INFO BRIEF

# Housing Choice Voucher Homeownership Option

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*"… It was not that easy. It was not a breeze at all. I had a disability to deal with and I had to try and attend to everything else. But I did not give up…This [homeownership] is a blessing, more than anything I could have been given. It is beyond measure for me personally...It makes living a little bit easier…"*

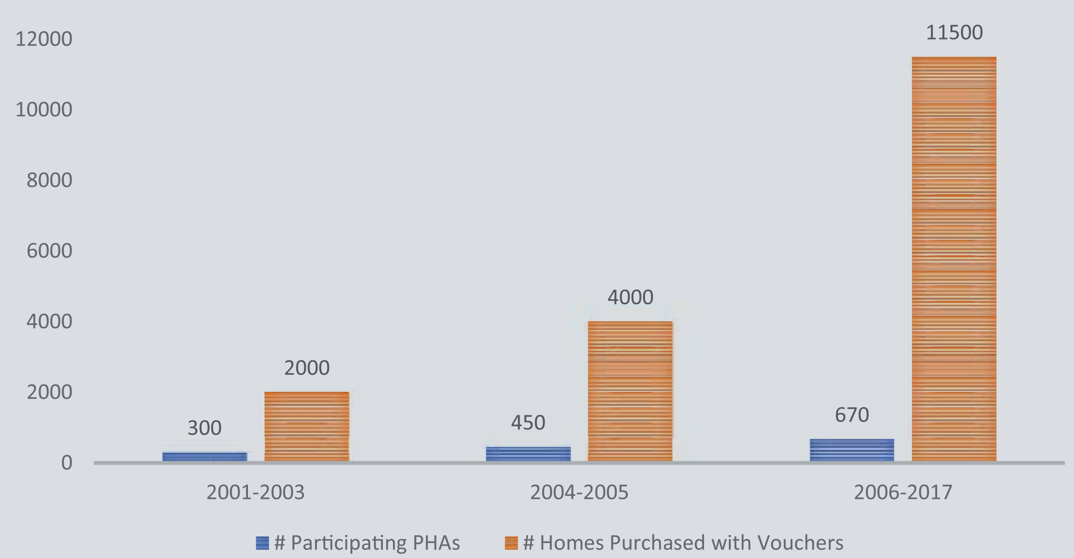
*— Voucher homeowner with a disability*

## Introduction

In September 2000, the U.S. Department of Housing and Urban Development (HUD) issued a final rule for the voucher homeownership program, authorizing Public Housing Authorities (PHAs) to allow low-income households receiving rental vouchers to apply their vouchers toward homeownership. Under this rule, PHAs were given specific guidelines and requirements for establishing their own "voucher homeownership" (VHO) programs.

By early 2004, HUD estimated that 300 public housing authorities were operating voucher homeownership programs. Figure 1 indicates the level of national participation in the VHO program between January 2001 and December 2017.

Figure 1 - Housing Choice Voucher Homeownership Option Participation 2001-2017




Data source: Turnham et al, 2006; Department of Housing and Urban Development, 2018

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Under the VHO program, participants use the monthly housing assistance payment (HAP) provided by the voucher to help pay the homeownership expenses for a housing unit that they purchase, rather than the traditional application of the voucher toward rent payments. The three most common approaches to applying the housing assistance payment (HAP) toward the mortgage used to purchase the home are: to use the HAP as a direct offset to the mortgage payment; to use the HAP as payment for a second mortgage; and to count the HAP as income in determining the amount that can be borrowed (60% of agencies use this methodology).

The homeownership program has some other distinct requirements, including mandatory homeownership counseling and a time limit of 10 to 15 years of assistance (depending on the terms of the mortgage) for non-elderly, non-disabled families. In addition, all homes purchased through the voucher homeownership program are required to pass two separate inspections: A Housing Quality Standards (HQS) inspection and an independent inspection.

Families with a member who is recognized as having a disability by the PHA [using the Social Security Administration definition], are entitled to receive assistance for the entire term of the loan so long as the other requirements for continued eligibility are also met (US Department of Housing and Urban and Development, 2000).

## HOUSING CHOICE VOUCHER HOMEOWNERSHIP OPTION (HCVHO) STUDY

Between 2000-05 the US Department of Housing and Urban Development commissioned a study to assess the efficacy of the HCVHO program nationally. Through a mixed method approach that involved a survey of the 206 public housing authorities who reported at least one homeownership option purchase between 2001- 02 and follow-up case studies on 10 PHAs who were chosen for site visits based on, "their record in helping voucher recipients purchase homes and for their diversity in location and program design" (Turnham et al., 2006, p. II).

This study proposed the following relevant questions (Turnham et al., 2006, p. II):

- How are PHAs recruiting VHO participants?
- How is the housing assistance payment (voucher) used to support mortgages?
- What other sources of financing help purchasers?
- What factors seem to contribute to higher rates of program purchases, including PHA characteristics, program components, and housing market characteristics?

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## *Recruiting Participants*

Generally, the level of interest in homeownership has met or exceeded most VHO administrators' expectations. The researchers note that administrators surveyed recognized that high home prices and problematic credit histories dampened some potential applicants' enthusiasm for the program (Turnham et al., 2006).

Fewer than 20 percent of VHO programs studied had income or employment criteria beyond HUD's minimum requirements. Of those programs with additional targeting, Family Self-Sufficiency (FSS) participants were the most commonly targeted group: 29 percent of programs require FSS, and 33 percent gave preferential access to FSS participants (Turnham et al., 2006).

The Family Self-Sufficiency program is designed to promote economic self-sufficiency among participating families. Families who are eligible to participate in the FSS program receive housing assistance through the Housing Choice Voucher Program, Project-Based Certificate Program or Family Unification Program. With their housing stabilized, the family can then invest their energy in other efforts—including employment, education and job training. Under the FSS program, the family is referred to the appropriate support services and resources in the community, which are needed to move the family toward economic self-sufficiency. The FSS program offers a financial incentive to families through the establishment of an escrow account that becomes available to the family upon achievement of certain interim goals or successful completion of their Contract of Participation (Family Self-Sufficiency, Retrieved 6/16/18).

## *Financing Homeownership*

Turnham and colleagues report that 3,400 homes had been purchased through the 206 VHO programs studied. The researchers examined the circumstances surrounding the financing for those who have purchased, both at the PHA level for the programs surveyed and at the individual level for a random sample of 98 purchases taken from the 10 case study sites.

The researchers indicated that the agencies with the greatest purchase rates provided some degree of additional funding to help with the purchase of the home. Down payment assistance grants were available to at least some purchasers at most surveyed programs (84 percent). Three-quarters of surveyed programs had purchasers who used FSS program escrow accounts to help finance their purchases. Below-market or forgivable second mortgages were available at almost half of surveyed programs (47 percent), as were Individual Development Accounts (IDAs) or other matched savings programs (46 percent). Grants or below market loans for rehabilitation costs were available to purchasers at a quarter of surveyed programs (Turnham et al, 2006).

This study also indicates that most housing authorities have a limited lender network. Of the 206 VHO programs surveyed, agencies reported working with 4.4 lenders on average. Sixty-nine percent of programs reported working with between one and five lenders, while 18 percent reported working with six or more lenders. Once a loan is underwritten, 40 percent of programs rely on the lender to report any delinquencies to the PHA. Eighteen percent of programs rely on the homeowner to self-report payment difficulties. Among the programs surveyed delinquencies and foreclosures are relatively low. Eight agencies reported a total of 10 foreclosures out of 3,400 purchases nationally (4 percent). Twelve percent of the 206 VHO programs studied reported having at least one delinquency but no Housing Authority reported having more than two (Turnham et al, 2006).

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This is noteworthy given that among the 98 cases that were reviewed individually during site visits, the average loan was underwritten at 99.7 percent loan-to-value (LTV). The researchers reported a strong perception among VHO participants from focus groups that despite high LTV ratios, "they were building assets for the future and would be able to pass them on to their children" (Turnham et al, 2006, p. V). Even among those who were borrowing 100 percent loan-to-value at origination, it was projected that they would build some equity based on low mortgage interest, especially if the value of the property appreciated over time. Additional research is necessary to determine if these assertions persist among current participants given market fluctuations and tightening of underwriting regulations since publication of the study.

Principal, Interest, Taxes and Insurance (PITI) burden averaged 18 percent of participants' gross income. The PITI burden refers to the components of the mortgage payment in proportion to the participants gross income without the voucher. In comparison, the PITI burden for conventional FHA loans range from 33 to 36 percent of the homeowner's gross income on average. The substantially lower proportion for VHO participants is likely attributed to the fact that a majority of the PHAs use the voucher as income model which results in lower PITI burdens. In addition, housing authorities can consider other housing costs (utilities and maintenance and replacement reserves) along with the PITI when calculating the amount of the voucher and evaluating the maximum loan the purchaser can afford (Turnham et al, 2006).

The concept of including cost of maintenance, replacement and common charges such as homeowners' association fees along with the PITI payment when calculating the level of subsidy from the PHA, yields the total housing cost burden which is an aggregation of these costs as a portion of the participants gross income (Turnham et al, 2006).

Of 486 cases that Turnham et al. reviewed, most purchasers had total housing cost burdens of between 30 to 49 percent of their gross income. Fourteen percent of the sample had housing cost burdens that were more than half of their gross income, leaving very little disposable income to cover other expenses (Turnham et al, 2006).

## *Demographic Highlights*

- Of the 486 purchases reviewed by Turnham and colleagues from across the 10 agencies, 33 percent of purchases were made by participants with disabilities. This is virtually proportional to the total percentage of housing choice vouchers (rental & homeownership) held by participants with disabilities nationally during the same period (36 percent).
- Among the same sample, more than 50 percent of VHO participants were women, 69 percent of which identified as being a member of a minority group.
- Poverty levels in post-purchase neighborhoods were reported as being slightly lower than pre-purchase neighborhoods where families were receiving traditional rental assistance (Turnham et al., 2006).

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## *The Relationship Between Program and Market Factors and VHO Purchase Rates*

Turnham and colleagues examined a subset of 45 agencies whose populations were also robust enough to include as a Metropolitan Statistical Area (MSA on the American Community Survey (ACS) in 2004. This allowed for access to uniformly collected housing market data. Thirty-one of the 45 programs reported 40 or fewer VHO purchases. Fourteen programs reported more than 40 purchases. Programs that were not managing any homeownership vouchers at time of survey were excluded (Turnham et al., 2006).

The researchers indicated that programs that had 40 or more purchases were most often housed within agencies which had larger voucher enrollment generally. The authors suggest that this may reflect both larger organizational capacity and a greater pool of qualified participants. Further, Turnham and colleagues noted that median home values and household incomes were slightly lower among these same programs because most high-volume programs were in agencies that served more metropolitan areas (Turnham et al, 2006).

In addition, the researchers noted that there was no significant discrepancy between the ratio of local home values to VHO participant incomes and property values to local incomes in the community. When annualized Fair Market Values (FMRs), are used for property valuation, there is a greater discrepancy between property values and incomes among VHO participants. According to Turnham et al., this indicates that program participants are using other subsidies in addition to the voucher to purchase the home. Other subsidies may include assistance from state and local governments. This is particularly common in communities where home prices are outpacing local incomes (Turnham et al, 2006).

Using the same subset of 45 programs, Turnham and colleagues identified variables related to purchase rates in high-performing VHO programs. Variables of interest included:

- The PHA level of effort in promoting the use of vouchers for homeownership;
- The intensity and quality of counseling services provided;
- Program eligibility and enrollment preferences;
- The characteristics of voucher holders, including their financial circumstances and their motivation to buy a home;
- Housing market conditions; and
- Financing models used and the availability of additional subsidies (Turnham et al, 2006, p. VIII).

These variables were reduced to factors that predicted VHO purchase rates. The strongest predictor of purchase rates among the observed programs was the total share of the agencies voucher holders who completed homeownership counseling. This supports the notion that the more opportunities agencies offer for financial counseling the purchase rate will increase. Broadly, if participants feel like homeownership is attainable, the purchase and overall success rates increase (Turnham et al, 2006).

The researchers also report that agencies that impose additional financial requirements beyond the minimum standards prescribed by HUD, have among the lower purchase rates. Additional requirements are commonly related to income, employment status and more thorough consideration of credit histories. The authors note that while this finding was consistent among the 45 programs selected for heightened analysis, the same relationship was not evident among the larger sample of 206 agencies that were queried in the initial survey (Turnham et al, 2006).

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The factor analysis also indicated only a limited and statistically insignificant association between purchase rates and home prices despite initial expectations of the researchers to the contrary. Again, Turnham and colleagues recognized that results may be more in line with original expectations when the analysis is repeated with a larger sample. Such analysis was not possible in this instance because detailed market data was not available for all 206 housing authorities that were originally surveyed (Turnham et al, 2006).

A similar relationship was reported between purchase rates and the availability of additional subsidies. While the analysis using the 45-agency subset indicated little evidence of a relationship between purchase rate and access to additional subsidies, when the full sample of 206 housing authorities was analyzed using survey responses, the availability of additional subsidies such as down payment assistance grants, below rate mortgages and mashed savings programs were shown to be a significant predictor of purchase rates (Turnham et al, 2006).

## *Implications and Recommendations for Future Research*

This section provides a discussion of implications of the Voucher Homeownership Study as identified by the authors, as well as a synthesis of unmet research needs regarding the homeownership program. These recommendations are based on a thorough review of the report and other pertinent literature.

### Replication of the VHO Study with a Larger and More Current Sample

There are several instances in the report where Turnham and colleagues recognize the limited utility of the findings due to the small sample size. Replication is particularly necessary in determining the extent to which purchase rates are influenced by program and market factors. The authors highlight the **need for additional research to identify more precise measures of housing prices for a broader cross-section of PHAs.**

### Development of Measures Tailored to Assessing Quality Outcomes

Additional efforts are needed to **identify stronger indicators of program service quality and characteristics of voucher holders as well as types and amounts of additional assistance available to VHO participants.**

### As of January 1, 2006, 60 Percent of the 206 Agencies Surveyed by Turnham and Colleagues Reported Five or Less VHO Closings.

The median number of VHO closings among the sample was only 18. The researchers recognize that VHO assistance payments will likely always be a small percentage of the total number of vouchers allocated by a single housing authority. However, the researchers reported evidence of a growing consensus among program administrators regarding the added value that a homeownership program brings to an agency's service portfolio. **Additional research is needed to examine the current frequency of VHO closings and overall utilization.**

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## Only 20 Percent of the 206 Agencies Surveyed Reported Imposing Additional Financial Requirements beyond Those Required by HUD.

Agencies who reported having additional financial requirements for participants generally reported lower purchase percentages <u>than</u> those who are operating with only the minimum guidelines. Turnham and colleagues note those agencies that additional financial requirements tended to have fewer delinquencies and foreclosures. <u>**Additional research is required to discern the effect of tightened underwriting regulations in the mortgage industry because of post-2008 reforms.**</u>

## 12 Percent of the 206 Agencies Surveyed Reported Having At Least One Foreclosure.

The rarity of adverse events such as delinquencies and foreclosures among VHO participants according to Turnham and colleagues is likely attributable to the 60 percent implementation rate of the *HAP as Income Model*. Under this approach agencies consider the housing assistance payment when calculating the income of the perspective VHO buyer. While this methodology often leads to decreased purchasing power it also reduces the monthly payment obligation for the buyer. <u>**Additional research is required to assess the performance of loans underwritten in this fashion over time.**</u>

## VHO Participation has Intrinsic Value for the Buyer

Data from focus groups of VHO participant-owners conducted at each of the sites visited by the researchers helped to confirm that most purchasers found the challenges [of the VHO process] were worth the benefits of homeownership — building the family's assets and feeling the accomplishment of owning one's own home.

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