



TACOMA HOUSING AUTHORITY

TACOMA HOUSING AUTHORITY'S REVIEW

of its

HOMEOWNERSHIP PROGRAMS

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1. INTRODUCTION

In 2000, the Tacoma Housing Authority (THA) undertook to completely redevelop its public housing community of Salishan. Sparked by a \$ 35 million HOPE VI grant from the Department of Housing and Urban Development (HUD), this effort will demolish 855 worn out public housing units built in 1942, tear up 188 acres of infrastructure and rebuild a new neighborhood of 1,200 to 1,300 new homes. These will include 300 – 350 homes for sale. It is a very ambitious project that should finish in 2011. As part of this effort, THA has sought to make homeownership available at Salishan and elsewhere to low-income families through responsible home purchases. This report will assess those efforts. A companion report reviews THA's successful efforts to promote a racial diversity among its pool of Salishan home purchasers of both market rate and affordable homes. *See* *Quadrant Homes: Assessment of Diversity of Salishan and New Home Communities in Washington* (Fair Housing Center of Washington 2007). In 2008, THA received the Housing Justice Award from the Fair Housing Center of Washington recognizing "excellence in fair housing."

The Salishan effort occurred at an interesting time in national homeownership trends and national policies. During the 1980's, homeownership rates in the United States were decreasing. By 1991 rates had fallen from a high of 65.6%, to a disappointing low of 64.1%. During that same time, homeownership rates for very low income families with children plummeted from 39% to 27%. In 1995, President Bill Clinton announced the "National Homeownership Strategy", an unprecedented partnership between public, private and non-profit institutions to create a strategy for increasing homeownership opportunities for working families and those historically denied the American Dream of homeownership. The National Homeownership Strategy cited four fundamental benefits:

- ▶ "Through homeownership, a family....invests in an asset that can grow in value and . . . generate financial security"
- ▶ "Homeownership enables people to have greater control and exercise more responsibility over their living environment."
- ▶ "Homeownership helps stabilize neighborhoods and strengthen communities."
- ▶ "Homeownership helps generate jobs and stimulate economic growth."

Included in the National Homeownership Strategy was a plan that converted some Section 8 rental vouchers to Section 8 *homeownership* vouchers. Usually Vouchers are available to pay the rent. Under this new Section 8(y) Program, vouchers holders can use the voucher to help pay the monthly mortgage. The National Homeownership Strategy also included appropriations for funds that would match the savings accumulated by low-income families who were actively saving for homeownership, education or a new small business venture.

The National Homeownership Strategy was a timely one. Just two years earlier (1993) the Department of Housing and Urban Development (HUD) announced the HOPE VI Program, an aggressive overhaul of severely distressed public housing communities around the nation. Like the National Homeownership Strategy, HOPE VI would incorporate public, private and

non-profit planning, development and financing efforts. The new HOPE VI projects would replace neighborhoods of concentrated poverty with vibrant, mixed-income communities consisting of both owner-occupied units and rental housing. Since 2000, HUD has also made homeownership a continuing priority.

In 2000, THA received a HOPE VI award of \$35 million for the complete redevelopment of its public housing community of Salishan. Salishan was THA's largest public housing community. The federal government built Salishan in 1942 as an emergency war measure to house families of workers in the Tacoma shipyards and other war industries. After the war, the federal government gave Salishan to THA as public housing for low-income families. From the end of the war to the present, Salishan was a very important part of Tacoma's affordable housing portfolio. Yet, by the 1990s it was worn out. It had not been built to last so long. It also showed the effects of insufficient appropriations for the maintenance of public housing. Not only was the housing worn out but the entire neighborhood infrastructure needed replacement.

With the HOPE VI grant, THA began an ambitious project to tear down Salishan and completely rebuild it. New Salishan will have a mix of renters and homeowners, a mix of incomes, new infrastructure, parks and important services within walking distance. THA will build New Salishan in three phases. Phase I is complete and occupied. It has won numerous national awards for the design of its neighborhood and its housing. Phase II is under construction. THA hopes to complete Phase III by 2011 or so. (More information and photos about the Salishan project are available at www.tacomahousing.org.)

Homeownership is an important part of the Salishan project. It serves several purposes:

- ▶ Homeownership at Salishan is part of the effort to finance the construction. THA is selling part of Salishan to home builders or home purchasers to raise the money necessary to build the infrastructure and the rental housing.
- ▶ Homeownership creates a neighborhood of both owners and renters. THA favors this balanced type of neighborhood.
- ▶ Homeownership gives Salishan a greater mix of income. THA also favors this mix.
- ▶ The homeownership element of Salishan is also a chance to make homeownership available to low-income families. This chance implements THA's general approach to its work. It seeks to help people succeed not only as tenants but as parents, students, wage earners and asset builders. It wants families to come to THA's housing programs and to prosper. In this way, it wants its housing programs to be transforming experiences for families. Responsible home purchasers can help this happen. A responsible purchase of a home can be a transforming event in the life of a family and its children and grandchildren.

This report will recount THA's efforts to assist low income families in all of THA's homeownership programs to date. THA homeownership programs began in 2003 when THA was awarded the 2002 HUD ROSS Homeownership Supportive Services grant. The Authority has added many homeownership program resources since that time including 136 homes for sale in Phase I of Salishan that it offered on the open market. In general, THA had two goals:

- ▶ to make homes available to low-income families;
- ▶ to help protect families from irresponsible or unsustainable purchases. (We note that this goal gained an additional pertinence as the nation's mortgage market declined dramatically as an apparent result of overly aggressive marketing of unsustainable mortgages and unwise purchase decisions by home buyers.)

This report will also help THA adjust its efforts in Phase II of Salishan, which will have another 183 homes for sale. That effort, more than Phase I, will confront the full effect of the nation's troubled mortgage market.

2. HOMEOWNERSHIP PROGRAM RESOURCES

In general, THA looked through its population of families in its public housing and Housing Choice Voucher programs for families who (i) wanted to buy a home; and (ii) could be made ready for a responsible purchase. It then helped them to get ready. These are the resources THA has used for these purposes.

2.1 Homebuyer Counseling and Education Services

During the late 1990's homebuyer education and counseling were common prerequisites to use FannieMae and FreddieMac sponsored community lending 1st mortgage programs and most down payment assistance programs. Most Americans are undereducated when it comes to the mortgage market. People with credit challenges and limited incomes are even more susceptible to riskier and more expensive loans. Although many Fannie Mae and Freddie Mac community lending programs no longer require homebuyer counseling or education, many other programs do. These include Individual Development Account (IDA) programs, Family Self-Sufficiency homeownership match programs and state and local down payment assistance programs. In some instances, they require one-on-one counseling. To satisfy these requirements and because THA believed in their value, THA's first-time homebuyer program encompassed both homebuyer education and one-on-one counseling for its program participants. The curriculum is outlined below:

THA HOMEBUYER EDUCATION CURRICULUM	
Module 1	
Orientation	2 hours
Module 2	
Budgeting	2 hours
Credit Repair	1 hour
Module 3	
Down Payment Assistance/Escrow/Title Insurance	1 hour
Loan Processing/Underwriting	1 hour
Module 4	
Fair Housing and Locating and Choosing a Home	1.5 hours
Home Maintenance and Repair	1 hour
Required One on One Counseling	
Budget/Credit Review	1 hour
HomeChoice Counseling Session (Required only for HomeChoice Program applicants)	1 hour
Final Review and Completion Certification	1 hour
Total	12.5 hours

2.2 Public Housing Homeownership Programs

In the Spring of 2003 HUD awarded THA the 2002 Ross Homeownership Supportive Services (HSS) grant. This was a \$400,000 three-year grant that HUD later amended to a four year grant. It was THA's first significant attempt to provide homeownership services to public housing residents. This grant also required that THA begin a Section 8(y) Homeownership Program for Section 8 voucher holders. Both the Ross Homeownership Program and the Section 8(y) Homeownership Programs were part of the Quality Housing and Work Responsibility Act of 1998 (QHWRA). In that Act Congress sought to promote affordable housing for low-income persons and offered incentives and economic opportunities for persons who had stable employment. Following are the four main goals of the THA HSS program for public housing residents and the accomplishments made under each:

Goal 1	Inform and educate about available responsible, homeownership assistance opportunities
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THA held 21 Homeownership Opportunities and Orientation Workshops beginning in April 2003. These workshops reached 216 unduplicated residents. THA matched its efforts with importance partners:

- ▶ City of Tacoma Human Rights Human Services Department, Crime-Free and Fair Housing Division;
- ▶ City of Tacoma Police Department;
- ▶ Homeownership Center of Tacoma;
- ▶ representatives from the real estate and mortgage lending communities.

With these partners, THA conducted or hosted work-shops to help residents increase their understanding of Fair Housing Laws/Regulations and increase residents' knowledge of home buying opportunities/responsibilities and the process of purchasing a home. These workshops were also for the purpose of building awareness of the different ways these agencies can help potential homebuyers with the organizations' specific programs and approaches to Homeownership.

Program participants also attended and earned Washington State Housing Finance Commission (WSHFC) Homebuyer Education Certification through workshops provided by the HSS Program Specialist, the Martin Luther King Housing Development Association and the Homeownership Center of Tacoma. These workshops were held separately from the orientation workshops because WSHFC does not allow providers, real estate agents and lenders to talk about their respective programs. WSHFC requires homebuyers to attend these workshops in order to be considered for WSHFC down-payment assistance. THA and partners conducted 13 WSHFC Homebuyer Education Workshops reaching 69 unduplicated participants that received WSHFC Certification. Participants were evaluated for an increase in skills related to searching for and/or building a home, as well as for an increase in confidence and knowledge about buying a home. This was measured by a standardized evaluation from the WSHFC.

THA also conducted ten (10) Post-Purchase seminars reaching 68 residents.

All outreach and training material was translated from English into Russian/Ukrainian, Spanish, Cambodian, and Vietnamese reaching 100% of the participating public housing households.

Goal 2	Motivate and empower residents to transition from rent to ownership
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Beginning in March 2003, THA targeted Public Housing Family Self-Sufficiency (FSS) program participants to update or expand their ITSP (Individual Training and Supportive Services Plan) to include homeownership as a goal. (**Section 2.3.1 below describes FSS**). FSS Caseworkers and the HSS Program Specialist worked closely with participants to facilitate homeownership readiness. In addition, to the Homeownership Opportunities and Orientation Workshops, pre-purchase, post-purchase classes, and individual counseling was provided on credit repair, debt management, crime-free housing, IDA Savings Accounts, and FSS enrollment.

As part of this effort, thirty-eight (38) public housing residents added or included homeownership as part of their FSS Plan.

HSS eligible public housing residents who had completed homebuyer education class, the homeownership orientation class, and their FSS ITSP homeownership plan were offered the opportunity to open an Individual Development Account (IDA) (**Section 2.3.2 describes IDAs**) which matched their savings with contributions. The resulting balances helped with home purchases. Participants also learned about down payment assistance available through the City of Tacoma and Pierce County. They were also introduced to WSHFC House Key, House Key

Plus, and Homechoice programs and many subsequently used programs such as these in the purchase of their homes (**Section 2.4 describes these programs**).

Goal 3	Produce trained and well-prepared new homeowners
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THA's public housing first-time homebuyers have leveraged smart, affordable lending products such as the Washington State Bond Program with low and no interest second mortgage programs, including the City of Tacoma and Pierce County Down payment Assistance programs to expand their purchase price affordability. Many borrowers have also used IDAs and Family Self-Sufficiency program escrow accounts to further increase affordability and provide funds for closing costs and reserves. Each participant has received homebuyer-related education and training through seminars and one-on-one counseling. The counseling and education portion of the program have helped to ensure that each new homebuyer is properly prepared for the responsibilities that homeownership entails.

2.3 Affordability Enhancement Resources: Grant & Other Resources

2.3.1 Family Self-Sufficiency Program (FSS)

The Family Self-Sufficiency (FSS) program is an employment and savings incentive program for low-income families that have Section 8 vouchers or live in public housing. The FSS program was enacted in 1990, based on a proposal by the Administration of the first President Bush. It consists both of case management services that help participants pursue employment and other goals, and of escrow accounts into which the public housing agency (PHA) deposits the increased rental charges that a family pays as its earnings rise. Families that complete the program may withdraw funds from these accounts for any purpose after five years. THA participants have an average escrow balance of about \$6,000 at completion of the program that many use toward closing costs when purchasing a home.

2.3.2 Individual Development Accounts (IDA) Match Program

The IDA program helps low-income individuals and families save, invest and make purchases to better their lives. Assets provide security for families, increase wealth and self-sufficiency and offer something of lasting value that can be passed on to children. In this program, participants use matched savings accounts to:

- Purchase their first home.
- Obtain post-secondary education.
- Capitalize a small business.

Account holders are trained in financial education, homebuyer education and/or micro-enterprise development. IDAs provide low-income families with both an incentive to save and the skills to succeed.

THA has provided three IDA programs to potential homebuyers. One, now complete, matched each dollar of a participant's savings with seven dollars. Twenty-three residents (23) established IDA savings accounts in this program and deposited a total of \$11,201. The 7:1 match increased their aggregate savings to a total of \$88,407 to assist with closing costs.

Two other programs match savings one for one for an aggregate of a 2:1 match. It is funded through a \$100,000 grant awarded by Washington State Department of Community, Trade and Economic Development (CTED). The second is still operating. It is funded with a \$100,000 federal matching grant awarded by Assets for Independence (AFI). Participants in these two programs can save up to \$2,000 of their own money and earn \$4,000 in matched savings for a total of \$6000. About 40 participants are currently enrolled.

2.3.3 Section 8(y) Homeownership Program

With the enactment of the Quality Housing and Work Responsibility Act of 1998 (QHWRA), Congress sought to promote affordable housing for low-income persons and incentives and economic opportunities for Section 8 clients who had stable employment. With this goal in mind, Congress created a *Homeownership Option* for families receiving Section 8 tenant-based assistance. On September 12, 2000, HUD issued its final rule implementing the Section 8 Homeownership Program (Section 8[y]) permitting Public Housing Authorities to allow Section 8 recipients to convert an existing Section 8 rental voucher to a Section 8(y) homeownership voucher. In 2003, THA designated 25 of its Section 8 vouchers for use in the Section 8(y) program. In 2006, THA increased that number to 100 vouchers for homeownership.

THA considered an issue that has arisen in other PHAs who do this: making such vouchers available for home purchase can have the effect of redirecting vouchers to higher income families who, more than lower income ones, are interested and capable of a home purchase. Such a redirection would have clashed with THA's goal of reserving vouchers for the neediest families. THA avoided this clash by reserving the 8(y) option for families already on the program or who would later join the program under THA's normal selection criteria. This served several purposes: it preserved THA's focus on the neediest; it helped to make homeownership available to those families who may need the most help; it challenged THA to provide effective support to allow those families to succeed as home purchasers.

2.4 Affordability Enhancement: Second Mortgage Resources

2.4.1 City of Tacoma Down Payment Assistance Program

The City of Tacoma provides 20 year 2nd mortgages of up to \$20,000.00 to help qualified first-time homebuyers. Recipients must be below 80% of the area median income (see chart below). Participants can use the funds to purchase homes in most East Tacoma and South Tacoma neighborhoods. They can use loan proceeds to cover down payment and/or closing costs. The loans carry no interest charges. The loans become due upon the resale of the residence or if the owner changes the use of the home, (e.g. the borrower no longer occupies the

home as his or her primary residence.) NOTE: the loan terms for this program will change in 2008. Particularly, starting at that time borrowers will be required to make monthly payments either immediately after loan closing or at the beginning of the 6th year of ownership. Both options will have an adverse impact on the buyers' debt ratios.

Income Guidelines for City of Tacoma Down Payment Assistance Program

Family Size	Annual Income
1	34,800
2	39,750
3	44,750
4	49,700
5	53,700
6	57,650
7	61,650
8	65,600

2.4.2 Pierce County Down Payment Assistance Program

Pierce County (the county that includes the City of Tacoma) provides 30 year 2nd mortgages of up to \$20,000.00 to help qualified first-time homebuyers. As with the City of Tacoma program, recipients must be below 80% of the area median income and loan proceeds can be used to cover down payment and/or closing costs. Pierce County funds carry a 1% interest rate and can be used to purchase homes outside of the city limits of Tacoma and Lakewood. Purchase prices cannot exceed the 203(B) FHA loan limit (\$362,790 in Pierce County). Borrowers must contribute a minimum of \$1,000 of their own funds for loan amounts up to \$10,000 and \$2,000 of their own funds for loan amounts between \$10,000 and \$20,000. Payments are deferred and the loan becomes due upon the resale of the residence or if the use of the home changes.

2.4.3 Washington State Housing Finance Commission Programs

The Washington State Housing Finance Commission offers several second mortgage programs to help first-time purchasers with down payment and closing costs. Total home acquisition cost for all programs cannot exceed \$370K in non-targeted areas or \$395K in targeted areas (census tracts meeting the federal definition of “economically distressed”) of Pierce County. Other program qualifications are as follows:

Down Payment Program	Maximum Loan Amount	Eligibility Criteria	Interest Rate	Loan Term	Payment
House Key Plus	\$ 7,500	Household income at or below \$63,500	5%	10 years	Monthly
House Key Veterans	\$10,000	Must be Veteran Veteran's widow or member of National Guard or Reserves. Household income at or below \$63,500	3%	10 years	Monthly
House Key Schools	\$10,000	Must be employee of K-12 public or private school OR employee of community or technical college	3%	10 years	Monthly
HomeChoice	\$15,000	Must be disabled or have disabled family member living in the household	1% (interest can be forgiven after 30 years)	30 years	Deferred

3. OUTCOMES

3.1 Purchasers

THA took aggressive steps to ensure that some Salishan homes were available to low-income families. In Phase I it did this in three ways:

First, THA's homebuilder partner in Phase I was Quadrant Homes. Quadrant Homes was a good choice for THA because its natural target market was on the lower end of the purchase market. Quadrant built and sold 118 homes in Phase I of Salishan. In addition, by contract with THA, Quadrant committed to selling 30 of those homes to families at or below 60% of the Area Median Income (\$ 48,000 for a family of four) at prices that families at those incomes could afford. Essentially, THA left money on the table in its sale of lots to allow for this.

The actual income levels of the purchasers of these affordable homes at Salishan were even more impressive. Their average income was 46% of A.M.I. (\$ 26,092). The average purchase price of their Salishan home was \$ 194,587. Even the market rate homes were quite affordable at an average price of \$ 220,130.

Second, THA sold 6 lots in Phase I to Tacoma-Pierce County Habitat for Humanity. Habitat built and sold 6 homes to families closer to 30% of AMI. It accomplishes this with its distinctive financial strategy: corporate donations, volunteer labor and the labor of the purchasing family.

Third, THA preserved eleven of the original Salishan homes. It did this at the direction of the State Office of Historic Preservation. THA completely redid the inside of the home and improved the outside with additional trim that the Office of Historic Preservation allowed. THA then sold 8 of these homes; 3 of them at market rate and 5 of them at below market prices to low income families. (It is using the other three homes for other purposes.)

The table below shows THA households that have purchased homes at Salishan and outside of Salishan since 2000. Twenty-eight (28) Section 8 participants have successfully moved from rental to ownership by converting their Section 8 rental vouchers to Section 8(y) vouchers. Eight (8) purchased in Salishan, and of those eight, five (5) purchased homes developed by Habitat for Humanity. The remaining 20 participants purchased on the open market.

The table also shows 52 THA households who purchased homes with significant assistance from THA's earlier supportive service programs. These supportive service programs were in place before Salishan redevelopment planning began in 2000-2001 and were designed by HUD to help families succeed in a general way. Part of HUD's program strategy allowed THA to charge a "ceiling rent" or flat rent to higher income households so they could save and become self-sufficient. In 2001 there were 62 households with incomes between 51%- 80% AMI and 30 households with incomes above 80% AMI. These were families who had benefited from the HUD rent cap. When redevelopment planning began in 2000-2001 many of these higher income

households were informed that they would not be eligible to return to new Salishan as renters because of their relatively higher incomes. Many decided to buy a home. Twenty-two (22) of these higher income households were able to buy with limited assistance from THA.

It is clear that THA caseworkers played an important role in helping those higher income households become homeowners before and during the formal homeownership program. Caseworker provided bilingual supportive services in Russian, Vietnamese, and Cambodian to these households.

THA Clients Who Purchased Homes

Home Purchasers	Public Housing	Section 8 Voucher Program	Total
# of THA homebuyers with incomes below 60 AMI who participated in THA 's Homeownership Program	21	28	49
# of THA homebuyers with incomes above 60% AMI who received significant supportive services outside of the formal homeownership program	52	0	52
# of THA homebuyers with incomes above 60% AMI who received very limited assistance from THA	22	0	22
Total Number who purchased	95	28	123

3.2 Protection against Risky Borrowing and Predatory Lending

Public Housing residents were required to complete homebuyer education classes and one-on-one counseling because it was a requirement of receiving IDA match funds and/or using a loan program that required homebuyer training. These purchasers received good financing packages.

THA was quite successful in connecting Section 8(y) clients to safe, affordable, fixed rate mortgage products. As part of the program guidelines, borrowers were required to obtain THA approval of their financing package. The approval process included a review and approval of all

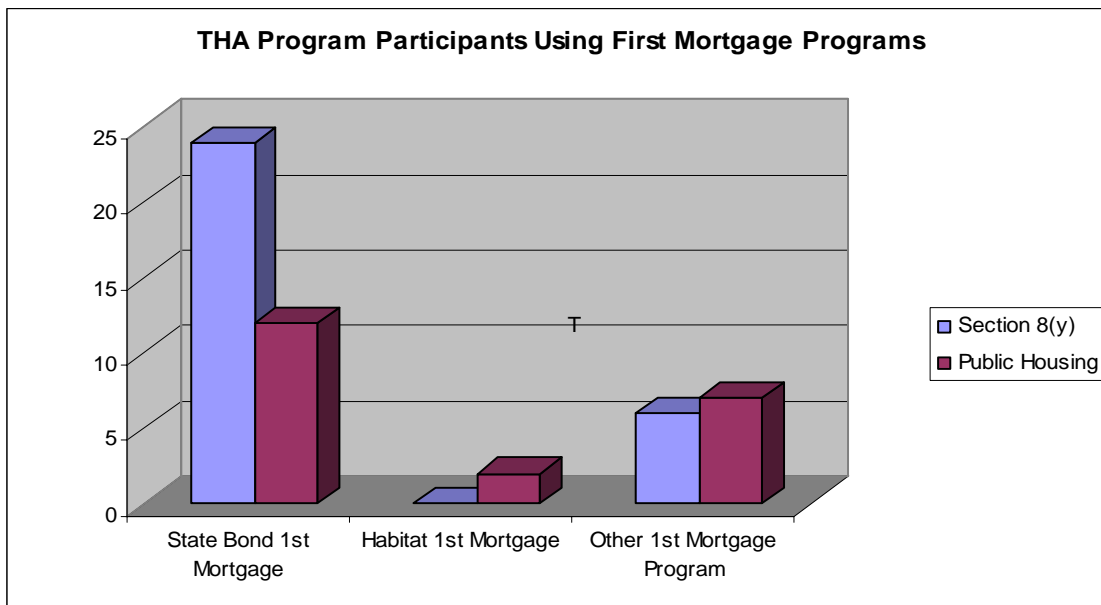
financing resources that would be used in the purchase transaction and worked to ensure the borrowers were receiving fixed rate loans that were competitively priced, safe and easy to understand. Twenty-four (24) of the 28 participants received State Bond first mortgages.

3.3 Financing and Down Payment Assistance Programming

WSHFC State Bond Program – Most Section 8(y) purchasers (24 of 28) and many public housing purchasers (11 of 20) who participated in THA’s homeownership program received first mortgages through the Washington State Housing Finance Commission State Bond program. Mortgage rates for the bond program are fixed by the Commission and total lender fees cannot exceed 2% of the loan amount.

Habitat for Humanity - Two of the remaining 9 public housing purchasers received Habitat for Humanity first mortgages, and these loans are also safe, practical and affordable.

Note: Although seven public housing purchasers received first mortgages that were neither State Bond nor Habitat loans, only one received an ARM and that ARM product carries a 5-year fixed rate introductory period and the start rate on the loan is 6%, which is very competitive.



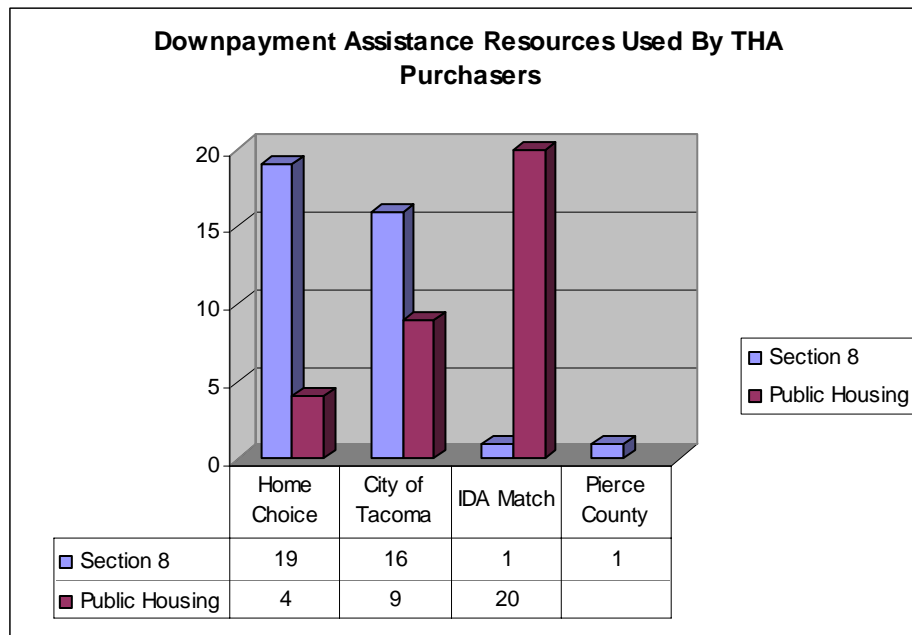
3.4 Special Second/Third Mortgage and Down Payment Programs

➤ Twenty-three (23) Section 8(y) and Public Housing (Sec 8 & PH) resident purchasers received HomeChoice 2nd mortgage loans. See Chart Below. Loan amounts ranged from \$10,000 to \$15,000, with most borrowers receiving the \$15,000 maximum. Using this program and others like it, borrowers were able to increase their purchasing power without increasing their minimum monthly mortgage payment.

➤ Twenty-five (25) purchasers (Sec 8 & PH) received a City of Tacoma down payment assistance 2nd mortgage. Loan amounts ranged from \$5,500 to \$20,000, with most borrowers receiving the \$20,000 maximum. This program also allows borrowers to increase their purchasing power without increasing their minimum monthly mortgage payment.

➤ One (1) purchaser received a Pierce County down payment assistance 2nd mortgage in the amount of \$10,000. As with the HomeChoice and Tacoma Down Payment programs, borrowers are able to increase their purchasing power without increasing their minimum monthly mortgage payment.

➤ Twenty (20) public housing residents and one (1) Section 8(y) resident received IDA funds. The 20 public housing households contributed \$11,201 in their own savings and received \$88,407 in match (7:1). The Section 8(y) participant contributed \$2 000 in their own savings and received a \$4,000 (2:1) IDA matching grant. These funds are given in the form of a grant and therefore do not require repayment. Using this program, borrowers have access to funds for closing costs and reserves – expenses that are often met by increasing the sales price of a home or increasing the mortgage interest rate, both of which adversely impact the borrower’s required minimum monthly mortgage payment.



Many Section 8 (y) and public housing purchasers were able to leverage two or more down-payment assistance resources to maximize affordability and minimize required out-of-pocket cash for down payment, closing costs and reserves. In one instance, a purchaser was eligible for three resources (HomeChoice, City of Tacoma and IDA match funds) for a combined grant of \$38,500.00 in down payment assistance. Down-payment assistance for all participating families totaled:

- City of Tacoma Down-payment Assistance \$278,000
- Home Choice Down-payment Assistance \$267,230
- Pierce County Down-payment Assistance \$10,000
- Individual Development Account \$4,000

3.5 Protection from Imprudent Borrowing

THA was not only seeking to help its clients purchase a mortgage and a home. It also sought to help them purchase prudently. In an effort to measure this success of our homeownership program, we attempted to assess the quality of loans that various groups of purchasers borrowed.

3.5.1 THA Clients not Participating in THA Homeownership Programming

THA took a closer look at the 74 THA purchasers who purchased without participating in the formal THA homeownership education and counseling services. According to records maintained by THA, we determined that 59 of these 74 borrowers purchased homes in Pierce County. We sampled these 59 transactions via the Pierce County Assessor's Office in an effort to identify the loan terms these borrowers received. A few patterns we found were troubling:

- 17 of the buyers received ARM (adjustable rate mortgage) loans (see chart below for the terms of these loans);
- 15 of the 17 ARM loans were originated by lenders who are largely recognized as "sub-prime" lenders;
- Four (4) of the fixed rate loans made to these buyers were also originated by recognized sub-prime lenders;
- Prepayment riders were recorded for five (5) of the ARM loans made to these buyers*;
- One borrower who received an ARM sold her property in 2007. There is no way to determine the terms of her loan
- Of the 74 buyers, we were only able to identify two (2) borrowers who received bond loans

*It is standard practice for sub-prime loans to carry prepayment penalties. The absence of a prepayment rider does not mean the loan did not carry a prepayment penalty. If the prepayment terms are discussed in the Promissory Note (a document that is not recorded in the public record), no rider is required and thus, we have no means to determine whether or not a prepayment penalty was written into the loan. This holds true for both fixed rate and ARM loans.

The chart below summarizes the troubling patterns that homeowners who did not participate in homeownership education and counseling encountered in securing safe, affordable, fixed rate mortgage products.

Lender	Sub-prime Lender?	Start Rate	Fixed Rate Term	Prepayment Penalty
Countrywide	Yes	4.5	3 Yr	Unknown
American Mtg Network	Unknown	5.75	5 Yr	Unknown
Decision One	Yes	5.75	2 Yr	Unknown
Countrywide	Yes	6	3 Yr	Unknown
Oakmont	Yes	6.125	2 Yr	Unknown
Long Beach Mtg	Yes	6.15	2 Yr	Yes
New Century	Yes	6.49	2 Yr	Yes
Long Beach	Yes	6.7	2 Yr	Unknown
FMF Capital	Yes	7.392	2 Yr	Unknown
Argent	Yes	7.45	2 Yr	Unknown
FMF Capital	Yes	7.49	2 Yr	Unknown
New Century	Yes	7.49	2 Yr	Yes
First Franklin	Yes	7.625	2 Yr	Yes
Accredited	Yes	7.875	2 Yr	Unknown
New Century	Yes	8.1	3 Yr	Yes
Argent	Yes	8.2	2 Yr	Unknown
Sound Mort.	Unknown	Unknown	Unknown	Unknown

3.5.2 *Non-THA Borrowers*

Another group that appears to have not fared as well in the purchase process is other community residents (non-THA purchasers) who bought at Salishan without going through THA's programs.

Using a snapshot of loan data provided us by a local title company, we were able to analyze ARM loans made to non-THA borrowers in Salishan. As a result of that analysis, we identified 20 non-THA borrowers who received adjustable rate mortgages with start rates at or above 7.38%. During the time these loans were originated, 30 year fixed rate mortgage rates were hovering between 6% and 6.5%. Since adjustable start rates are usually lower than those of fixed rates offered at that time, it is reasonable to expect that adjustable start rates for Salishan borrowers would have fallen somewhere below 6%. The fact that start rates on adjustable mortgages made to non-THA borrowers are so high is troubling. A closer look at the rates in the

sample data shows that 10 of the 20 adjustable rate mortgages had start rates at or above 8.32%, with the highest reported rate coming in at 11%. One property carrying a start-rate of 8.32% is currently on the market and according to the agent's remarks on the marketing flyer the sale of this home may involve a "short sale". This borrower closed on her home on November 1, 2006 using a zero down 80/20 purchase program offered by a local bank. Just one year later, she is facing a short sale and possible foreclosure. A second non-THA purchaser closed on her home on October 26, 2006 and used a zero-down 80/20 purchaser program offered by a mortgage company that has since gone out of business. According to the marketing flyer, the home is occupied by a tenant and has been on the market since November 16, 2007. We are unable to determine whether the loan terms are forcing the owner to sell the property.

4. CONCLUSION AND SUGGESTIONS FOR IMPROVEMENT

4.1 Impressive Results

THA's efforts to promote homeownership for lower income families at Salishan and elsewhere were notably successful. One hundred and twenty-three THA clients purchased homes. Twenty of them purchased in Salishan. Another 120 families from outside THA purchased Salishan homes at very affordable prices.

THA's efforts to help families choose their financing wisely were also quite successful. This is evident from the superior financing terms that resulted for those who went through THA's programs compared with the terms of those who did not go through those programs. As we move forward with Area III development, we must not lose sight of the importance of protecting Salishan property values. Although it appears we did an excellent job getting our Section 8 and Public Housing clients into the most affordable loan products, the evidence shows that THA clients who did not complete the formal homeownership program and some non-THA purchasers did not fare as well. Many of the borrowers who received higher priced (and in some cases, what appears to have been unnecessarily high rates) mortgages will likely face the threat of foreclosure in coming months. Any measurable number of foreclosures in the community will adversely affect the wealth-building efforts of all homeowners in that community— including those we have worked so hard to protect. It is imperative that we develop systems that will not only guide THA clients to affordable lending products but will connect *all* Salishan purchasers to the best possible lending products. Having effective systems in place will mean a stronger and more stable community and provide stopgaps to protect our clients' equity.

4.2 Suggestions for Improvement

4.2.1 On-Site Financing Office

Although most homebuyers select a lender before beginning the home search, all Salishan Area III purchasers will benefit from an on-site financing office – even those who have already applied for a loan elsewhere. The idea would be to offer an array of affordable lending and competitively priced loan products for all prospective Area III buyers and those buying in the local community. The office would be staffed by THA-approved lenders and those lenders would only offer THA-approved loan programs. The on-site office would also create healthy competition among participating lenders as well as non-participating lenders. Borrowers who already have

financing in place will also likely want to compare what they can get through the on-site office. This place to “shop and compare” could be our most effective measure to assure that purchasers get the best possible loan terms.

A sample of eligibility criteria that lenders would have to meet in order to be approved for the on-site office would include:

- Experience with the Section 8(y) program
- An excellent CRA rating
- A proven track record in originating affordable lending products
- Dedicated loan officers for the THA facility

4.3.2 Mortgage Broker Designation

The THA Community Services Department is examining plans to become a Licensed Mortgage Broker. HomeSight, a Seattle-based non-profit affordable housing developer has successfully been operating as a Mortgage Broker for the past four years. The Mortgage Broker designation has allowed them the unprecedented opportunity to ensure the best possible mortgages for their borrowers. THA would contract with an experienced Mortgage Broker to provide the necessary expertise and licensure. As a Washington State Licensed Mortgage Broker, Tacoma Housing Authority will be in the best possible position to ensure that each of our borrowers receives the best and most affordable mortgage package available in our area. THA staff has been working with eligible resident homebuyers for the last few years to provide the education, counseling, and pre-qualification packaging and documentation necessary to obtain a loan. We would continue those efforts. THA has been doing all the work with no financial return and the lender receives a complete package and then receives all the fees. THA thinks it can broker these loans itself and receive about 2% per loan. If THA did just half of the 183 new homes in Area III we would earn about \$400,000 based on brokering loans between \$200K to \$275K. This would help subsidize THA’s other services.