

# ANN ARBOR HOUSING COMMISSION

## Housing Choice Voucher Homeownership Program

### Introduction

The Section 8 HCV Homeownership Program was created to assist low-income, first-time homebuyers in purchasing homes. The program is a component of the Department of Housing and Urban Development's (HUD) Section 8 HCV Program, which also includes a rental assistance program. These programs are funded by HUD and administered by participating local Public Housing Authorities (PHAs).

Through the Section 8 HCV Homeownership Program, the participating PHA may provide an eligible consumer with a monthly housing assistance payment (HAP) to help pay for homeownership expenses associated with a housing unit purchased in accordance with HUD's regulations.

The HCV Homeownership Program is a federal assistance program that provides a continuing income supplement, premised on need, is 'public assistance' for purposes of the regulation. As such, mortgage assistance provided under the Section 8 HCV Homeownership Program is income derived from a public assistance program under ECOA and Regulation B.

### Basic concept

Instead of using voucher subsidy to help families with rent, homeownership option allows first-time homeowner to use voucher subsidy to pay the monthly mortgage payment for up to 15 years, or indefinitely for eligible families. Funds are not permitted for down payment assistance.

### Financing

Institutions can consider the assistance as income derived from the Section 8 HCV Homeownership Program during mortgage loan application and underwriting processes. The use of Section 8 HCV Homeownership Program

vouchers is not restricted to only certain home mortgage loan products or delivery channels.

The family must secure financing on their own. AAHC does not finance the loan and we do not determine the amount eligible for financing. However, we are obligated to review the affordability of purchase.

AAHC may disapprove proposed financing, refinancing, or financing for improvements or repairs if we determine the debt is unaffordable or lender or loan terms do not meet HUD requirements.

Although, our program is not a down payment assistance program it can be used with several lending products such as:

- Down payment assistance
- FHA
- VA
- Conventional

### *First-Time Homebuyer Programs*

- **MCCP**  
[www.michigan.gov/mshda/0,4641,7-141-45866\\_45868-216692--,00.html](http://www.michigan.gov/mshda/0,4641,7-141-45866_45868-216692--,00.html)
- **HomeReady**  
[www.fanniemae.com/singlefamily/homeeready](http://www.fanniemae.com/singlefamily/homeeready)
- **HomePossible**  
[www.freddiemac.com/singlefamily/docs/home\\_possible\\_advantage\\_flyer.pdf](http://www.freddiemac.com/singlefamily/docs/home_possible_advantage_flyer.pdf)
- **USDA** - [www.rd.usda.gov/mi](http://www.rd.usda.gov/mi)

### Financial Models

Institutions may consider the assistance from the Homeownership Program only for the purpose of determining a pertinent element of creditworthiness. The creditor may not automatically discount or exclude the assistance from consideration. Any discounting or exclusion must be based on the applicant's actual circumstances.

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**In Example 1.**, underwriters consider the HAP as an additional source of income. The HAP is not taxable, underwriters can inflate the HAP by 25% and add it to other income sources for total gross income. Underwriters then use qualifying ratios of gross monthly income, to determine the PITI payments that the participant can afford, and thus the total loan amount that the participant can borrow.

Example 1	Single Mortgage, HAP as Income	
The following example shows how the PHA and lender calculate what the family can pay, and how much the family can borrow. The calculation, and those that follow, are based on the family's making the largest possible loan with the resources available to them.		
<b>Family's annual income</b>	<b>\$22,000</b>	
<b>Family's monthly income</b>	<b>\$1,833</b>	
<b>Voucher payment standard</b>	<b>\$800</b>	
Calculation	PHA	Lender
Monthly Adjustments	-(113)	+ \$355 (\$284 x 1.25) 9
Monthly Adjusted	\$1,720	\$2,188
Qualifying Ratio	30%	28%
Family Can Pay	\$516	\$613
HAP	\$284	—
Taxes &	—	(\$125)
Principal &	—	\$488 to Lender
1st Mortgage	—	\$69,793
Family Payment	—	\$488
PHA Payment	—	\$0 to Lender \$284 to Family
2nd Mortgage	—	—
Family Payment	—	—
PHA Payment	—	—
Total Loan(s)	—	\$69,793

Example 2	Single Mortgage, HAP as Additional Mortgage payment	
Based on their monthly gross income, and an income-to-loan ratio of 28 percent, the family can pay \$513 of their own income and \$284 in HAP payments for a total of \$797 toward the monthly PITI. When \$125 is deducted to cover the cost of taxes and insurance, the family is still able to pay \$672 for principal and interest and can afford a loan of \$96,108.		
<b>Family's annual income</b>	<b>\$22,000</b>	
<b>Family's monthly income</b>	<b>\$1,833</b>	
<b>Voucher payment standard</b>	<b>\$800</b>	
Calculation	PHA	Lender
Monthly Adjustments to	(\$113)	—
Monthly Adjusted Income	\$1,720	\$1,833
Qualifying Ratio	30%	28%
Family Can Pay	\$516	\$513 + \$284 (HAP)
HAP	\$284	—
Taxes & Insurance	—	(\$125)
Principal & Interest	—	\$672
1st Mortgage <sup>11</sup>	—	\$96,108
Family Payment	—	\$388 to Lender
PHA Payment	—	\$284 to Lender
2nd Mortgage	—	—
Family Payment	—	—
PHA Payment	—	—
Total Loan(s)	—	\$96,108

**In Example 2.**, underwriters use the full HAP to offset PITI payments. First, qualify clients for a monthly PITI payment using qualifying ratios of gross monthly income, to determine the clients' portion of monthly payments. Then,

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underwriters add the full amount of the monthly HAP to the clients' monthly cash portion to get the total monthly resources available to pay the PITI. This total is then used to determine the loan amount the clients can borrow, given the interest rate and other terms of the lending products being used.

**In Example 3.**, the two-mortgage model is a variant of the HAP as offset model in that the two-mortgage model also applies 100% of the HAP towards paying down the mortgage. However, in the two-mortgage model, the HAP is used to determine and pay towards the second mortgage while the borrower's income is used to determine and pay towards the first mortgage.

In programs using the two-mortgage model, underwriters first qualify the borrower for a first mortgage by basing monthly PITI payments on participant's income alone, using typical qualifying ratios, usually in the range of 28 to 30% of gross monthly income.

Program staff then underwrites the second mortgage by using the HAP as the resource for monthly payments. A nonprofit, or a state housing finance agency usually holds the second mortgage for a term no longer than the term of the HAP (usually 10 to 15 years).

Because the HAP is being used to pay off a loan amortized over a shorter time period than the 30-year terms of typical first mortgages, the two-mortgage model has somewhat less buying power than the HAP as offset model as shown in the table.

Many Homeownership Voucher Programs work because the PHAs and/or their partners are able to obtain additional funding to fill the gaps between the purchase price and loans after the family's income and HAP payments were exhausted.

Example 3	Two Mortgage Model Mortgages	
Another advantage of this model is that the use of a second mortgage will reduce the amount borrowed on the first mortgage. If the resulting loan-to-value ( <i>LTV</i> ) ratio of the first mortgage is 80 percent or less, private mortgage insurance will not be required. Let's take a look at some numbers using the two-mortgage model.		
<b>Family's Annual Income</b>	<b>\$22,000</b>	
<b>Family's Monthly Income</b>	<b>\$1,833</b>	
<b>Voucher Payment Standard</b>	<b>\$800</b>	
Calculation	PHA	Lender
Monthly Adjustments to income	-\$1,360/12	—
Monthly Adjusted	\$1,720	\$1,833
Qualifying Ratio	30%	28%
Family Can Pay	\$516	\$51
HAP	\$284	—
Taxes & Insurance	—	\$125
Principal & Interest	—	\$388
1st Mortgage <sup>11</sup>	—	\$55,490
Family Payment	—	\$388
PHA Payment	—	—
2nd Mortgage	—	\$31,597
Family Payment	—	—
PHA Payment	—	\$284
Total Loan(s)	—	\$87,087

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### Homeownership Program

Family is responsible for finding eligible unit to purchase instead of rent. In addition, the family is responsible to secure financing. AAHC will provide the family with a monthly housing assistance payment (HAP) to help pay for homeownership expenses associated with a housing unit purchased

### Homeownership Voucher Subsidy

AAHC will determine the amount of assistance (subsidy) the applicant is eligible for. The subsidy is determined using a standard payment for the family size and the annual household income.

- A payment standard is used to calculate the monthly housing assistance payment (HAP) for the family.
- The payment standard will never be less than payment standard at time homeownership assistance commences for the home.

### Housing Assistance Payment

Family will pay at least 30% of their monthly income (TTP), after applicable adjustments, however, they can pay more. We calculate the monthly homeownership assistance payment as the lesser of:

1. Payment standard minus TTP; or
2. Monthly homeownership expenses minus TTP

### Family Share

Family is responsible for all homeownership expenses not covered by the HAP payment. If homeownership expenses exceed the payment standard, family pays the difference out-of-pocket in addition to TTP.

### Continued Assistance

Families will continue to receive assistance up to the maximum term if they meet the following obligations:

- Comply with the terms of mortgage.
- The home must be the family's only residence and the family can have no other ownership interest in residential property.
- The family may not sublet or lease the unit.
- Report all changes in family composition and income sources.
- Comply with any additional requirements for continuation of homeownership assistance set by AAHC.

### Time Limits

Families may receive assistance for up to 15 years. Time limits do not apply to elderly or disabled families.

### Maximum term

1. 15 years if the initial mortgage has term of 20 years or longer
2. 10 years in all other cases
3. Time limit applies from initial purchase

### Over Income

At some point, the PHA may determine that the family's income has increased to the point where the family is no longer eligible for a HAP payment (\$0 subsidy). Under rental and Homeownership Voucher Program regulations, the family's participation is to be terminated after 180 days with no subsidy payment.

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### Homeownership Expenses

- Principal and interest on mortgage debt
- Mortgage insurance
- Real estate taxes
- Home insurance
- PHA allowance for utilities
- Homeownership Expenses
- PHA allowance for routine maintenance
- PHA allowance for major repairs
- Principal and interest on mortgage debt for major repairs
- If home is a coop or condo, may include coop or condo operating charges or maintenance fees
- Land lease payments (in certain cases)

### Finding a Home

There is no time limit for a family to locate a home to purchase and to close on a home. AAHC may not steer or restrict families to certain sellers or neighborhoods. Families may only purchase a home within the AAHC jurisdiction of Monroe or Washtenaw county.

### Types of Homes

- Homes under construction
- Existing homes
- Manufactured homes
- Purchase of home where family does not own fee title to real property (land)
- Home must be located on a permanent foundation
- Family has right to occupy home site for at least 40 years

### PHA disapproval of owner

- AAHC may not approve unit if we have been informed (by HUD or otherwise) the seller is debarred, suspended, or subject to limited denial of participation under 24 CFR Part 24
- AAHC may deny approval of seller for any reason provided under 982.306(c)

### Two Home Inspections

The home must pass both a Housing Quality Standards Inspection conducted by AAHC and an Independent Professional Home Inspection.

#### 1. Housing Quality Standards Inspection

- AAHC conducts housing quality standard inspection under voucher program
- The HQS inspection determines current condition of the home is decent, safe, and sanitary
- No annual HQS inspection requirement

#### 2. Independent Professional Inspection

- Unit must also be inspected by independent professional selected and hired by family
- Assess adequacy and life-span of major systems, appliances, and other structural components
- Requirement for inspection arranged by buyer and satisfactory to buyer is typical contingency clause in contracts of sale, consistent with real estate practice
- AAHC may disapprove unit on basis of report

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### Contract of Sale

Family must provide copy of contract of sale to AAHC. Contract of sale must:

- Provide for pre-purchase inspection
- Buyer satisfaction, buyer not obligated to pay for repairs
- Seller certification that seller not debarred, suspended, or subject to limited denial of participation

### Eligibility for Homeownership Assistance

#### *Current AAHC Participant*

- Families must be a current participant of AAHC Housing Choice Voucher program (Section 8) or Project-based Voucher for at least one year.

#### *Minimum Income Requirements*

- Family must meet Federal minimum wage multiplied by 2000 hours
- Except for disabled and elderly, applicants must maintain full-time employment
- Applicant must be currently employed full-time (not less than an average of 30 hours a week)
- Must have been continuously employed for at least one year
- Applicable disabled and elderly head of household, spouse, or co-head must maintain a minimum income equal to the maximum monthly Supplemental Security Income (SSI)

#### *First-time Homeowner*

- In general, no family member has a present ownership interest in a residence at commencement of homeownership assistance or during the last 3 years (current homeowners are not eligible for the program)

- Statute provides exception for cooperative members who have acquired cooperative membership shares prior to commencement of homeownership assistance

#### *Mortgage Defaults*

Family is not eligible if any family member who was an adult family member at time of default has previously received homeownership assistance and defaulted on mortgage

#### *Pre-Assistance Homeownership Counseling*

Eligible family must attend and satisfactorily complete homeownership counseling program.

Topics include:

- Home maintenance
- Budgeting and money management
- Credit counseling and credit repair
- Financing Aspects
- Obtaining financing and loan preapprovals
- Types of financing, pros and cons of different approaches, how to avoid loans with oppressive terms and conditions

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#### **Additional Information:**

[HUD HCV Homeownership Regulations](#)  
[HCV Homeownership Guidebook](#)  
[Consumer Financial Protection Bulletin 2015-02](#)