eliminate much confusion, delay, and expense in communication between settlement agents and lenders, which should benefit homeowners.

Under the current system, every lender communicates unique requirements, forms, certifications, funds, handling mandates, and other documentation needs through closing instruction letters. Each of these letters addresses the same sets of topics, but in its own unique format and language. If such letters were standardized in format and language, settlement agents could more efficiently and effectively find and understand the information most pertinent to each aspect of the home purchase transaction.



### Action 33: Bulk Purchase of Homebuying Settlement Services

ReMax Beach Cities (RBC) in Redondo Beach, California, has negotiated volume discounts with several local employers in exchange for employee referrals. RBC works with its subsidiaries, Coastal Financial Mortgage, Beach Cities Escrow, and First American Title Company of Los Angeles to provide a 25-percent discount on real estate sales commissions, standard escrow fees, and standard title fees. RBC also discounts loan origination fees by 1/2 percent.

RBC's program works for all involved: employers provide a benefit to employees at no cost to the company, employees receive a total reduction in fees of approximately 1 percent of the home purchase price, and RBC increases its volume of business. In the 4 1/2 years that RBC has been working with TRW Space and Electronics Division, it has provided nearly \$4 million in discounts to TRW employees.

While remaining mindful of the Federal Government's Real Estate Settlement Procedures Act (RESPA) regulations, the partnership should investigate the feasibility of bulk purchase of settlement services such as title insurance, appraisals, and legal work to reduce acquisition costs for homebuyers.

Purchasing any good or service on a volume basis typically results in a lower per-unit cost. Bulk purchase of settlement services might be coordinated by employers, labor unions, nonprofit housing developers, neighborhood associations, or other groups with an interest in promoting homeownership for particular households and properties.

### Action 34: Local Government Development Fees and Homeownership Trust Funds

The partnership should encourage State and local governments to develop affordable housing trust funds using dedicated revenue sources. These trust funds would be specifically for affordable homeownership purposes. The partnership should also encourage State and local governments to

waive or reduce development fees on homes purchased in certain neighborhoods or by underserved populations.

In Greensboro, North Carolina, one penny of the city's ad valorem tax is allocated to the Greensboro Housing Partnership Trust Fund for the exclusive use of affordable housing initiatives. In 5 years, the one-penny tax has generated over \$4.5 million and has been used to leverage \$37 million. The trust fund has been invested in new or rehabilitated housing for residents earning 30–50 percent of the area's median income.

### Reduce Downpayment and Mortgage Costs

**STRATEGY:** *The partnership should support initiatives to reduce downpayment requirements, to encourage savings for downpayments by first-time homebuyers, and to reform the basic contract between borrowers and lenders to reduce interest costs.*

**Issues and Impediments:** Low- and moderate-income families often cannot become homeowners because they are unable to come up with the required downpayment and closing costs. In many instances, these prospective first-time homebuyers find that developing the proper savings patterns to accumulate sufficient cash for the downpayment is difficult.

In addition, the amount of money necessary for a downpayment continues to vary greatly from lender to lender based on many factors, including lender criteria, secondary market investor requirements, and mortgage insurer guidelines. Although the variety in loan products available to the borrower is commendable, it can prove confusing to a first-time homebuyer. Also, some lenders are not flexible about other forms of downpayment assistance such as public subsidies or unsecured loans that might supplement the homebuyer's savings. Nevertheless, great strides have been made by the lending community in recent years to reduce downpayment requirements, particularly for



low- and moderate-income homebuyers. This trend is encouraging and should be continued with support from the partnership.

The monthly costs associated with owning a home also remain an obstacle for many potential homebuyers. The most significant monthly housing cost for most new homeowners is the monthly mortgage cost. The mortgage loan factor that most dramatically affects long-term mortgage affordability is the interest rate charged to the borrower. When mortgage rates are high, many households are precluded, at least for a while, from the opportunity to own a home.

Low mortgage interest rates sustained over an extended period of time can have a compelling, beneficial impact on mortgage affordability and the rate of homeownership in America. Although interest costs are largely a function of external economic factors that cannot be controlled by members of the partnership, to a lesser extent mortgage interest rates also are affected by factors such as the likelihood of mortgage prepayment by the homeowner, loan assumability by future homebuyers, mortgage insurance, loan risk, and other elements.

#### Action 35: Home Mortgage Loan-to-Value Flexibility

Lending institutions, secondary market investors, mortgage insurers, and other members of the partnership should work collaboratively to reduce homebuyer downpayment requirements. Mortgage financing with high loan-to-value ratios should generally be associated with enhanced homebuyer counseling and, where available, supplemental sources of downpayment assistance.

The amount of borrower equity is an important factor in assessing mortgage loan quality. However, many low-income families do not have access to sufficient funds for a downpayment. While members of the partnership have already made significant strides in reducing this barrier to home purchase, more must be done. In 1989 only 7 percent of home mortgages were made with less

than 10 percent downpayment. By August 1994, low downpayment mortgage loans had increased to 29 percent.

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The New Jersey Housing and Mortgage Finance Agency administers its no-downpayment 100 Percent Mortgage Financing Program to encourage homeownership among lower income households. In 1993 52 percent of the households using the program were single-parent families, and 73 percent were minority households.

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- ★ Many local lending institutions in recent years have developed innovative low-downpayment programs for first-time homebuyers.
- ★ Private mortgage insurers generally provide coverage up to 95 percent of home value, and in some instances even higher loan-to-value ratios are permitted.
- ★ Fannie Mae and Freddie Mac have instituted affordable loan products for home purchase that require only 3 percent from the purchaser when an additional 2 percent is available from other funding sources, including gifts, unsecured loans, and government aid. In addition, Fannie Mae recently announced a 97-percent first mortgage requiring only a 3-percent downpayment.
- ★ The Federal Government offers assistance to help homebuyers obtain very low downpayment mortgages. FHA mortgage insurance facilitates the purchase of homes with downpayments of less than 3 percent, and VA provides guarantees for no-downpayment mortgage loans to qualified households.
- ★ State and local housing finance agencies offer taxable and tax-exempt mortgage financing products with competitive rates and flexible loan-to-value requirements.

As members of the partnership explore creative means of providing low-downpayment financing to potential homebuyers, a concerted effort should be



made to share success stories and to learn what set of factors generates high loan volume and solid payment histories.

#### Action 36: Subsidies to Reduce Downpayment and Mortgage Costs

The partnership should support continued Federal and State funding of targeted homeownership subsidies for households that would not otherwise be able to purchase homes.

Notwithstanding the growing number of high loan-to-value mortgage products available today, many households, particularly low- and moderate-income families, will need subsidies to supplement downpayment and closing funds or to reduce the monthly obligation on a home purchase mortgage. Subsidy funding can be provided by many sources, including State and local governments, foundations, private sector donations, religious organizations, employers, and others. Historically, the Federal Government, through HUD, has been the most prominent provider of subsidies for this purpose.

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The West Virginia Housing Development Fund uses HOME program funds to provide 20-year, fixed-rate loans with a 3 percent interest rate to help very low-income families build and purchase their homes. Of the families assisted, 95 percent have incomes below 50 percent of the area median. As a result of the additional housing units created under this program, a new tax base is being established and jobs are being created.

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Federal sources of subsidy dollars for homeownership should be made as flexible as possible. As HUD moves to a block grant performance-based approach to fund affordable housing needs at the State and local level, it is important that maximum discretion be provided to State and local agencies and that a process is established to ensure that the successes achieved through HUD's Community Development Block Grants (CDBG), the HOME program, and the HOPE 3 program are not lost in the HUD transition.

State governments, operating through community development and housing finance agencies, will continue to be very important funding sources for homeownership subsidies. State affordable housing trust funds, mortgage revenue bonds, and mortgage credit certificate programs should continue to help address homeownership needs, particularly as Federal housing and community development funding discretion increases. State agencies should be encouraged to ensure that sufficient funding is set aside from their overall budget resources for low-income homeownership downpayment and mortgage subsidies.

#### Action 37: IRAs and 401(k)s for Homeownership Downpayments

The partnership should support legislation that removes negative tax consequences for early withdrawal of money from tax-deferred individual retirement accounts when the money is used for downpayment assistance by first-time homebuyers. The legislation also should permit the so-called "back-end account" of non-tax-deductible contributions, which would allow taxpayers to withdraw funds for a first-time home purchase after 5 years without penalty or taxes on earnings. HUD analysis indicates that at least 600,000 households in the next 5 years would benefit from withdrawing funds from their retirement accounts for a first-time downpayment option.

Members of the partnership also should identify existing household assets that may be converted to downpayment assistance, subject to income tax and other considerations. For example, many households now participate in tax-advantaged savings vehicles (such as 401(k) plans), which historically have not been available for downpayment on a home.

#### Action 38: Savings Plans for Homeownership

The partnership should identify and promote effective methods of saving for homeownership. Such methods may include use of household homeownership accounts and savings clubs, whereby savings are dedicated specifically for



downpayments and closing costs. The family budgeting discipline from these programs can also improve the potential for stretching mortgage loan underwriting ratios. Members of the partnership also should support homeownership education and counseling efforts that assist households to save for home purchase.

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The Federal Home Loan Bank of New York has used its Affordable Housing Program (AHP) to assist lower income first-time homebuyers through the First Home Club program. Eligible families open a First Home Club savings account at a local financial institution and systematically deposit funds to cover downpayment costs and closing fees. Upon completion of a required homeownership counseling course, a family's savings are matched on a 3-to-1 basis, up to a maximum of \$5,000, with funds from the AHP.

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Saving for a downpayment represents a significant challenge for a large number of households. Many households pay so much for rental housing and other existing monthly obligations that accruing adequate funds for the downpayment and closing costs has not been feasible.

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Homeward Bound, Inc., of Phoenix, Arizona, operates a lease-purchase program for formerly homeless families. Unlike traditional lease-purchase programs, Homeward Bound does not collect rent and hold it in escrow for future home purchase. Rather, residents pay minimal rent (enough to cover taxes, insurance, and administrative costs) and work closely with a case manager to develop their own savings plan. Residents must resolve personal debt and acquire savings for a downpayment within 2 years. This method of savings is a greater challenge to residents—building long-term responsibility and teaching self-sufficiency. In its first 2 years, Homeward Bound has helped 28 families to purchase homes.

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Examples of homeownership accounts might include:

- ★ Lease-purchase programs where a portion of the household's rent payment accrues toward the downpayment.
- ★ Employer-assisted homebuyer savings plans, sometimes including incentive-based employer contributions or loan features using pre-tax savings.
- ★ Lender-initiated savings plans, whereby the lender provides enhanced savings rates or preferred customer mortgage terms to encourage homeownership.
- ★ Formal and informal "homebuyers clubs," which generate savings through the reinforcement of group participation.
- ★ Nontraditional savings such as the "sou-sou" approach, whereby individual households contribute a fixed amount of money periodically to a third party, who holds the funds and distributes the money to members of the group on a rotation basis. Depository institutions should consider how they can add certainty to these revolving funds without undermining the group savings incentive.

#### Action 39: Mortgage Options and Homebuyer Education

The partnership should consider methods of itemizing the cost of mortgage terms to help the homebuyer weigh mortgage options and their associated costs. Furthermore, any options in the terms of the mortgage contract ought to be clearly disclosed to consumers to encourage the best choice.

In today's mortgage market, the costs of mortgage money reflects a sophisticated, capital markets valuation, based on the terms of the contract between borrower and lender. The interest rate charged to the homebuyer will directly reflect the



terms such as loan assumability and the right of prepayment. Most prospective home purchasers do not realize that the inclusion or exclusion of such loan conditions can affect the interest rate on their mortgage.

#### Action 40: Home Mortgage Foreclosure Requirements

The partnership should analyze existing State foreclosure laws and support future efforts to implement streamlined foreclosure procedures that are more consistent from State to State.

The cost of mortgage money reflects, in part, the investor's estimate of credit costs. These credit costs are, in turn, affected by State laws concerning foreclosure. State laws vary considerably in the rights and obligations of the lender and the homeowner in the foreclosure process. Notwithstanding the benefits of establishing a more systematic foreclosure process, no such changes should be supported by the partnership if the rights and interests of the homeowner are unduly jeopardized.

#### Increase Availability of Financing

**STRATEGY:** *There is a vital need to increase the availability of financing for forms of homeownership that the current mortgage finance system does not address effectively. The partnership should seek to identify the expertise required for such financing, provide assistance to enable potential homebuyers to afford such financing, standardize loan features to permit streamlining, and broaden the secondary market for such loans.*

**Issues and Impediments:** Mortgage financing is readily available in the United States, due to a competitive market place, stable home values, and a sophisticated capital market infrastructure. Nevertheless, some forms of homeownership financing are not sufficiently available in all markets. There have historically been inadequate levels of mortgage financing for combining the purchase and rehabilitation of single-family

homes, owner-occupied small rental properties (two- to four-unit structures), manufactured housing, cooperative housing, rural housing, and Native American housing. Mortgage financing is not always adequately available in certain neighborhoods or areas experiencing an economic downturn.

Financing for the combined purchase and rehabilitation of single-family housing is not widely available on a national scale, due in large part to: (1) the perceived risk by conventional lenders associated with the timely and satisfactory completion of the rehabilitation, (2) the lack of experience in this form of financing among lenders, mortgage insurers, and secondary market investors, and (3) inadequate coordination at the local level among lending institutions, real estate professionals, government agencies, and nonprofit organizations. As a result, housing in substandard condition that might be available at affordable prices for low- and moderate-income households cannot be financed at all or must be financed in stages—first by a purchase mortgage and subsequently by a rehabilitation loan.

In some sections of the United States, two-, three-, or four-unit properties are a prevalent part of the housing stock. These properties are ideal for low- and moderate-income homebuyers that can use the income from the rental units to supplement other sources of income to meet monthly homeownership expenses. However, mortgage financing for such structures is sometimes difficult to obtain.

To achieve all-time-high levels of homeownership by the end of the century, a greater percentage of lower income households must find ways to become owners. Less expensive housing, including manufactured homes, cooperative and mutual housing, and community land trust housing are possible solutions, but mortgage financing must become more readily available for these alternatives to succeed.

Finally, obtaining sufficient funds to purchase a home for many low- and moderate-income American households will require government and



nonprofit financial support. Public subsidy programs can help fill the gap between mortgage lender availability and homebuyer affordability. Yet, despite many years of public-private sector experiments—including many notable success stories—there continues to be a lack of consistency in the way local governments and nonprofit housing organizations use subsidy dollars to leverage private mortgage money to support affordable homeownership. In the future, as State and local government discretion in the use of Federal housing funds increases, greater information sharing among States and localities as to what works will become increasingly essential.

#### Action 41: Home Purchase and Rehabilitation Financing With FHA 203(k)

The Columbus Housing Partnership (CHP) is a nonprofit organization in Columbus, Ohio, that uses the 203(k) Dreambuilder Mortgage to finance home rehabilitation. CHP uses 203(k) in two ways:

- ★ CHP purchases HUD-foreclosed homes and rehabilitates them using bank-provided 203(k) loans. Low-income homebuyers secure financing to buy out CHP's 203(k) loans.
- ★ Homebuyers locate homes that need rehabilitation. They secure 203(k) financing from a HUD-certified lender and hire CHP as their general contractor. CHP rehabilitates the homes with no loan risk and very low contracting fees.

The partnership, in collaboration with HUD, should seek to expand the number of conventional lending institutions and other FHA-approved lenders actively participating in the FHA 203(k) program. Partnership efforts also should include increasing risk-sharing opportunities and more fully developing the secondary market for this product.

The FHA 203(k) program provides government-backed insurance for purchase and rehabilitation financing. In the past, many lenders considered the 203(k) program administratively cumbersome and

expensive to implement. However, significant improvements have been made in the past 2 years. In fact, HUD expects to double its business in 203(k) loans in fiscal year 1995.

#### Action 42: Conventional Financing for Home Purchase and Rehabilitation

The Joint Ministries Project, a group of inner-city Minneapolis churches and community organizations, set out to make Minneapolis a "city of homeowners." The organization's housing development arm, Damascus Development Corporation, secured a revolving line of credit with TCF Bank to purchase and rehabilitate up to 50 HUD-owned vacant and boarded-up properties. For rehabilitation, Damascus contracts with a development company that uses subcontractors from the local area. Residents lease the rehabilitated homes from Damascus, with a portion of their rent escrowed and held for future purchase of the property. Fannie Mae purchases mortgages upon completion of rehabilitation and GE Capital provides needed mortgage insurance.

The partners should work to increase the availability of conventional financing for home purchase and rehabilitation. Efforts should include establishing partnerships between lenders and entities with rehabilitation experience.

Purchase and rehabilitation lending should not become the exclusive preserve of FHA or other public financing mechanisms. Local partnerships involving lending institutions, real estate professionals, and nonprofit organizations, with support from national secondary market investors and private mortgage insurance companies, can use their expertise to dramatically increase the volume of purchase-rehabilitation lending.

Local partnerships composed of lenders and local government or nonprofit housing providers should be established. Local mortgage lenders can underwrite loans, but typically do not have the staff or experience to oversee the rehabilitation process,



although local government housing agencies and many nonprofit housing providers specialize in managing home rehabilitation. In some instances, the collaborative effort of the lender and local agency might also include public subsidies to: (1) reduce borrowed amounts so that financing costs do not exceed postrehabilitation property values, and (2) establish short-term credit enhancements, such as guarantees, to cover a portion of the risk associated with home rehabilitation.

To establish a broad-based conventional market for home purchase and rehabilitation lending, members of the partnership also should identify and share existing purchase and rehabilitation models. These models should be replicated on a larger scale.

#### Action 43: Home Rehabilitation Financing

Members of the partnership, particularly lender organizations and secondary market investors, should work to expand financing opportunities for home rehabilitation needs. In addition, HUD, in collaboration with other partners, should seek to improve the use of the FHA Title I Home Improvement Program as a viable form of rehabilitation financing for lower income homeowners.

Currently many homeowners face home improvement needs that are difficult to finance from conventional financing sources, due to property value limitations or owner credit and total debt-to-income problems. Without the availability of rehabilitation financing, properties will continue to deteriorate, further deflating home values and homeowner motivation.

#### Action 44: Flexible Mortgage Underwriting Criteria

The partnership should support efforts to increase local lender awareness and use of the flexible underwriting criteria established by the secondary market, FHA, and VA.

In recent years many mortgagees have increased underwriting flexibility. This increased flexibility is due, at least in part, to local lender community

reinvestment strategies and liberalized affordable housing underwriting criteria established by secondary market investors such as Fannie Mae and Freddie Mac. Yet, many prospective homebuyers still cannot qualify for a conventional mortgage.

Some of these homebuyers cannot qualify without intensive counseling or subsidies. However, many households may qualify if local lenders are encouraged to use compensating factors in underwriting loans or more flexibly interpret secondary market purchase requirements. For example, Freddie Mac last year initiated Underwriting Barriers Outreach Groups, which brings lending industry and community groups together to review Freddie Mac guidelines. These meetings have led to clarification of many Freddie Mac loan purchasing requirements. Freddie Mac is publicizing these clarifications to inform participating lenders of existing underwriting flexibility and that the “cookie cutter” approach to lending may unintentionally exclude good borrowers from obtaining mortgage financing.

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In Connecticut, People's Bank and the Commonwealth Mortgage Assurance Corporation (CMAC), a private mortgage insurance company, have developed the Risk Share Program to allow conventional financing for low-income homebuyers. Under Risk Share, homebuyers may use medical, utility, and landlord payments as credit references. The program allows for nontraditional employment histories, employment histories with gaps, short-term employment, and frequent job changes. The loans are insured by CMAC based on a layering of risk. CMAC assumes the first layer of risk; People's Bank assumes the second. Risk Share has closed \$1.4 million in loans with no delinquencies to date.

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Similarly, Fannie Mae is increasingly looking at compensating factors to traditional underwriting criteria for establishing credit and income stability. The firm's actions include establishing a loan review board to review the affordable housing loans sold to the company that underwriters believe do not meet Fannie Mae guidelines and a “flexibility hotline” that lenders can call for answers to underwriting questions.





#### Action 45: Public-Private Leveraging for Affordable Home Financing

The partnership should support development of a comprehensive, nationwide analysis of local public-private homebuyer programs to ascertain which elements are indicators of long-term leveraging success. In addition, the partnership should sponsor interactive forums, training or other technical assistance efforts for local partners to promote replication of proven approaches.

Many would-be homebuyers, especially low- and moderate-income households, cannot rely solely on conventional mortgage financing to obtain a home. In these instances, government agencies and nonprofit organizations must use their flexible resources to the maximum extent possible to leverage private financing—in effect serving as a catalyst to make deals work that would otherwise prove infeasible.

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To assist low- and moderate-income homebuyers, Wisconsin's lending industry joined forces and created the Closing Cost Assistance Program (C-CAP). C-CAP merges a 3-percent buyer downpayment with a secondary loan to finance transaction costs. Funds are provided by the Federal Home Loan Bank of Chicago and the State of Wisconsin Division of Housing and backed by a purchase agreement with Fannie Mae. C-CAP reduces risk by pooling loans from lenders throughout the State. A revolving fund ensures that assistance is extended to future homebuyers.

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There are hundreds of examples of successful local government and nonprofit leveraging programs throughout the United States—in urban and rural settings, operating on a large scale, and neighborhood-based—involving one lender or through statewide consortia with many lenders. The flexibility provided in HUD's CDBG and HOME programs has made this leveraging possible in many instances.

There is, however, no national information exchange or compendium of program models which local lenders, nonprofit groups, or local

government agencies can use for guidance on how to establish successful public-private initiatives.

#### Action 46: Reinventing FHA Single-Family Home Mortgage Insurance

HUD and other members of the partnership should work together to reinvent the FHA single-family home mortgage insurance program. FHA single family insurance has been instrumental in helping millions of homebuyers to obtain mortgage financing. In fact in fiscal year 1994, FHA endorsed over 1.3 million single-family loans—43 percent more than in the previous year. Over two-thirds of these loans assisted first-time homebuyers. Yet to remain an essential, integral part of the mortgage financing system that functions efficiently in a rapidly changing capital market, FHA must become more entrepreneurial and more responsible to its customers.

In the short run, FHA has already made significant improvements in its mortgage underwriting criteria, including the following:

- ★ Recognizing additional income sources, including overtime, bonuses, and part-time income.
- ★ Considering long-term obligations to include only debt extending 10 or more months and eliminating child care as a recurring debt.
- ★ Allowing use of cash saved at home or in private savings clubs.
- ★ Increasing flexibility in qualifying ratios and compensating factors.

Over the long run, more must be done. The Clinton Administration proposes reinventing FHA as a wholly owned government corporation, which can more quickly and entrepreneurially enter into creative partnerships with the public and private sectors. These partnerships would utilize FHA's current "full faith and credit" for individual loans and pool loan insurance, reinsurance, risk-sharing, securitization, and other forms of credit enhance-



ment. The new FHA, working with diverse partners, will expand the reach of the private sector to families, communities, and markets historically underserved by the private mortgage market.

#### Action 47: Native American Home Financing Needs

To promote homeownership for Native Americans, Federal and State partners should expand policies and programs that empower tribes to design homeownership models that meet their cultural, spiritual, and functional needs. Insured mortgage financing should continue to be available on reservations, and funding should continue for the HUD Section 184 loan guarantee program and the VA Native American Direct Loan Program. Native American homeownership needs also should be considered in the establishment of HUD's Affordable Housing Fund. Furthermore, members of the partnership, including HUD, VA, the U.S. Department of Agriculture (USDA), the private lending community, and organizations representing Native American tribal interests, should engage in discussions with the Bureau of Indian Affairs to increase the timeliness of title searches and approval of loan documents.

Mortgage financing for Native American households, particularly on tribal lands, is not readily available. This is due to many factors, including the poor economic conditions on many reservations, the existence of trust land that cannot be used as collateral for financing, and the predominance of public housing.

In recent years, HUD and other Federal agencies have made significant strides in delegating funding decisions to tribal governments and Indian housing authorities. Newer Federal initiatives such as the Indian HOME program and Section 184 loan guarantees, increasing State focus on tribal housing needs, and greater secondary market investor involvement are beginning to make a difference in helping Native American families become homeowners.

#### Action 48: Small Rental Properties to Support Affordable Homeownership

Members of the partnership should provide opportunities for low-income homebuyers to purchase owner-occupied, small rental properties. The partners' efforts should include exploring the development of alternative lending approaches; seeking creative uses of public and nonprofit resources in conjunction with conventional first mortgages; and streamlining the appraisal process. As discussed more fully in Chapter 7, Homeownership Education and Counseling, homebuyers of small rental properties should also obtain training in the management of rental properties prior to home purchase.

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Schenectady Federal Savings and Loan Association of Schenectady, New York, is using a \$375,000 direct subsidy from the Federal Home Loan Bank of New York to assist in the acquisition and rehabilitation of 30 duplexes. The homes will have one owner-occupied unit and one rental unit. The homes will either be purchased from HUD's foreclosed inventory or donated by the city of Schenectady. Financing from additional Federal sources as well as from a local lending consortium is also being used.

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Owner-occupied small rental properties, which are typically two- to four-unit dwellings, are a critical component of the affordable housing stock in many communities. These properties are often sought by low- and moderate-income homebuyers who need the rental income to help meet their home mortgage payments. In many markets, however, mortgage financing for these properties is not readily available for a number of reasons, including the risk associated with homebuyer inexperience in managing rental property, the risk of unexpected rental vacancies, the cost of emergency repairs, and the problem of missed or late rental payments.



### Action 49: Continuation of the Mortgage Revenue Bond Program and Mortgage Credit Certificates

The partnership should promote the continuation of the Mortgage Revenue Bond (MRB) program. Mortgage Revenue Bonds receive a Federal tax exemption, enabling moderate-income homebuyers to obtain mortgages at below-market interest rates or with low downpayments. State and local government housing finance agencies operate the MRB program, which has helped more than 1.6 million American families buy their first homes. Most of these purchasers have incomes significantly below their State's or metropolitan area's median income.

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Under its First Home program, the Indiana Housing Finance Authority uses Federal Mortgage Revenue Bonds and HUD's HOME program to offer a no-downpayment mortgage for first-time homebuyers with incomes equal to or less than 80 percent of the area median. The MRB program is used to finance below-market interest rate first mortgages for 80 percent of the property's value. A second mortgage for the rest of the property's value is provided at no interest with funds from the HOME program. Georgia, Kansas, Louisiana, Michigan, North Carolina, and many other States operate similar programs.

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In addition, the partnership should promote continuation of Mortgage Credit Certificates, which make homeownership more affordable for lower income homebuyers by reducing their Federal tax liability. Maintaining adequately funded MRB and Mortgage Credit Certificate programs can directly and immediately increase homeownership among low- and moderate-income families that partners have targeted.

### Action 50: Energy Efficiency and Home Mortgage Underwriting

The partnership should encourage consideration of changes in secondary market and conventional lender qualification systems for borrowers and in the property appraisal process to incorporate

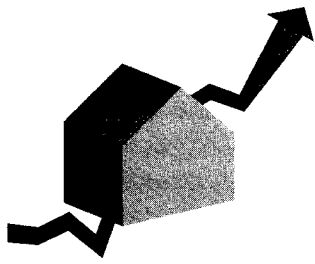
considerations of energy efficiency. Federal agencies should promote new qualification systems and study the energy efficiency impacts on current FHA, VA, and USDA home financing programs.

High energy costs can substantially increase a homeowner's monthly housing costs. This may come as a hardship, especially to homeowners who do not anticipate these costs. Increasing a home's energy efficiency not only improves homeownership affordability, but also increases the property value of the home and promotes a cleaner environment.

### Action 51: Cooperative Homeownership

The partnership should seek to increase the availability of financing for cooperative housing both through the development of new cooperative housing and the conversion of existing rental housing to cooperative resident ownership.

Renters often become more involved in the quality and long-term viability of their homes when they become members of a cooperative. Although cooperative housing does not provide all of the ownership advantages available through fee-simple ownership, households can exercise much greater control over their living conditions than they can as tenants. Yet, lack of adequate public and private financing for cooperatives is a major impediment. In addition, enhanced awareness of the benefits of cooperative housing, particularly for low- and moderate-income households who cannot afford the costs associated with fee-simple ownership, must also be addressed before cooperative home ownership can be significantly increased.



# BUILDING COMMUNITIES

## OVERVIEW

Achieving the goal of higher homeownership will demand place-based strategies that recognize the special problems and opportunities created by the diverse communities that make up the fabric of American life. Place-based strategies are sensitive to local conditions and build on State and local institutions. This chapter discusses ways to increase homeownership by building local institutional capacity and creating maximum homeownership opportunities in underserved geographic areas.

This chapter reflects both an analysis of those community-based factors that affect the ability of Americans to achieve the dream of homeownership, and identifies strategies to boost homeownership that capitalize on community resources and are sensitive to the special needs of different types of communities.

## KEY PRINCIPLES

The action recommendations in this chapter for building communities are based on the following principles:

- ★ To increase the number of homeowners living in affordable, safe, and decent homes, the partnership must overcome obstacles to producing and rehabilitating low-cost housing.
- ★ The national partnership efforts will succeed only if State and local governments, State housing financing agencies, community groups, trade associations, and private sector firms come together to provide assistance suited to the characteristics of local communities and populations.
- ★ Efforts to expand homeownership in distressed areas must include comprehensive community

and economic development to restore viable housing markets. Otherwise families may end up buying homes in communities that lack stable and sustainable long-term investment opportunities.

- ★ Efforts to increase homeownership should improve opportunities both in the communities where low- and moderate-income families now reside, as well as in areas where they may want to reside.
- ★ Assessment of mortgage loan default risk by home mortgage lenders and underwriters should be based on accurate factual assessments, not on flawed information or stereotyped images about the risk profiles of urban neighborhoods or rural communities.

## STRATEGIES

There are four key community building strategies that address local conditions, capitalize on community resources, and build on local institutions:

1. Build local capacity.
2. Expand homeownership opportunities in areas of employment.
3. Revitalize distressed and declining urban neighborhoods.
4. Increase opportunities for homeownership in rural areas.

### Build Local Capacity

**STRATEGY:** *The partnership should encourage the development of increased local capacity to undertake and foster affordable homeownership among all potential actors, including*



***private developers, lenders, insurers, realtors, and nonprofit and public agencies.***

**Issues and Impediments:** Although members of the partnership will be devising ways of expanding homeownership on a national level, increasing homeownership in targeted areas will depend largely on local service providers who have knowledge of and experience in the areas they serve. Thus, the partnership should propose actions that expand the capacity of local actors—allowing them to do what they do best. Key local partners in the homeownership development process include State and local governments, State and local housing finance agencies, community residents, local businesses, realtors, homebuilders, community-based nonprofit organizations, national nonprofit intermediaries, mortgage lenders, mortgage and property insurers, title companies, appraisers, fair housing groups, religious groups, and many other public agencies and private firms.

Building capacity among local nonprofit organizations is essential. Although the level of affordable housing development and management undertaken by nonprofit groups has grown dramatically over the past two decades, their skills and resources vary widely. In some communities nonprofit organizations may lack the expertise and funding to accomplish their goals, and in other communities such groups may not even exist. It is critical that nonprofit and other local organizations develop the expertise necessary to successfully continue their unique and growing role in affordable homeownership development and management.

Fostering cooperation among participants in the housing industry is also important. In most local housing markets, mortgage lenders, real estate professionals, and other private sector housing providers can do more work with local nonprofit and government entities to address the needs of low-income, moderate-income, and minority households. An important objective of the partnership should be to build homeownership capacity through the establishment of strong local partnerships. Much like the national partnership, each local partner should work with other partners to

establish goals, measure progress, and celebrate the successes of expanding homeownership.

#### Action 52: Homeownership Education and Technical Assistance for Communities

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Rural Housing Now, Inc., is a nonprofit organization that sponsors an annual conference concerning rural housing in Colorado. Approximately 250 individuals attend the conference to exchange ideas and develop actions to mitigate barriers to affordable rural housing. Rural Housing Now goes beyond dialog to help form partnerships with providers, government agencies, and communities. After the 1990 conference, several agency representatives formed a rural housing opportunity team that has held numerous workshops around the State to bring expertise to local communities.

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The partnership should design and undertake a comprehensive local education and technical assistance campaign to build the capacity of local housing providers to work collaboratively.

For example, partners can disseminate information on successful homeownership strategies that highlight the roles of each key actor. In addition, partners should consider sponsoring group facilitations or local “interactive forums” to promote better understanding of the relative roles of each player in the homeownership process. These forums should offer public and private sector organizations an opportunity to discuss their objectives and requirements so that each partner is sensitive to the needs of the other participants, enabling them to work collectively to strengthen the design and implementation of their homeownership strategies.

#### Action 53: Spotlight on Successful Local Partnerships

The partnership should publicize how localities have successfully established local partnerships. These periodic showcases should feature local representatives from a particular community—from the public and private sectors—who will conduct presentations on how they are building a



successful local partnership to improve homeownership opportunities and community revitalization.

By showcasing a particular community's progress, these sessions will update the national partnership on state-of-the-art local initiatives that can be used as models for other communities with similar homeownership issues and needs.

### **Expand Homeownership Opportunities in Areas of Employment**

**STRATEGY:** *The partnership should foster homeownership opportunities that allow families, especially low- and moderate-income households, to live within reasonable proximity to employment centers.*

**Issues and Impediments:** Many low- and moderate-income families are unable to find decent, affordable housing in areas of economic growth. The development of affordable homes is often limited in these areas due to many factors, including housing costs, zoning ordinances, and market forces. Consequently, low- and moderate-income persons are often unable to purchase homes in the communities where they are employed, and either must remain renters or must commute long distances to their jobs.

Many communities do not recognize the benefits of providing homes for low- and moderate-income families, even when such housing is needed for essential service employees such as teachers, police and fire personnel, and other local government workers. In some cases local zoning ordinances, development fees, and other planning requirements are intentionally designed to limit development and exclude low- and moderate-income families. In other instances market forces, cost issues, traditions, lack of information about potential alternatives, or the lack of time and expertise required to rewrite applicable laws and regulations inhibit development of homes for low- and moderate-income families employed in the local community.

### **Action 54: Employer-Assisted Homeownership**

The partnership should identify successful models of employer-assisted homeownership and promote wider understanding and acceptance of these models among public and private organizations.

High housing costs and other factors have led some employers to provide homebuying assistance to employees so that they can obtain affordable homeownership closer to their worksites. Employer-assisted housing programs, including savings plans, transaction cost assistance, downpayment assistance, free homebuyer counseling, construction programs, and public-private partnerships, hold enormous potential for expanding homeownership. Yet, many employers, public and private, do not recognize the benefits that can accrue from such programs or are not aware of their potential and practicality.

### **Action 55: Location-Efficient Home Mortgages**

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Lawrence, Massachusetts, developed an employer-assisted housing partnership with First Essex Savings Bank and two large local employers.

First Essex waives origination fees, reduces closing costs, and provides homeownership counseling for eligible low-income employees. Together, First Essex and the employers provide a downpayment grant of up to \$1,500. The city provides two additional sources of assistance if necessary: (1) a deferred loan up to \$1,000 for additional downpayment assistance, and (2) a deferred forgivable HOME rehabilitation loan up to \$40,000. In addition to providing residents with affordable homeownership opportunities close to work, Lawrence's employer-assisted housing program has helped to revitalize and stabilize neighborhoods.

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The partnership should examine whether underwriting standards properly reflect the household savings that can accrue from families owning homes close to their places of employment.



According to a recent study sponsored by the Natural Resources Defense Council, people who live near their place of employment experience substantial economic savings in transportation costs that can be applied to their housing needs. For example, the study suggests that households in the San Francisco Bay Area save \$350 to \$450 per month by living near the urban centers. If fully and reliably recognized in home mortgage underwriting as a valid income equivalent, this level of savings could amortize as much as an additional \$50,000 in homeownership borrowing as a function of location efficiency.

Demonstrations should be undertaken to determine whether the level of quantifiable savings warrants broader use within the home mortgage lending community.

### **Revitalize Distressed and Declining Urban Neighborhoods**

***STRATEGY: The partnership should coordinate efforts to expand the capital base by promoting loan financing and equity investment in infrastructure, economic and business development, and community building to ensure that targeted urban neighborhoods can provide the services critical to attracting and retaining homeowners.***

**Issues and Impediments:** Distressed urban areas present great challenges to raising homeownership rates. These areas often suffer from a variety of economic ills: long-term disinvestment, concentrated and persistent poverty, lack of job opportunities, crime, anemic housing markets, deteriorated housing stock, and environmental problems. They also suffer from a lack of capital because financial institutions have been unwilling or unable to make loans or provide banking services in these communities. In addition, local residents in distressed areas have difficulty saving and generally have few assets of significant value, and many businesses and equity investors with available capital avoid

these communities due to perceived risks and the low income of the population.

Decaying infrastructure—including streets, parks, and schools—negatively affects the quality of life in some urban communities and creates a disincentive to homeownership. Not surprisingly, homeownership rates are relatively low in these communities and tend to decrease as the neighborhood further deteriorates.

Moreover, declining communities may not be conducive to long-term homeownership. Neighborhoods in the early stages of housing market problems and other indicators of economic distress may not be chronically underserved by public or private institutions but they are at risk of becoming so. Stabilizing and improving existing levels of service in these communities is therefore critical to successful homeownership strategies. Opportunities for homeownership can quickly be lost if disinvestment is not immediately stopped.

As part of larger economic development strategies, concentrated investment in housing and community infrastructure in distressed and declining urban neighborhoods can make a significant contribution to stabilizing and elevating homeownership rates. However, the level of investment must be sufficient to reach a critical mass for increasing homeownership rates in targeted areas, reversing the economic disinvestment and altering the social psychology of decline. This community reinvestment often must rely on new construction and rehabilitation of a sizable fraction of a neighborhood's housing stock and a significant improvement in residents' attitudes and optimism.

#### **Action 56: Comprehensive Community Revitalization**

The partnership recognizes that targeted, comprehensive investment of public and private resources is essential for successful community revitalization. Partners should participate in activities that support comprehensive programs for neighborhood change.



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A partnership between the city of Rochester, First Federal Savings and Loan Association of Rochester, and the North East Block Club Alliance (a local nonprofit) is taking a comprehensive approach to neighborhood revitalization. First Place, a development of 50 units for large, low-income families, is being constructed on a 5.3-acre city block. A subsidiary of First Federal is constructing the property with the assistance of local, minority subcontractors. At-risk high school students assist with housing construction through a school program. The city government resubdivided irregular lots into 40- by 100-foot uniform lots. Rochester also contributed approximately \$400,000 in infrastructure improvements.

First Place has acted as a catalyst for local development—vacant lots in adjoining blocks are being developed, properties are being upgraded, and the city is building a 1,000-pupil school on the next block.

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Effective community revitalization involves consideration of a broad range of activities and services, including housing, economic development, education, infrastructure improvement, financing, and public safety. Any of these activities alone are insufficient to improve the quality of life in a neighborhood and sustain it over the long term.

For example, flexible funding for strategic infrastructure needs, including school improvements, park improvements, and upgraded roads and public transit systems can increase the neighborhood's ability to attract investment and tie community residents to job opportunities in the metropolitan area. Development of public safety action plans in inner-city neighborhoods, including incentives for police officers to become homeowners in these communities, can decrease crime and improve neighborhood confidence. Business expansion through economic development activities can improve retail and professional services and create employment opportunities for local residents. Many of these elements are components of the Empowerment Zones and Enterprise Communities program.

One of the most important aspects of comprehensive community revitalization is the need for more capital to invest in many of our Nation's older and less prosperous communities. Local residents and businesses located in these neighborhoods are generally underserved, both by lenders and by equity investors. Members of the partnership should work together to bring new sources of financing into underserved areas, by using such targeted tools as the Community Reinvestment Act (CRA) and the new Community Development Financial Institutions Fund (CDFI). Bridging the capital gap for low- and moderate-income communities is a vital prerequisite for expanding homeownership.

#### Action 57: Homeownership Zones

Partners should work with HUD to encourage the creation of local homeownership zones in communities with federally designated Empowerment Zones and Enterprise Communities or State-designated enterprise zones. The purpose of homeownership zones is to pull together a local partnership of public and private resources to increase homeownership on a large scale. The construction or rehabilitation of hundreds of homes can create opportunities for affordable homeownership and at the same time bring new investment, improved incomes, greater public safety, and an increased demand for schools, services, stores, and streets. The concentrated local impact of homeownership zones can help spawn genuine neighborhood revitalization, civic spirit, community involvement, and homeownership that goes beyond the scope of the initial number of homes sold.

#### Action 58: Federal and State Resources for Affordable Homeownership

The partnership should support continued availability of sufficient public resources to help finance affordable homeownership. These efforts may include more substantial investment in demolition, acquisition, rehabilitation, and new construction for a critical fraction of the housing stock in targeted communities; increased investment in moderate





rehabilitation of properties in targeted neighborhoods; and selected investment in streets and parks to enhance local homeownership.

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The Connecticut Housing Finance Authority (CHFA) offers mortgages at discounted interest rates, points, and fees to stimulate homeownership in targeted urban areas of the State. CHFA also uses more lenient qualifying guidelines for mortgages in these areas, which tend to underperform suburban communities economically. CHFA mortgages are available to residents of public housing and those receiving Section 8 assistance. Mortgages feature fixed rates that are generally 1 1/2 to 2 percent below market, carrying a 1-percent origination fee.

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Federal support for homeownership in the future is essential and should be provided in a manner that gives broad discretion to State and local government agencies and nonprofit organizations. State and local agencies should be permitted flexibility in the design and implementation of housing and community development activities to respond better to specific neighborhood needs. The newly proposed HUD Affordable Housing Fund and the existing CDBG and HOME programs fulfill this need. Similarly, continued Federal authorization of Mortgage Revenue Bonds and Mortgage Credit Certificates should be strongly supported by the partnership.

#### Action 59: Promoting Mixed-Income Neighborhoods

The partnership should encourage the development of urban neighborhoods providing a wide range of housing choices to families of all income levels.

A diverse income mix can help to break down urban social and economic barriers, creating a climate where positive social and market dynamics can take hold. As a result, the partnership should support strategies to encourage middle- and upper-income homeowners to move to distressed urban neighborhoods. Incentives should include favorable zoning regulations along with tax and financial

incentives for developers or homebuyers. Where feasible, HUD and other partners should also support efforts to help public housing tenants attain homeownership.

#### Action 60: Redeveloping Vacant Properties

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The Los Angeles Housing Department's (LAHDs) Small Sites Development program was initiated after the civil unrest in Los Angeles in 1992. This program creates homeownership opportunities for large, low-income families, eliminates blighted vacant lots in distressed residential areas, and encourages employment of local minority businesses. LAHD provides HUD HOME program funds to local minority developers to construct single-family homes on vacant lots. LAHD estimates that 40 homes per year will be developed and sold through the Small Sites Development program.

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The partnership should encourage efforts to expedite the turnaround of foreclosed properties held by government agencies and encourage the banking industry to adopt supportive recycling of foreclosed homes. Partners should support State and local efforts to revise tax foreclosure and redemption laws and to develop infill property investment and development policies that promote neighborhood revitalization.

Unoccupied and untended homes have a corrosive effect on urban neighborhoods, yet public and private policies often do not adequately address this problem. In addition, vacant lots, created through demolition of housing in established neighborhoods, often become eyesores, lessening the willingness of community residents to make investments in their homes.

#### Increase Opportunities for Homeownership in Rural Areas

**STRATEGY:** *The partnership should undertake to expand homeownership in nonmetropolitan areas through interventions that recognize the unique social, economic, and demographic aspects of rural and small-city America.*



**Issues and Impediments:** There are numerous factors that impede homeownership in non-metropolitan areas. For example, poor housing quality is one factor underlying the low rates of homeownership. Rural units tend to be older, and there is very little new construction in rural areas to replace units that are falling out of the housing stock. The relative prevalence of substandard units in rural areas affects the availability of mortgage financing for many properties and limits the number of decent homes in the housing stock available for purchase.

Housing costs have increased in rural areas, even as peoples' incomes have stagnated or decreased—making homeownership increasingly less affordable. Rates of cost-burden in rural areas now rival those in urban areas, debunking the myth that rural housing generally is more affordable. High housing costs also limit the options of first-time homebuyers and make it more difficult for renters to save for downpayments.

Limited rural access to mortgage credit also makes homeownership difficult. There are multiple causes for this phenomenon, including lack of financial institutions in many rural areas, poor service in existing branch banks, strict underwriting standards in local banks, and discrimination in mortgage lending. Financial institutions in rural communities have also had difficulty achieving economies of scale in mortgage lending, mortgage pooling, and mortgage sales to the secondary market. Lenders that operate in rural areas typically require low loan-to-value ratios because they fear potential declines in property values or that properties may be over-appraised. With a limited number of qualified appraisers, secondary market sales become difficult.

Many rural communities lack local housing development and homeownership assistance capacity and they also suffer from an absence of knowledge about Federal housing programs. In short, rural areas are at the end of the information line. This is compounded by the small size and low budgets of local governments in most rural areas. If local governments have any paid housing staff at all,

they are likely to be part-time, overworked, underfunded, and unable to effectively address housing needs.

Finally, inadequate infrastructure also impedes homeownership. New home construction is particularly difficult in rural and remote areas. Roads may not be suitable for heavy trucks and machinery. Public water and wastewater treatment facilities may not exist, and lines may not extend to the proposed site, thereby increasing costs. Many rural communities also experience difficulties in financing infrastructure development and improvements when they are unable to be rated for issuing municipal bonds.

#### Action 61: Mortgage Credit for Rural Areas

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Fannie Mae has increased access to mortgage credit in rural areas by developing its *Guide to Underwriting Rural Properties*. The new underwriting standards outlined in the *Guide* are more responsive to rural housing conditions because they ease water and wastewater, physical obsolescence, and general appraisal requirements.

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Given the lack of mortgage credit in rural areas, the partnership should initiate a series of activities to increase the availability of capital for housing finance. Specific actions may include:

- ★ Encouraging national banks to increase mortgage loan activity in nonmetropolitan areas.
- ★ Encouraging local private lenders to become FHA, VA, USDA, Fannie Mae, and Freddie Mac approved lenders.
- ★ Exploring options to enable more lenders to pool mortgage loans from rural areas.

#### Action 62: Rural Home Financing Demonstration Program

The partnership should use the three federally designated Empowerment Zones in rural areas—the Kentucky Highlands, the Mississippi Delta, and the South Texas Colonias—to experiment with new lending approaches.



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Because of extreme poverty and lack of local resources, developers of affordable rural housing must be creative in their efforts to finance projects serving low-income people. Eastern West Virginia Community Action Agency (EWVCAA) exemplifies this creativity by combining funds from a variety of sources. Using money from the West Virginia State Housing Finance Agency, the USDA Section 502 program, community development loan funds, and HOME funding for administrative costs, EWVCAA will produce 25 units of affordable housing this year.

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Improving access to mortgage credit in rural areas is a many-tiered problem. Some local banks often adhere to overly conservative underwriting criteria, and economies of scale to sell pooled loans in the secondary mortgage market are difficult to achieve. Home mortgage lenders operating in rural areas typically require low loan-to-value ratios because there are no adequate comparable sales, and they have difficulty determining market values of rural properties. Many small rural banks tend to be inflexible and conservative in reviewing home mortgage financing requests due to a lack of knowledge regarding new financial instruments such as flexible home loan underwriting requirements established by secondary market investors and private mortgage insurers. Obtaining clear title to land in some rural areas is also a continuing problem. Clear title sometimes cannot be established because of poor recordkeeping or because of inherited properties.

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The Nevada Community Reinvestment Corporation is a consortium of 19 financial institutions that participate on a pro rata basis in a \$40-million revolving loan pool. A portion of this fund is used to provide construction and permanent mortgage loans to build new homes for households earning up to 60 percent of the median income in Nevada's rural counties.

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Members of the partnership should work to improve the availability of financing in rural areas. Accordingly, partners representing rural interests,

lending institutions, secondary market investors, private mortgage insurers, the appraisal and title industries, housing providers and Federal, State, and local governments should use the three new rural Empowerment Zones as laboratories for rural home mortgage lending innovations. Lessons learned in these areas can subsequently be applied on a national scale.

#### Action 63: Expanding Rural Home Financing

The partnership should support the increased availability of mortgage financing from local, State, regional, and national lending institutions and government agencies.

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The U.S. Department of Agriculture's Rural Housing and Community Development Service (RHCD) Section 502 program provides low-income, rural homebuyers with a mortgage payment subsidy that reduces the interest rate to as low as 1 percent. If a Section 502-assisted household's payments exceed 20 percent of its household income, up to 25 percent of the payment calculated at a 1-percent interest rate may be deferred. The Section 502 subsidy must be repaid at the time of sale.

Section 502 has been very successful. Currently, approximately 30,000 families become homeowners through this program each year.

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To promote greater conventional mortgage financing in rural areas, secondary market investors, in concert with local lenders and housing finance providers, should develop underwriting guidelines that specifically address rural homes. As an example, Fannie Mae recently developed new underwriting guidelines for rural areas that are reflected in its *Guide to Underwriting Rural Properties*.

Federal and State governments also are essential providers of financing in rural areas. USDA should continue to play an important role in assisting low- and very low-income households in obtaining home mortgage financing via its no-downpayment Section 502 program. In addition, 40 percent of



funding from the proposed HUD Affordable Housing Fund would be distributed to States and can be used to structure specific homeownership programs that meet the unique characteristics of rural housing markets within each State.

#### Action 64: Homeownership Capacity Building in Rural Areas

The partnership should support capacity-building activities for housing developers, regional planning councils, councils of government, and rural nonprofit organizations, including more efficient use of technical assistance funding from Federal and State agencies.

The housing development activities of Brattleboro Area Community Land Trusts (BACLTL), located in Brattleboro, Vermont, have been made possible in large part by extensive capacity-building efforts. As a community housing development organization under HUD's HOME program, BACLTL receives comprehensive capacity-building technical assistance and pass-through funds from a HUD-funded nonprofit intermediary. Technical and financial assistance has been provided for board of directors development, computer enhancement, hiring of additional staff persons with technical expertise, and staff training. As a result of these capacity-building efforts, BACLTL has produced 40 units of affordable rural housing in the last 2 years.

Many rural areas do not have a sufficient supply of affordable housing providers and lack adequate development capacity for new home construction. Technical assistance can be sponsored by the Federal Government through HUD's proposed Affordable Housing Fund, its existing HOME program, USDA, and State housing finance agencies.

#### Action 65: Rehabilitating Rural Homes

The partnership should undertake to increase the number of Americans owning homes in rural areas that are of good physical quality. Members of the partnership should develop and disseminate information on how to rehabilitate homes in a

cost-effective manner. Also, housing finance partners should explore expansion of existing home mortgage products or development of innovative new mortgage products, including FHA 203(k) loans, that promote housing rehabilitation in rural communities.

Subsidized loan and grant programs help low- and moderate-income homeowners in rural areas improve the adequacy of their homes. Ozark Opportunities, a community-based nonprofit organization located in Marshall, Arkansas, uses Federal USDA Section 504 and State weatherization funds to assist rural low-income homeowners in making repairs to improve or modernize their homes and remove health and safety hazards. This type of rehabilitation assistance is critical in a county in which 13 percent of homeowners live in substandard housing.

Housing quality problems of rural homeowners are more severe than those of the Nation as a whole—the proportion of homeowners living in nonmetropolitan areas who experience severe or moderate physical housing problems is 50 percent higher than that of homeowners nationwide.

#### Action 66: Homeownership Opportunities for Native Americans

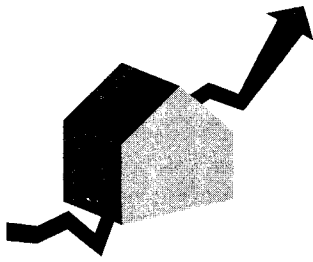
HUD, USDA, the Bureau of Indian Affairs, the Federal Home Loan Bank System, secondary mortgage market investors, and other members of the partnership should undertake collaborative efforts to increase homeownership opportunities on reservations.

To accomplish this goal, members of the partnership need to understand the unique nature of tribal organizations, cultures, and economies; the complexities of land ownership and government status; and the relationships among various Federal, State, and tribal agencies. Barriers to higher levels of homeownership should be identified and strategies for overcoming them developed through consultation with all interested parties, including



the tribes and the Federal agencies that provide financial and technical assistance.

For example, this year HUD plans to sponsor “Indian Homeownership—The First Generation,” a series of 14 workshops for tribal leaders and housing managers that will help tribes improve their capacity to produce homeownership opportunities on reservations and other tribal lands. The sessions will involve representatives from all relevant Federal agencies, the Federal Home Loan Bank System, secondary mortgage market investors, and private lending institutions.



## CHAPTER SIX

# OPENING MARKETS

### OVERVIEW

Many racial and ethnic minorities have not realized the American dream of homeownership. African-American and Hispanic-American families, for example, traditionally have had lower homeownership rates than white families. According to the most recent census data, the national homeownership rates are 43 percent for African-American households, 40 percent for Hispanic-American households, and 70 percent for non-Hispanic white households.

There are numerous reasons for this disparity. As laws and culture have changed with the progress of civil rights, many private sector housing industry organizations, including local lenders, real estate professionals, and nonprofit groups, have worked hard to open the doors of opportunity for minorities and other underserved populations. Yet discrimination—both real and perceived—stubbornly persists. In many instances racial and ethnic minorities, families with children, people with disabilities, and others have been denied the same opportunities to purchase a home that are available to similarly situated nonminorities. These problems have been documented in numerous studies, including recent research by the Urban Institute and the Federal Reserve Bank of Boston.

There are other factors that also make it difficult for these families to own a home. For example, some households who lack an understanding of the homebuying process may require special attention and assistance to make a successful transition from renter to owner. In addition, the lack of awareness about homeownership opportunities among people who can afford to buy a home suggests a need to improve outreach efforts within the homebuying industry.

As part of the overall National Homeownership Strategy, there is a special need to reach out to families who have traditionally had less opportunity for homeownership by removing the barriers that prevent or dissuade low- and moderate-income households, minorities, legal immigrants, families with children, and others from purchasing and owning their homes.

### KEY PRINCIPLES

The strategies and actions in this chapter reflect the following principles:

- ★ Homeownership for people and communities locked out by discriminatory practices should be seen as part of the Federal goal of affirmatively furthering fair housing.
- ★ Locally developed and implemented strategies are among the best approaches to fully enforcing fair housing and lending laws and addressing the needs of and obstacles to homeownership among members of traditionally underserved communities.
- ★ Mortgage and insurance underwriting guidelines should be written to consider a greater diversity of factors that assist individuals in underserved markets to own their own homes.
- ★ The secondary mortgage market should ensure that underwriting guidelines are clear and consistent, and local mortgage lenders should be encouraged to take advantage of flexibilities built into these guidelines.
- ★ Greater coordination between fair housing regulators and banking regulators is necessary to ensure consistent enforcement of fair housing and lending laws.



- ★ Employee diversity within the homeownership delivery system can help reach new customers and clients.

## STRATEGIES

The recommendations for action to open markets and target underserved populations in this report are grouped under four broad strategies:

1. Promote fair housing by removing barriers to purchasing a home.
2. Promote fair lending and insurance by removing barriers to capital and credit for buying, owning, and maintaining a home.
3. Increase diversity in the homeownership delivery system by removing employment and career barriers in business and professional environments that can open markets for underserved groups facing discrimination.
4. Increase outreach to underserved groups by extending homeownership opportunities and removing barriers to information.

### Promote Fair Housing

**STRATEGY:** *The partnership should promote efforts to open housing markets by eliminating discriminatory barriers in the advertising and sales of homes.*

**Issues and Impediments:** Recent research conducted by the Urban Institute has documented substantial evidence of widespread discrimination in home sales markets. The Urban Institute study found that African-American and Hispanic-American homebuyers were treated less favorably than non-Hispanic whites of comparable occupation and income one out of every two times they visited a real estate agent to inquire about houses advertised for sale in local newspapers. This inequitable treatment is one reason that African-Americans and Hispanic-Americans have much lower homeownership rates than non-Hispanic whites, regardless of economic and social mobility in other areas of accomplishment.

Effective compliance with fair housing provisions requires several key elements. Testing of homesellers and sales agents is necessary to determine where residual discriminatory practices, intentional or inadvertent, still exist. This is the first step to making individuals and institutions aware of problems that need correcting, preferably through voluntary action, or if necessary, through law enforcement. Nonprofit groups and coalitions such as the National Fair Housing Alliance have specialized in training testers and conducting testing, as have many government agencies, but additional efforts should be pursued. Overall, more testing is desirable. HUD provides Federal funding support for testing through the Fair Housing Initiatives Program for nonprofit organizations and the Fair Housing Assistance Program for State and local governments. Despite recent budget increases, Federal resources for these efforts are limited and should be supplemented by other public and private financing sources.

Also, many people involved in private housing market sales activities are not aware of their statutory fair housing responsibilities. This lack of knowledge is an impediment that must be overcome with education and outreach. For example, fair housing testing results can be used to inform and educate the housing industry and the general public. Many public and private sector organizations, including housing industry trade associations and private firms, currently engage in significant education and outreach activities to inform their own members, employees, and the public about their civic responsibility to open markets and expand homeownership opportunities through fair housing practices.

Enforcement of the Federal Fair Housing Act is one of the tools to ensure that individuals and families who want to own a home are able to do so. HUD, the lead Federal agency for enforcing fair housing, is reorganizing its Office of Fair Housing and Equal Opportunity to create 10 Enforcement Centers across the country. This reorganization will enable HUD to enforce the Fair Housing Act more efficiently and aggressively and to work more closely



with the U.S. Department of Justice and other enforcement agencies. These 10 centers will be organized to coordinate resources and activities at the regional, State, and local levels, where action can be more effective.

#### Action 67: The President's Fair Housing Council

The partnership should encourage the President's Fair Housing Council to convene periodic meetings among Federal agencies and State, local, and private sector partners that are open to all organizations within the housing industry. The President's Fair Housing Council is responsible for working with a wide range of Federal departments and agencies to lead the Federal Government's efforts to affirmatively further fair housing and eliminate discriminatory barriers to expanding homeownership opportunities. The partnership should work with the President's Fair Housing Council to discuss and coordinate methods of advancing fair housing through outreach efforts involving the public and private sectors on a national, State, and local basis.

#### Action 68: Voluntary Fair Housing Self-Enforcement and Affirmative Marketing by Homeownership Industry Organizations

The partnership should support voluntary commitments to engage in fair housing enforcement and affirmative marketing to underserved groups and people facing discrimination in homeownership markets. Voluntary agreements by industry organizations, particularly by national organizations that can help publicize and spread their commitments to State and local associations and to individual firms and agencies at the local level, are an essential element of opening homeownership markets and targeting underserved populations. Signatories to these agreements can include a wide array of associations and institutions, covering professional appraisers, property surveyors and inspectors, building code officials, and many other actors in the home sales process.

HUD and housing industry associations such as the National Association of Home Builders, the National Association of Realtors, the National Association of Real Estate Brokers, and the National Association of Real Estate License Law Officials have worked together to develop voluntary affirmative marketing agreements that advance fair housing goals, particularly for homeownership. These agreements are designed to eliminate discrimination in home sales and rentals, with emphasis on sensitivity and outreach to underserved households and actions to promote diversity within the housing industry.

Some of the basic elements of voluntary affirmative marketing agreements include:

- ★ Affirmative marketing to racial and ethnic minorities, women, people with disabilities, families with children, and other groups that have suffered from housing discrimination.
- ★ Disseminating information, educational materials, and other publications, including fair housing handbooks.
- ★ Organizing and participating in fair housing conferences.
- ★ Providing fair housing training programs for the industry, including State and local associations, and requiring training and continuing education for professional licensing and certification.
- ★ Engaging in media outreach and education.
- ★ Establishing and observing fair housing standards for public advertising and marketing, including Federal guidelines.
- ★ Advertising and outreach to traditionally underserved populations.
- ★ Promoting nondiscrimination in hiring and greater diversity within the housing industry and the trade associations to increase membership and participation by minority groups.





- ★ Expanding community involvement in fair housing education and enforcement.
- ★ Encouraging State and local trade and professional associations, individual firms, and association members to sign voluntary affirmative marketing agreements.
- ★ Engaging in recordkeeping to document affirmative marketing initiatives such as advertising and outreach, employee training, and increasing diversity.

#### Action 69: Metropolitan Regional Fair Housing Initiatives

The partnership should promote the formation of metropolitan regional fair housing activities such as Chicago's Leadership Council for Metropolitan Open Communities or the Twin Cities Regional Council (Minneapolis–St. Paul, Minnesota). Regional fair share agreements for affordable housing, such as in New Jersey and Connecticut, should be expanded to include homeownership and fair housing initiatives that explicitly encourage metropolitan diversity and expanded locational choice for homebuyers, particularly those from underserved groups. Program elements should include fair housing enforcement, testing, voluntary approaches, homeownership counseling to expand fair housing choices, and additional outreach efforts.

#### Promote Fair Lending and Insurance

**STRATEGY:** *Because expanded access to capital, credit, and insurance is essential for increasing homeownership opportunities for all Americans, the Partnership should promote fair lending and insurance to open markets to traditionally underserved groups.*

**Issues and Impediments:** *Fair Lending*—Few people are able to buy or own a home without obtaining financing from banks and other lending institutions. The widespread availability of mortgage financing has helped make homeownership a

reality for many American families. Yet the existence—or the perception—of discrimination in providing mortgages to prospective homebuyers and refinancing to existing homeowners continues to be an impediment to expanding homeownership.

For example, a large-scale study by the Federal Reserve Bank of Boston in 1992 found that, even when the data were corrected for income and other measurements of creditworthiness, African-Americans were 60 percent more likely to have their home mortgage loan applications denied than similarly qualified white applicants. A more recent Federal Reserve study has documented higher loan default rates among minority borrowers, leaving open to question the extent of lending discrimination.

No comprehensive strategy for expanding homeownership can succeed without a significant commitment to fair lending that includes both voluntary actions and law enforcement. Voluntary fair lending actions are being undertaken by many lending institutions throughout the Nation.

On the enforcement side, the Federal Government has primary responsibility, though lack of coordination in the past has hampered the regulators. Federal departments have recently begun working together to increase such coordination. The President's Fair Housing Executive Order of January 1994, which specifically mandated strengthening fair lending regulations, provided the impetus for creation of the Interagency Task Force on Fair Lending. For the first time, this Task Force, consisting of 10 Federal agencies, is clarifying and providing guidance regarding the practices and policies that constitute discrimination in lending.

HUD is also supporting increased testing by State and local government agencies and nonprofit organizations to identify potential bias in mortgage lending.

*Fair Insurance*—Inability to obtain property and mortgage insurance can be another obstacle to homeownership for underserved households. In



most cases prospective homebuyers must first get homeowner's insurance before obtaining a mortgage. Unfortunately, there remain significant differences in the availability and affordability of homeowners and private mortgage insurance according to the racial composition of the communities where the homes are located.

For example, a recent homeowners insurance discrimination study completed by the National Association of Insurance Commissioners, a comprehensive analysis of 33 metropolitan areas published in December 1994, concluded, "There is considerable evidence that residents of urban communities, particularly residents of low-income and minority neighborhoods, face greater difficulty in obtaining high-quality homeowner's insurance coverage through the voluntary market than residents of other areas." Various social and economic conditions associated with race, including differences in insurance loss experience and risk exposure among neighborhoods, account for part of this gap. However, unlawful discrimination also plays a part, as demonstrated by recent court decisions and by the results of insurance testing efforts that have documented substantial disparities among households with similar insurance risk factors, differing only in the racial composition of the neighborhoods in which they live.

The President's Fair Housing Executive Order directed Federal agencies to address discrimination in the property insurance industry by clarifying and strengthening fair housing enforcement guidelines. To implement this directive, HUD will issue regulations for the property insurance industry under Title VIII of the Fair Housing Act. To ensure that all voices are heard, HUD has held public meetings around the country and met with representatives of the property insurance industry, trade associations, homeowners, civil rights advocates, State insurance commissioners, community organizations, and many others. As with fair lending, HUD will supplement testing for property insurance discrimination by State and local government agencies and nonprofit fair housing groups.

#### Action 70: Voluntary Self-Enforcement and Affirmative Marketing by Mortgage Lending and Homeowners Insurance Industry Organizations

The partnership should encourage voluntary commitments from industry groups and individual firms to fair lending and fair insurance practices through accords or statements of principles. Agreements of this type should be made not only by the complete array of institutions that engage in home mortgage lending, but also by companies that underwrite mortgage insurance, title insurance, and homeowners insurance (property, casualty, and hazard); by property appraisers and settlement companies; and by others that affect access to capital, credit, and insurance for homeownership. As an example, a voluntary fair lending commitment by a mortgage lender with the partnership could include:

- ★ Applying home mortgage underwriting standards with as much flexibility as reasonably possible.
- ★ Administering second review programs to ensure that home mortgage underwriting standards and available flexibility are applied in a nondiscriminatory manner.
- ★ Adopting reliable programs for self-monitoring and taking appropriate corrective actions when fair lending problems are discovered.
- ★ Engaging in community outreach and marketing to previously underserved groups.
- ★ Using best efforts to develop a workforce that reflects the cultural, racial, and ethnic diversity of the lender's market area.
- ★ Setting performance targets that will serve as benchmarks to indicate whether these best practices efforts have been successful.

Voluntary best practices agreements by individual home mortgage lenders and lending industry associations offer an excellent roadmap for achieving the goal of all-time-high homeownership by the



year 2000. For example, on September 14, 1994, HUD signed a Fair Lending—Best Practices Agreement with the Mortgage Bankers Association of America, which, with more than 3,000 members, is the Nation's largest organization of mortgage lenders.

#### Action 71: Access to Home Mortgage Lending Data

The partnership should support Federal efforts to enhance local fair lending efforts by improving access to Home Mortgage Disclosure Act (HMDA) data. This information has not been easily accessible or usable for community-based and nonprofit organizations working to ensure implementation of fair lending practices.

HUD, along with private foundations and other Federal agencies, has computerized HMDA data and put this data online with other important public databases containing information on home mortgage lending practices of private financial institutions, along with demographic characteristics about communities and housing markets these financial institutions serve. Users will benefit from a variety of free services, including online access to databases through dialup and the Internet, technical support on database search and retrieval, and outreach and training for community groups. Users will also receive technical assistance and training in contacting and communicating with organizations that can help them use and interpret the HMDA data.

#### Action 72: Research on Fair Lending and Insurance Issues

The partnership should support additional research on the sources of discrimination in mortgage lending and property insurance and ways in which these sources can be corrected to open markets and expand homeownership opportunities for underserved populations and communities.

HUD is currently funding a major study of discrimination issues in urban property insurance to increase understanding of potential solutions.

#### Increase Diversity in the Homeownership Delivery System

**STRATEGY:** *The partnership should promote diversity within the homeownership industry workforce as a means of improving outreach to underserved markets and expanding homeownership opportunities.*

**Issues and Impediments:** Racial and cultural differences present a number of obstacles for families seeking homeownership and for those in the homebuying industry trying to help them. Potential homeowners among underserved groups often find it difficult to relate to businesses and professionals that represent very different cultures, ways of communicating, and operating styles. In addition, many housing service providers frequently have difficulty understanding and communicating with potential clients and customers from diverse backgrounds.

Promoting diversity at all levels within the homebuying industry can help overcome racial and cultural barriers to homeownership. Prospective homebuyers from underserved groups will be better able to interact with housing service providers, and the housing industry will be better able to adapt its practices and programs to the needs of underserved populations and communities.

#### Action 73: Market Review of Underserved Groups and Communities

Partners and their members should conduct a market review of traditionally underserved communities in their localities to determine the feasibility and benefits of increasing the number of minority professionals within their workforce to service those markets.

#### Action 74: Workplace Diversity in Hiring and Promotion

The partnership should encourage housing industry organizations to determine their current level of personnel diversity, increase their diversity through hiring and promotional efforts, where necessary,



and provide educational seminars to highlight outreach activities both within the organization and in the communities served by the organization.

Partners should also use market reviews of workplace diversity to create comprehensive plans for encouraging the entry of minorities into a broader range of positions as well as promoting the continued advancement of minorities within their organizations.

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The Minnesota Association of Realtors initiated a program called the Real Estate Minority Program (REMAP) to attract and retain racial minority real estate brokers, salespeople, and ancillary salaried employees in the real estate business.

REMAP is a loan program designed to help racial minority applicants who wish to begin a career in real estate or related fields. The funds are used for prelicensing education, licensing fees, and miscellaneous startup fees.

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#### Action 75: Research on the Homeownership Impacts of Diversity

The partnership should support and conduct research on the potential benefits of workplace diversity in terms of expanding homeownership opportunities through greater sensitivity to and understanding of underserved populations and communities.

#### Action 76: Mentoring Minority-Owned Homeownership Businesses

The partnership should create and support mentoring programs that provide technical assistance to minority-owned businesses in the housing industry. The purpose of these mentoring relationships is to develop stronger ties between minorities and the mainstream housing industry and to facilitate homeownership investment in underserved communities.

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The Minority Loan Officer Development School at the Center for Financial Studies in Fairfield, Connecticut, is a series of educational sessions designed to improve services to minority and underserved groups through education and diversification of the lending workforce.

The program, sponsored by America's Community Bankers, is intended for employees of member institutions involved in the mortgage lending process who want to expand their skills in reaching culturally diverse groups. The sessions focus on the home mortgage loan interviewing and processing functions; new business development through community outreach strategies and designing loan products; loan underwriting, secondary market options; as well as topics in consumer and commercial lending.

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#### Increase Outreach to Underserved Groups

**STRATEGY:** *The partnership should increase outreach to promote homeownership opportunities among households traditionally excluded from the private homeownership market, including low- and moderate-income households, legal immigrants, families with children, young adults, people with disabilities, and ethnic and racial minorities.*

**Issues and Impediments:** Expanding homeownership opportunities should reduce the gaps that exist among different groups and communities. Groups that have historically lower homeownership rates include many people who can afford to own a home but are not aware of the available opportunities, or who need special assistance to successfully make the transition from renter to owner. If these barriers can be overcome, homeownership will rise dramatically.

As one example of the potential impacts on the housing market by prospective homeowners who are currently underserved, according to a recent report by the Harvard University Joint Center for Housing Studies, there would have been more than 1.5 million additional home sales since 1990 if legal



immigrants had been purchasing homes at the same rate as non-Hispanic white households. As another example, an additional 1.3 million native-born minority households would be homeowners today if they had purchased homes at the same rate as native-born non-Hispanic white households since 1990.

#### Action 77: Marketing Homeownership Products and Programs in Foreign Languages

The partnership should support the publication and dissemination of homeownership information in a wide variety of languages and in formats adapted to the needs of people with disabilities. Partners should also make available outreach and assistance programs, mortgage financing, home sales and settlement services, property inspections, homeowners insurance, property appraisals, home maintenance and repairs, and related activities in multiple languages and in other ways tailored to underserved groups and communities.

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The National Puerto Rican Coalition (NPRC) provides technical assistance to community housing development organizations (CHDOs) under a cooperative agreement with HUD. In 1994 NPRC helped local Latinos form a new CHDO to address the housing crisis facing the Puerto Rican and Mexican farmworkers. Assistance offered includes:

- ★ Comprehensive Spanish language homeownership counseling explaining the rights and responsibilities of homeownership in the United States and how the USDA 502 program works.
  - ★ Coordination and implementation of Spanish-language homeownership training sessions.
  - ★ Provision of interpreting services for homebuyers during home closings.
  - ★ Followup with quarterly Spanish language homeownership responsibility training sessions for new homeowners.
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#### Action 78: Tailoring Home Design and Construction to Diverse Populations

The partnership should encourage architects and homebuilders to develop nontraditional products such as large homes with in-law units for multigenerational households and extended families, homes accessible to people with disabilities, and homes designed for elderly households.

#### Action 79: Homeownership Models That Work

The partnership should identify replicable local homeownership examples of models that work—and make the information available, either through a sourcebook or database, to mortgage lenders, real estate brokers, and nonprofit agencies—for use in designing effective and profitable programs for affirmative outreach and creative financing for underserved populations. HUD will publish one version of such a sourcebook, to be put together by representatives of many public and private housing organizations, as part of the development of the National Homeownership Strategy. Subsequent editions of the publication will be compiled by the partnership.

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Self-Help Enterprises in Visalia, California, creates affordable homeownership opportunities for rural low-income farmworkers who live in seriously substandard, overcrowded rental housing.

For the past 30 years, Self-Help Enterprises has produced thousands of new and rehabilitated homes using sweat equity. The group transfers skills, instills pride, and creates housing choices for people from previously underserved markets.

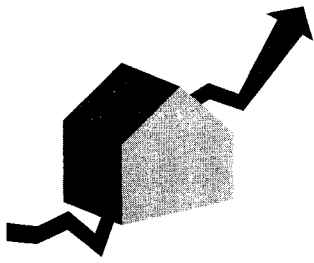
With the homeowners doing construction work on their own homes, the sweat equity approach to producing low-cost housing has created a stable community and provided a method of instilling pride and responsibility in homeownership.

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### Action 80: "One-Stop" Home Financing Catalogue

The partnership should compile a one-stop catalogue of home financing products, from both the public and private sectors, that are specially targeted to underserved populations and communities. Federal agencies and national trade associations should work with nonprofit and private sector partners at the local level to develop new user-friendly home financing products that are easy to understand and that meet the specific needs of targeted populations and communities.



## CHAPTER SEVEN

# HOMEOWNERSHIP EDUCATION AND COUNSELING

### OVERVIEW

Homeownership education and counseling play essential roles in expanding homeownership opportunities for American homebuyers, particularly low- and moderate-income families and other underserved households. Counseling provides a critical link between first-time homeowners and an increasingly complex real estate industry, and it helps families gain access to mortgage financing. In addition, by educating households about the ongoing responsibilities of homeownership, counseling can help families maintain ownership of their homes over the long term.

Homeownership education and counseling takes many forms. Services may include outreach to explain the homebuying process; information about the types of properties and financing available to potential homebuyers; prepurchase counseling to help individual households overcome specific obstacles to homeownership; and postpurchase guidance to assist families in carrying out homeownership responsibilities such as maintenance and budgeting. Counseling also is often crucial in preventing or coping with mortgage loan delinquency and default.

At times, homeownership counseling can be provided effectively in group settings and may involve basic homebuying education; in many instances, however, more intensive one-on-one counseling may be needed to fully prepare the household for home purchase.

To reach a record level of homeownership by the end of the century, education and counseling must become a more integral part of the homebuying process for families having difficulty purchasing a home, especially low- and moderate-income and other underserved households. Homeownership

counseling agencies, particularly nonprofit organizations, must be given the tools, both financial and technical, to carry out this mission successfully.

Yet, the homeownership counseling industry is still in its adolescence. The partnership must increase the availability of quality counseling in all local markets and broaden the awareness among mortgage lenders, real estate professionals, government agencies, mortgage insurers, nonprofit organizations, and other partners that homeownership education and counseling can make a profound difference.

### KEY PRINCIPLES

The strategies and actions in this chapter reflect the following principles:

- ★ Education and counseling should serve the diversity of homebuyers and include outreach to underserved populations.
- ★ Homeownership counselors and trainers must be sensitive to and representative of the diversity of potential homebuyers in the communities they serve.
- ★ Education and counseling must reflect the full range of homebuyer needs—from initial outreach and first-time homebuying to mortgage-default prevention.
- ★ Although education and counseling can help households at every income level, it should be an integral part of the homebuying process for low- and moderate-income and first-time homebuyers who require such assistance.
- ★ Local homeownership counseling provided by nonprofit organizations, mortgage lenders, real estate professionals, local governments, and



others must be financially sustainable over the long run.

- ★ Real estate sales professionals, mortgage lenders, government agencies, nonprofit organizations, and other providers in the homebuying process must pool their resources to improve and expand homeownership education and counseling.
- ★ Comprehensive education and counseling should be available to all prospective and current homeowners, regardless of income.

## STRATEGIES

There are three major strategies to expand homeownership opportunities through homeownership counseling and education:

1. Improve the quality and effectiveness of homeownership education and counseling efforts.
2. Develop a more predictable stream of funding and resources.
3. Enhance coordination among local housing providers.

The combined impact of these strategies can create a new paradigm among mortgage lenders and insurers, homebuilders, real estate brokers, nonprofit organizations, and government agencies to make homeownership counseling an integral component of the services made available at the local level to potential homebuyers.

### Improve the Quality, Consistency, and Effectiveness of Homeownership Education and Counseling Efforts

***STRATEGY: The partnership should analyze the current system for providing homeownership education and counseling and undertake a series of initiatives to improve the quality, consistency, and effectiveness of existing efforts.***

**Issues and Impediments:** Homeownership education and counseling is an emerging industry with increased involvement by home mortgage lenders, real estate professionals, local governments, and nonprofit organizations. Although some organizations have considerable experience in providing information to potential homebuyers and helping families overcome obstacles to homeownership, many others, particularly nonprofit organizations, are relatively new and still learning. As a result, there is a lack of consistent quality in the counseling services these agencies provide.

Comprehensive homeownership counseling requires a set of particular skills and knowledge. The counselor at the local level must be familiar with real estate issues, mortgage financing, personal financial management, home maintenance, fair housing, consumer protection, and many other aspects of the homebuying process. Counselors must be able to help clients deal with economic difficulties and other problems that threaten homeownership. In addition, counselors must possess strong communications skills. The ability to overcome language and cultural barriers affecting homeownership is very important.

Although some counselor training for nonprofit organizations is presently available from national nonprofit organizations such as the National Federation of Housing Counselors, National Foundation of Consumer Credit Counselors, Neighborhood Reinvestment Corporation, ACORN, Habitat for Humanity International, and many others, there is no one curriculum or training program available to all nonprofit homeownership counseling agencies. Many local nonprofit counseling agencies—particularly those not affiliated with a national or regional nonprofit organization—receive no comprehensive training or curricula.

The lack of standardization of homeownership education and counseling curriculums compounds the problem. Some counseling organizations specialize in delivering a specific type of counseling. But even with highly focused counseling efforts,





the techniques, terminology, written materials, and teaching methods used by homeownership counseling agencies vary greatly.

**Action 81: National Institute for Homeownership Education and Counseling**  
Given the vital need for a strong homeownership counseling industry, the partnership should support establishment of a National Institute for Homeownership Education and Counseling to promote greater consistency in this highly decentralized industry. Such a center would accelerate the learning process among all providers—public, private, and nonprofit.

The Fannie Mae Foundation is currently sponsoring a feasibility study for such a center. The feasibility study will be used to determine how a center might:

- ★ Serve as a clearinghouse for homeownership materials, information, and consulting advice.
- ★ Sponsor and/or fund homeownership counselor training programs.
- ★ Conduct research into effective counseling approaches and potential new approaches.
- ★ Provide guidance to local groups in establishing coalitions with mortgage lenders and developing funding arrangements.

HUD, national nonprofit organizations, real estate professionals, home mortgage lenders, and other members of the partnership are also exploring many of these issues. Fannie Mae will share the results of the feasibility study with members of the partnership and other organizations interested in training for homeownership education and counseling and will identify areas where partners can lend their support to this concept.

**Action 82: Federal Efforts to Build Local Homeownership Counseling Capacity**  
Partners should work with HUD to enhance Federal efforts to build capacity among nonprofit

homeownership counseling organizations. HUD has provided financial support for counseling activities for many years through the CDBG program and FHA's counseling program. However, funding for FHA counseling in the past has been very limited, and it emphasized mortgage default and delinquency counseling at the expense of prepurchase homeownership counseling.

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HUD has designated between 750 and 800 organizations as FHA-approved homeownership counseling agencies. Approved agencies are eligible to apply for Federal financing. In fiscal year 1994, 435 agencies received approximately \$9 million in HUD funding.

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HUD has requested expanded budget appropriations to support prepurchase and postpurchase homeownership counseling. Increased funding would enable HUD to support aggressive, long overdue capacity-building efforts within the homeownership counseling industry. This capacity building could include such steps as improving counseling curriculums, producing comprehensive guidebooks and instructional materials, improving computer capabilities for counseling agencies, and conducting nationwide education and training for HUD-approved homeownership counseling agencies.

**Action 83: Research on Homeownership Education and Counseling**

The partnership should support further research by public and private entities regarding the effectiveness of local homeownership counseling efforts.

Previous research on the effectiveness of homeownership counseling is extremely thin. Several studies focusing on postpurchase counseling are dated and inconclusive. There are no known significant studies on the effectiveness of prepurchase counseling.

HUD is working to strengthen the framework for future research on homeownership counseling, with a particular emphasis on prepurchase



counseling. For example, HUD will try to define what constitutes a successful program. HUD also will identify data needs for evaluating programs. Research should be undertaken to explore the impacts of homeownership education on levels of homeownership and mortgage delinquency rates. In addition, research should assess the impacts of different forms of homeownership counseling, such as classroom versus one-on-one counseling, and intensive short-term counseling versus an extended series of sessions.

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Two- to four-unit properties are a substantial part of the housing stock in many cities, providing critical affordable housing opportunities not only to owners but also to renters. Freddie Mac has conducted research within the home mortgage lending and non-profit housing industry to identify the most effective training methods that prepare homeowners to be successful landlords and property managers. In the spring of 1995, a training manual will be introduced to assist lenders and counselors in qualifying potential homeowners who wish to purchase two- to four-unit properties.

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#### Action 84: Clearinghouse for Homeownership Education and Counseling

To ensure that all homeownership education and counseling providers have comprehensive and timely information, members of the partnership should support establishment of a clearinghouse to disseminate homeownership counseling and education materials.

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Education and counseling does not end with the home purchase. Habitat for Humanity International calls its counseling program "Nurturing." In addition to homebuyer counseling, Nurturing helps recipients with life issues such as renegotiating mortgage terms, finding employment, and dealing with financial and personal crises. Habitat for Humanity gives Nurturing credit for its low mortgage-delinquency rate of less than 1 percent.

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The clearinghouse could compile available counseling manuals and other materials from nonprofit organizations, lending institutions, private mortgage insurers, secondary mortgage market purchasers, and other relevant organizations to develop "best practice" models, documents, forms, and manuals, and determine the best methodology for making this information accessible to interested parties.

In determining the role that a clearinghouse should play, members of the partnership should consider the aforementioned homeownership counseling plans being undertaken by HUD and the feasibility study being conducted by Fannie Mae, as well as the information dissemination activities already being performed by various national nonprofit and private sector organizations.

#### Action 85: Curriculum Development for Homeownership Education and Counseling

Given the lack of agreement among providers on the essential elements of homeownership education and counseling, the partnership should work collaboratively to foster housing industry consensus on topics to be covered in training.

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Operation Impact of St. Louis is working with the St. Louis Community Development Agency to create an Interactive Multimedia Training System. The system uses text, video, audio, and quantitative information to provide counseling in understandable modules.

Coast Federal Bank of Los Angeles has produced homebuyer videotapes and a *House Hunting Guide*. The *House Hunting Guide* contains checklists for homebuyers, a chart for determining monthly payments, and a glossary of real estate terms.

Chattanooga Neighborhood Enterprise (CNE), Inc. teaches a prepurchase course called *FasTrak*®. CNE developed the *FasTrak*® curriculum based on materials already in print and in consultation with local experts at the University of Tennessee and in social service agencies.

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Homeownership education and counseling should include the full range of topics essential to understanding the process of selecting and employing real estate professionals, attorneys, and other agents; selecting and obtaining a mortgage loan; and the full costs and responsibilities of maintaining a home. At a minimum standardized homeownership education should include separate modules and training materials for general education and outreach and prepurchase, postpurchase, and delinquency intervention counseling. Any standardized curriculum should incorporate innovative courses and materials that have been developed by local counseling agencies throughout the country.

The purpose of this effort is not to produce a set of homogenous training materials. Different approaches and levels of detail are appropriate for different audiences. In all cases, however, efforts should be made to ensure that written manuals and reference materials are easy to understand and thorough, reflecting the best of existing homeownership counseling training materials.

#### Action 86: Training and Accreditation for Homeownership Education and Counseling

Although a national homeownership counseling center does not currently exist, a number of nonprofit and for-profit firms currently offer counseling training workshops on a national level. For example, Housing Services of America, based in Washington, D.C., offers a 2-day comprehensive counseling workshop. In the past 3 years, this training has reached more than 1,500 counseling providers—including staff of local lenders and non-profits and for-profit organizations.

Once a counseling training curriculum has been developed, the partnership should develop a training mechanism to reach local homeownership education and counseling agencies. Partners should also determine whether the training should be conducted by a national education and counseling training institute or by multiple training providers.

At a minimum, however, training should cover the following:

- ★ Sessions on outreach, general education, prepurchase, postpurchase, and delinquency-intervention counseling.
- ★ Skills in communicating effectively in a group and a person-to-person setting.
- ★ Information on the needs of underserved populations.
- ★ Ongoing instruction, that is, education of local counselors must include updates and refresher workshops.

In addition to the above, members of the partnership should discuss the feasibility of establishing a certification program. The objective would be to establish an accreditation program that is broadly recognized and valued within the housing industry. Certification should be granted only to prospective homebuyers who complete the course work and pass tests substantiating their grasp of the material.

The National Foundation for Consumer Credit's Consumer Credit Counseling Service offers a certification program to ensure the professional quality of its counselors. To become certified, counselors must have met a minimum requirement of 3,000 hours of nonprofit consumer credit counseling. Counselors must also pass extensive examinations. To remain certified, counselors must submit annual documentation of continuing education and professional development.

Over the long term, members of the partnership, including HUD, secondary mortgage market investors, conventional mortgage lenders, private mortgage insurers, and others, should consider counseling agency accreditation as a prerequisite to providing funding support to homeownership education and counseling agencies. However, given the legal issues related to State regulations and licensing of professionals, more research in this area is needed.



## Action 87: Cultural Sensitivity and Diversity in Homeownership Education and Counseling

Even small-scale efforts can have a meaningful impact. People's Bank in Bridgeport, Connecticut, developed a homeownership counseling course for local Spanish-speaking residents. The course was presented by industry professionals to 36 residents in a series of 8 seminars. People's Bank translated the sessions and provided individual counseling. People's Bank also provided its own training materials, written in Spanish. Fannie Mae's Spanish version of the *Guide to Homeownership* was also used. The sessions were successful in breaking down the language barrier to homeownership: in just 6 months following the seminars, 4 out of 10 families had purchased homes.

Because language and cultural barriers often hinder homeownership opportunities for low- and moderate-income households, the partnership should work to increase cultural sensitivity and diversity in the homeownership counseling industry. For example, the partnership should ensure that the approved training curriculum has the flexibility to respond to the needs of underserved households, including low-income families, persons of color, ethnic minorities, households headed by females, and recent immigrants. The partnership should also ensure that training materials are widely available in Spanish and other languages. In addition, partners should work together to enhance employee diversity within local education and counseling organizations.

## Action 88: Education on Alternative Forms of Homeownership

Partners should collect and disseminate information on alternative forms of homeownership, including the legal, financial, and management issues associated with:

- ★ Cooperative housing, where members of a cooperative organization purchase shares of stock that entitle them to membership in the cooperative and give them the right to occupy a housing unit.

- ★ Mutual housing, which is owned and managed by a corporate entity, generally a nonprofit association, where residents become voting members of the association.
- ★ Lease-purchase programs, which allow renters to apply a portion of their rent payment to the cost of purchasing their residence.
- ★ Condominium ownership, which provides fee-simple title to the residential unit and a specified share of the building and land.
- ★ Community land trusts, which involve owning a residential building and improvements to the property, with a long-term lease of the land from the owner, generally a nonprofit organization.

The Boston Five Cents Savings Bank used a subsidy from the Federal Home Loan Bank of Boston to provide gap financing for 50 cooperative townhouses and duplexes for households earning less than 60 percent of the area median income.

The Louisville Housing Services Corporation (LHS), a nonprofit subsidiary of the Housing Authority of Louisville, used Federal funds to convert two public housing developments into 258 condominium units for purchase by public housing residents and other low-income families. LHS provided low-interest mortgage financing for purchasers and invested the proceeds in development of additional low-income homeownership projects.

Using a \$200,000 advance subsidized by the Affordable Housing Program from the Federal Home Loan Bank of Boston, Church Community Housing Corporation (CCHC) of Newport, Rhode Island, purchased and rehabilitated three single-family homes. CCHC sold the homes to families with incomes below 80 percent of the metropolitan area's median income. CCHC maintains a 99-year ground lease to ensure the continued affordability of the units.

The intended audience would include housing developers, mortgage lenders, residential property management agents, and homebuyers. Alternative



homeownership forms such as those cited above can benefit households that otherwise may not be able to own their homes.

### **Develop a Steady Stream of Funding for Homeownership Counseling Providers**

***STRATEGY: In order for nonprofit homeownership education and counseling to become an integral part of the homebuying process, dependable and adequate sources of long-term funding must be established.***

**Issues and Impediments:** One of the most important prerequisites to building homeownership counseling capacity is finding a stable source of revenue to support counseling efforts. For most nonprofit counseling providers, funding to pay for qualified staff and other administrative costs is extremely limited. Although client fees can cover some of the costs, homeownership counseling providers must depend on other sources of revenue—government, foundations, private sector, and transaction-based—to support their operations. For many community-based nonprofit organizations, seeking funding for operational needs can seem like a full-time occupation leaving less time for clients.

Funding for homeownership counseling activities historically has come predominantly from public sources, such as CDBG funding from a locality or directly from HUD. But to the extent that counseling can deliver many new business prospects to realtors, lenders, homebuilders, utility companies, and others, a more systematic process of funding homeownership counseling services that involves funding from the private sector should be encouraged. Obtaining funding support will be more effective once the quality and consistency of local counseling efforts can be improved through the steps described in this chapter.

#### **Action 89: Task Force on Long-Term Funding of Homeownership Counseling**

Members of the partnership, including mortgage lenders, secondary mortgage market representa-

tives, real estate sales professionals, private mortgage insurers, HUD, national nonprofit organizations, and others should establish a task force to develop a viable plan for long-term funding of nonprofit homeownership counseling efforts. The task force should draw upon the recommendations of Fannie Mae's feasibility study, HUD-FHA single-family education and counseling reports, and data provided by national nonprofit organizations involved in counseling efforts. Sources of potential funds include Federal grants, the use of home sales transaction fees, as well as other private and nonprofit contributions to financially support homeownership counseling efforts. This partnership task force should develop a series of recommendations to be shared with all the members of the partnership within 6 months of their first meeting.

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The DuPage Homeownership Center is a nonprofit organization in Wheaton, Illinois, that unites all sectors of the housing industry to finance comprehensive homebuyer outreach and education. The center is funded by its members—48 home mortgage lenders, the DuPage Association of Realtors, metropolitan area corporations, private foundations, and social service agencies. The center has a full-time staff who conduct needs assessments, affirmative outreach efforts, homebuyer seminars, credit education seminars, and individual counseling. The center serves as a bridge between potential homebuyers and housing service providers, helping families overcome impediments and utilize available services to achieve homeownership.

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#### **Action 90: Nonprofit Business Planning for Homeownership Counseling Organizations**

Because some nonprofit organizations lack the business expertise to secure adequate funding for their homeownership education and counseling efforts, the partnership should develop guidance materials and training workshops that focus on nonprofit business planning, fundraising methods, and establishing sound management, accounting, and budgeting systems.



### Action 91: HUD Allocation of Counseling Funds

The partnership should coordinate local homeownership counseling funding with HUD's counseling budget and encourage revisions in HUD's process for allocating counseling funds. Subject to adequate budget appropriations, HUD should overhaul its current system of funding local nonprofit counseling agencies. In the past FHA has allocated counseling funds based on the number of households assisted, which has created inappropriate incentives for the counseling agencies.

HUD's funding allocation system for future years should take into consideration the capacity-building needs of local nonprofit counseling agencies. As an incentive for counseling providers to expand their revenue sources, HUD should consider working more closely with national and regional nonprofit counseling providers and allocating all or a portion of its counseling grants on a matching-funds basis.

### Enhance Coordination of Local Efforts

**STRATEGY:** *The partnership should foster greater cooperation between the real estate and lending communities at the local level and homeownership education and counseling providers.*

**Issues and Impediments:** There are literally thousands of public, private, and nonprofit organizations that provide homeownership education and counseling at the local level. Yet, many participants in the homebuying process do not fully understand the benefits that can be derived from such assistance. Greater national and local efforts must be undertaken to demonstrate the value of counseling.

Last October a widely representative group of public, nonprofit, and private sector homeownership education and counseling organizations met with HUD to discuss the current status and future needs of FHA's counseling program. There was general agreement among the participants that many

realtors and lenders do not adequately understand homeownership counseling, perceive counseling as unnecessarily slowing down the mortgage qualifying process, and lack confidence in nonprofit counseling providers.

If counseling is to become an integral part of the homebuying process for millions of American families, it is important to dispel the misperception that homeownership counseling is not cost effective. Homeownership counselors must be seen as part of a local partnership, with the common goal of assisting more households to qualify for and sustain homeownership.

### Action 92: Showcasing Successful Collaborative Homeownership Counseling Programs

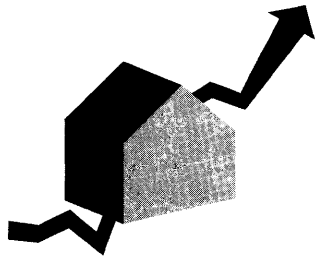
The partnership should develop a brief guidebook and one or more videos highlighting successful local homeownership counseling programs. There should be several versions available of the guidebook and video: one designed specifically for local home mortgage lenders, another for real estate professionals and homebuilders, and another for nonprofit groups and local government agencies who work in this field. These materials should emphasize the merits of public-private collaboration and the business-related benefits that can accrue from such counseling efforts, including increased mortgage lending volume, expanded home sales markets, Community Reinvestment Act credit for lenders, and other economic incentives.

### Action 93: Local Homeownership Counseling Roundtables

Members of the partnership representing real estate professionals, home mortgage lenders, nonprofit organizations, and government agencies should investigate the feasibility of sponsoring local group facilitations or roundtable discussions concerning the integration of homeownership education and counseling into the homebuying process. Homeowners, including low-income homeowners,



should actively participate in these roundtable discussions. The discussions should include services to be provided, referrals, timeliness of counseling, fee structures, communications linkages, and technical information sharing. Most importantly, these facilitated sessions should dispel the many myths about homeownership counseling and help build lasting bridges between the private sector and nonprofit counseling agencies.



## CHAPTER EIGHT

# RAISING AWARENESS

### OVERVIEW

One major component of the new National Homeownership Strategy—to increase American homeownership to a record high by the year 2000—is a long-term public education campaign. This nonpartisan educational, informational, and promotional effort should be undertaken by representatives of every major element of the homeownership community: home mortgage lenders, government agencies, nonprofit groups, and housing providers. Participating organizations should make a commitment to undertake individual activities designed to promote homeownership for the target markets they can reach most effectively. In addition, partners should work as part of the overall partnership to carry out specific national, regional, State, and local public information strategies.

A public education and awareness campaign should focus on the population groups and geographic areas where the greatest success can be achieved. A nationwide increase in homeownership levels will most likely be achieved by developing useful information for and promoting the concepts to:

- ★ Families who pay substantial monthly rent but who believe homeownership is beyond their financial reach.
- ★ Potential first-time homebuyers, families with children, young adults, ethnic and racial minorities, and legal immigrants.
- ★ Families who can benefit from home mortgage insurance programs and other forms of homeownership financing assistance from the public and private sectors.

A public awareness campaign should also seek to accomplish the following:

- ★ Reestablish and promote homeownership as an achievable goal for extending the benefits of the American dream.
- ★ Highlight the importance of homeownership as an American value, and encourage homeowners and renters to get together and become involved in supporting the National Homeownership Strategy.
- ★ Reinvigorate the idea of increasing savings as an important component of homebuying and homeownership.
- ★ Identify what works: programs that successfully ensure that all potential homebuyers from diverse economic, ethnic, racial and cultural backgrounds are welcome in the homeownership process through a variety of innovative outreach, educational, and counseling programs.
- ★ Focus on inspirational success stories profiling individuals and families that have successfully overcome challenges and made the transition to homeownership.

### KEY PRINCIPLES

The strategies and actions in this chapter reflect the following principles:

- ★ Homeownership can be increased by raising public awareness of the advantages to be gained and the opportunities available—particularly for young renters, racial and ethnic minorities, low- and moderate-income families, and families with children.





- ★ Many people who would otherwise not seek homeownership can be educated and encouraged to become homeowners.
- ★ Homeownership is more available and can be more affordable than is commonly perceived, and this information should be communicated through outreach efforts.
- ★ Creating nationwide visibility for the National Homeownership Strategy can help the partnership reach the goal of all-time high homeownership in America by the end of the century.

## STRATEGIES

There are two fundamental strategies for raising awareness and expanding opportunities:

1. Increase homeownership awareness through public outreach.
2. Expand homeownership opportunities through education initiatives.

### Increase Homeownership Awareness Through Public Outreach

**STRATEGY:** *The partnership should reach out to the general public, including targeted groups and communities, to raise awareness of homeownership opportunities.*

**Issues and Impediments:** Unlike earlier time periods in our history, such as the 1950s and 1960s, homeownership as the American dream is too frequently viewed as out of reach, or not even possible for a large segment of potential homeowners, primarily those with lower incomes, young adults and families, racial and ethnic minorities, and recent legal immigrants.

Although the homebuilding, home sales, and home mortgage lending industries often engage in marketing and promotional activities, these efforts do not always produce the desired results for millions of American families.

Instilling a can-do attitude among those renters who have given up on the American dream of homeownership will require a long-term approach, using both traditional and new techniques of education, awareness, and encouragement.

### Action 94: Publicizing Homeownership Opportunities and Achievements

The partnership should undertake public outreach activities to promote homeownership opportunities for all Americans. Many partners have developed materials that focus on the psychological barriers to homeownership and the need to reach out to potential homebuyers who feel that owning a home is not attainable. Rather than reinventing the wheel, the partnership should determine how existing materials can be used most effectively in their public outreach efforts. Activities under this initiative should include the following:

- ★ **Public Service Messages**—The partnership should initiate a national campaign of broadcasting public service messages on radio and television. These announcements supporting homeownership can feature notable public officials, business and civic leaders, sports and entertainment figures, or ordinary citizens describing how they became homeowners. The National Advertising Council frequently lends its expertise to worthwhile campaigns, and the partnership should seek its assistance in designing and implementing a national homeownership public awareness campaign.
- ★ **National Homeownership Day**—The partnership should establish an annual event such as a national homeownership day, week, or month to be coordinated among the partners, who would help sponsor and organize local, regional, State, and national events.
- ★ **Homeownership Stamp**—The partnership should ask the U.S. Postal Service to issue a homeownership stamp, which could be reissued each year.



- ★ **Publicizing Success Stories**—The partnership should actively publicize and promote success stories—including programs, initiatives, campaigns, and partnerships, as well as individuals and families who overcame obstacles and succeeded in making the transition to homeownership—to maximize exposure of the positive accomplishments through implementing the National Homeownership Strategy. This initiative could include producing and broadcasting a public television documentary series on homeownership success stories.
- ★ **Countdown to Homeownership**—The number of homeowners required to reach the 6-year goal, and the numbers who have become additional homeowners each year, can be displayed as part of a public countdown, updated each spring in conjunction with National Homeownership Day to keep the Strategy news-oriented and in the public eye. For example, to reach 8 million homeowners by the end of the year 2000, one homeowner would need to be added every 24 seconds, 24 hours a day, 7 days a week, 365 days a year.
- ★ **Celebrating Anniversaries and Milestones**—The partnership should celebrate and publicize key anniversaries, such as the 60th anniversary of the Federal Housing Administration (FHA) and the 50th anniversary of the GI Bill of Rights (VA) both of which occurred in 1994. In addition, the partnership should celebrate and publicize important milestones, such as every millionth homeowner or when the previous all-time high national homeownership rate of 65.6 percent is surpassed.
- ★ **Consumer Education Literature**—The partnership should publish and distribute consumer-oriented, educational information for homeowners and prospective homebuyers. This information can be distributed through mass mailing of brochures and newsletters by utility companies, credit card companies, and other large service firms that bill their customers.

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The Road to Home Ownership<sup>SM</sup> is a comprehensive buyer education package developed as part of United Guaranty's affordable housing initiative. The program helps mortgage lenders of all sizes meet their internal affordable housing guidelines.

The educational package guides potential borrowers through the necessary preparations towards owning a home, including correcting past credit problems; looking for a house; applying for a mortgage; financial management of the mortgage commitment; and maintenance of the home.

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#### Action 95: Homeownership Site Visits

Partners should make frequent site visits, accompanied by prominent people, homeowners, homebuyers, homebuilders, mortgage lenders, homeownership counselors, realtors, and many other actors in the process. Such visits should be used to gain publicity as part of a broader awareness campaign. These events should emphasize the people who benefit from homeownership programs, and some of them, carefully selected, should participate in the site visits. This initiative will be particularly important in demonstrating the value of programs such as homeownership counseling or financing assistance. The homeowner families are the real beneficiaries, and it is their determination and discipline to save and invest, act responsibly and succeed that enables these programs to make a difference.

#### Action 96: Successful Transitions to Homeownership

The partnership should emphasize successful transitions to homeownership among underserved households, including immigrant families, former public housing residents, and families who previously experienced unsafe and inadequate housing conditions.

Inspiring transitions should receive local, State, and national publicity. In each case the role of homeownership counseling, public outreach,



family services, special financing, technical assistance, and other forms of support should be highlighted as part of the success of genuine partnership efforts.

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Homeward Bound, Inc., of Phoenix, Arizona, is using a HOPE 3 grant to develop a homeownership program modelled on the continuum-of-care concept.

The Homeward Bound program uses a lease-purchase model to allow adequate time for families to become financially, emotionally, and legally stable prior to taking on homeownership responsibilities. Counseling and training are also provided by the Arizona Housing Trust Fund, Bank One, and the city of Phoenix.

The Homeward Bound program received the 1993 President's Volunteer Action Award in recognition of outstanding individuals and organizations engaged in volunteer community service.

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### **Expand Homeownership Opportunities Through Education Initiatives**

***STRATEGY: The partnership should initiate and support broad-based and targeted educational programs to expand homeownership opportunities.***

**Issues and Impediments:** Many people are not aware of the opportunities available to them for attaining homeownership or the steps to achieving the goal of owning a home. Educational programs can help teach and inform potential homebuyers and existing homeowners about methods of successfully becoming a homeowner and sustaining homeownership over the long term. Surveys and community research have consistently identified the lack of basic housing market knowledge as one of the principal reasons why many potential homeowners do not own their home.

### **Action 97: Homeownership Educational Centers and Special Events**

The partnership should seek to educate the public about the benefits of and opportunities for homeownership through established information centers as well as at special events. Activities that the partnership should undertake include:

- ★ **Homeownership Centers**—The partnership should help establish community-based homeownership centers—home stores—to provide counseling and information in cities and metropolitan areas.

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Homeownership education workshops were held on July 11, 1994, at Olive-Harvey College on Chicago's far south side. This event attracted more than 1,000 persons.

The workshops were sponsored by the Neighborhood Housing Services of Chicago, Inc. Forty-three exhibitors were featured. Among the exhibitors were banks, mortgage companies, savings and loan associations, real estate brokers, government agencies, and community organizations. The workshops were provided in both English and Spanish with programs on the mortgage process and personal credit.

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- ★ **Home Fairs**—The partnership should sponsor home fairs, special events where members of the public can obtain comprehensive homeownership information from a variety of housing industry and home financing providers.
- ★ **High School and College Programs**—The partnership should develop and promote homeownership, finance, and savings education courses and programs for high school and college students.



### Action 98: Educating Homebuyers and Homeowners Through Technology and the Media

The partnership should use the latest technology to reach a broad array of potential homeowners. Activities that the partnership should undertake include the following:

- ★ “News You Can Use” for Local Media—Small daily newspapers—as well as paid and free weekly newspapers—reach many potential homeowners. The partnership should provide “news you can use” information to these publications through both paid and free media and also to local radio and television news stations, including small stations and cable broadcasters.

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The HOPE-St. Louis Interactive Multimedia Training System is a unique component of “Operation Impact,” in St. Louis, Missouri. The System is primarily being established as a homebuyer counseling system. It is being produced with the Graphics Division of the St. Louis CDA.

The System combines text, video, audio and quantitative information in a broad array of modules that convey information in an understandable manner to potential homebuyers.

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- ★ Computer Electronic Information—The partnership should utilize the information highway of computer-based methods to distribute information and ideas. These could include computer software programs or games designed to explain housing costs and other homeownership concepts and terminology. It could also include providing informative text that is distributed to thousands of local computer bulletin boards and to online computer services with millions of users.

### Action 99: Homebuyer Access to Government-Owned Homes

The partnership should work to improve coordination among Federal agencies in selling government-owned and foreclosed homes to consumers, especially to low- and moderate-income first-time homebuyers. Federal agencies, including HUD, VA, the U.S. Department of Agriculture, Federal Deposit Insurance Corporation, Resolution Trust Corporation, and Federal Housing Finance Board, should cooperate with Fannie Mae, Freddie Mac, the Federal Home Loan Bank System, and other key organizations such as State and local government agencies, public housing authorities, homeownership counseling providers, and nonprofit neighborhood housing developers to improve outreach and access to government-owned properties. Effective actions can include joint databases that list all available homes from every Federal source, and training and employing homeownership counselors to explain homebuying opportunities to potential consumers.

### Action 100: Research Networks and Information Clearinghouses on Homeownership Data

The partnership should closely track the national homeownership rate and other important data both nationwide and for targeted population groups and geographic areas, identifying key trends and using this data to publicize successes, monitor progress, and design homeownership policies and program strategies.

The partnership should build a national information network with researchers from public and private organizations across the country. Performance of the National Homeownership Strategy should be carefully measured and widely publicized, and answers to question should be provided such as: How many homeowners are there now? How many



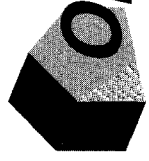
will there be at any particular point in the future? How many more are we actually getting as we move forward? Essential data to track and publicize include:

- ★ Local and regional project successes, including housing starts and home sales, large-scale development projects that revitalize communities, and special subdivisions.
- ★ Local and regional demographic successes, including young first-time homebuyers, low- and moderate-income households, racial and ethnic minorities, families with children, legal immigrants, and other groups.
- ★ National, regional, State, and local economic successes, including increased jobs and investment through rising housing starts and home sales, savings from lower mortgage interest rates, and other indicators.
- ★ Performance measures, benchmarks, and numerical targets for important economic outputs such as single-family home mortgage loan production, and for key homeownership goals such as greater numbers of young families buying their first home.
- ★ Initiatives that make homeownership more affordable by reducing costs and by making financing more available.

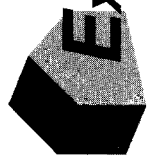
# Principles of the National Homeownership Strategy



**Cut Costs** of production and financing, including closing costs, to put housing prices within reach.



**Open Markets** by reducing regulatory and discriminatory barriers.



**Expand Opportunities** through education, outreach, community strategies, telecommunications marketing, information, and technology.

