

## **Section 8 Homeownership in Massachusetts: On the Road to Success**

Prepared by Citizens' Housing and Planning Association  
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## Foreword

This report examines the Section 8 Homeownership Program in Massachusetts, including its successes and challenges, and information that Public Housing Authorities (PHAs) should understand and consider when developing homeownership programs.

The research and initial stages of this report began in the fall of 2003, when momentum was building for the Section 8 Homeownership Program and many housing authorities in Massachusetts had implemented successful programs. Many PHAs were feeling confident about the sustainability of their programs.

In the spring of 2004, this momentum has started to slow and PHAs have begun to express concerns about the future of their homeownership programs. This has occurred for two reasons:

**1. U.S. Department of Housing and Urban Development (HUD)'s announcement in April of its interpretation of the FY04 Appropriations Bill for Section 8:**

Traditionally, HUD has provided state and local housing authorities with sufficient funds to cover the costs of the vouchers they administer. In a notice released on April 22, 2004 (PIH 2004-7), however, HUD put in place a new system for funding vouchers in fiscal year 2004 that is very different from the system that was previously in place.

Prior to the April 22<sup>nd</sup> notice, HUD reimbursed housing agencies for the actual cost of vouchers in use. Under the new system, HUD limits the amount of funding that a housing authority receives for each voucher to the agency's average cost per-voucher as reported on August 1, 2003, plus an adjustment for inflation determined with a formula HUD has devised. This change was implemented retroactive to January 1, 2004.

Voucher costs at many housing agencies have risen since July 2003 at a faster rate than the HUD determined inflation factor, and generally have done so for legitimate reasons. However, if an agency's average voucher costs have risen faster than HUD's inflation factor, the agency will not receive sufficient funds to pay landlords for all vouchers currently in use. In such cases, housing agencies will be able to receive additional funds to address the shortfalls the new HUD policy creates only if they are successful in an appeal to HUD for a larger cost adjustment. Based on the information that HUD has provided about the timeline of the appeals process and the permitted grounds for appeal, it appears unlikely that this process will provide adequate or timely relief to many local agencies that will be underfunded as a result of HUD's new policy.<sup>1</sup>

In Massachusetts, this has already affected some housing agencies, and has been cause of grave concern for others. The agencies that felt the impact the earliest were those agencies with fiscal years ending on June 30, 2004 because any shortfall in funds had to be accounted for by the end of the fiscal year. In April, the Massachusetts Department of Housing and Community Development (DHCD), which receives over 18,000 Section 8

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<sup>1</sup> "HUD Policy Is Forcing Many Housing Agencies to Impose Cuts Even Though Congress Provided Sufficient Funding to Support All Vouchers", Barbara Sard and Will Fischer, Center for Budget and Policy Priorities, April 26, 2004, [www.cbpp.org/4-26-04hous.htm](http://www.cbpp.org/4-26-04hous.htm).

vouchers that are administered through nine regional housing agencies, was notified that this change in HUD's system would result in DHCD having a budget shortfall of \$3.1 million as of June 30, 2004. In order to make up that shortfall, DHCD would have had to terminate housing assistance to 2,000 households. To reduce this impact, DHCD used \$2 million in reserves from a related program, but still had a substantial shortfall. After DHCD held a very well attended public hearing on April 16, 2004 it was announced that HUD had discovered an accounting error that would result in DHCD being reimbursed an additional \$600,000. DHCD continued to work with HUD and, once the inflation factor formula was finalized, determined that they would not be obligated to terminate vouchers.

Similar situations occurred in other housing authorities, such as Quincy and Hingham, and caused great concern in many housing authorities that anticipated having a budget shortfall. In more than one instance, housing authorities reduced rents or delayed payments to owners in order to ensure that they had adequate funds. Fortunately for Massachusetts, none of these housing authorities have yet had to terminate households from their Section 8 voucher programs. This situation has occurred in communities across the country.

- 2. FY 2005 Section 8 Budget Proposal:** Earlier this year, the Bush Administration announced its proposed FY 2005 budget for the Section 8 program. The proposal underfunds the program by \$1.6 billion below the current funding levels, which could reduce the program by 250,000 households nationwide. The budget also makes fundamental changes to the program, turning it into a block grant, or "Flexible Voucher" program. The block grant program would not compensate housing authorities based on the number of households assisted with Section 8, but would provide the housing authority with a lump sum amount. In FY 2005, that lump sum amount will also be lower than the amount the housing authority is currently receiving, leaving it up to the housing authority to determine how to continue to fund current households receiving Section 8 assistance.<sup>2</sup>

These two relatively recent developments in the Section 8 program have been cause for serious concern among all housing authorities in Massachusetts. In particular, these two changes in Section 8 funding could have significant impacts on the Homeownership Option in the Commonwealth.

Already CHAPA has seen a decline in the momentum that housing authorities had with homeownership programs. Many housing authorities that participate on CHAPA's Section 8 Homeownership Committee have expressed concern about moving forward, not only because of potential shortfalls in the FY 2004 budget, but also because of the uncertainty of the funding levels for the FY 2005 budget. CHAPA has seen several housing authorities start to cut back on

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<sup>2</sup> "Administration Seeks Deep Cuts in Housing Vouchers and Conversion of Program to a Block Grant", Barbara Sard and Will Fischer, Center for Budget and Policy Priorities, March 24, 2004, [www.cbpp.org/2-12-04hous.htm](http://www.cbpp.org/2-12-04hous.htm).

their homeownership efforts, from housing authorities working with waiting list households only to authorities that have suspended their entire program until further budget information is available.

These decisions to slow down or suspend homeownership programs occur for a variety of reasons, but CHAPA believes that a principal reason concerns what protections, if any, will exist for families on Section 8 who have purchased homes with the assistance. The notion of having to terminate households with homeownership vouchers is entirely unsettling to housing authority staff, but equally so is the idea that homeownership vouchers should be protected at the expense of rental vouchers. While Massachusetts housing authorities have not had to make these tough decisions yet, several who operate homeownership programs have already begun to think about such decisions.

Additionally, this has been raised as a concern by lenders in Massachusetts. Only one local lender has come forward to announce that they have suspended their development of a Section 8 Homeownership mortgage product, but others are watching the funding of the Section 8 program and proceeding with caution.

Not every housing authority in Massachusetts has altered their homeownership program. Many have indicated that they are continuing to move forward with buyers and will accept new applicants into their program. This situation, however, places a level of uncertainty for the Section 8 Homeownership Program in Massachusetts.

This is unfortunate, given the success that the program has had in Massachusetts in the last two to three years. This report details that success, and will hopefully serve as a resource housing authorities can use to emphasize to other agencies that the program can work, even in a high cost housing market. This report shows that even in a high cost housing market, the Section 8 Homeownership Program does work and can change the lives of low-income households for whom homeownership may not have been possible otherwise.

## **Section 1: Introduction**

### **I. Background on HUD's Section 8 Homeownership Option and CHAPA's Committee**

On September 12, 2000, the U.S. Department of Housing and Urban Development (HUD) issued a final rule on the Section 8 Homeownership Program based on statutory changes enacted as part of the Quality Housing and Work Responsibility Act (QHWRA) in late 1998.

In 1999, Citizens' Housing and Planning Association (CHAPA) formed a Committee on Section 8 Homeownership to bring together housing authorities, lenders, homebuyer counseling agencies, disability advocates, tenants and others interested in seeing the implementation of the Section 8 Homeownership Program in Massachusetts. This Committee commented on proposed regulations and advocated with HUD to issue final rules enacting it. Shortly after the final rules were issued in 2000, the Committee regained new energy and worked on efforts to encourage housing authorities in Massachusetts to take advantage of this new program.

The Committee's activities have included: creating Fact Sheets and Frequently Asked Questions about the program to post on CHAPA's website; sending surveys to housing authorities to gather information on program implementation; sponsoring a conference in April 2002 on the Homeownership Option; sponsored one regional Committee meeting in Holyoke and has plans to sponsor another on Cape Cod in 2004; and, instituting a forum for housing authorities, lenders and counseling agencies to share experiences and have a regular dialogue on program achievements.

The Committee has approximately 80 members and meets two to four times a year.

### **II. Purpose of This Report**

In the fall of 2003, CHAPA's Section 8 Homeownership Committee surveyed housing authorities and homebuyer counseling agencies in Massachusetts about HUD's Section 8 Homeownership Option. The purpose of the survey was to gather data about which housing authorities in the Commonwealth have decided to participate, what challenges have been identified, and what successes have occurred.

CHAPA received responses from 33 housing authorities, 15 of which have implemented a Section 8 Homeownership Program. The 15 housing authorities are: Braintree, Boston, Chelmsford, Framingham, Gloucester, Greenfield, Holyoke, Lowell, Lynn, Quincy, Somerville, Springfield, Taunton, Woburn, and Worcester. In total, these housing authorities have assisted 46 households to purchase homes with their Section 8 vouchers. These 46 households represent 132 people, with a significant number of them being children. In addition, 20% of the households assisted have had at least one member who is disabled.

The purpose of this report is to provide information to housing authorities, lenders, counseling agencies and others working on Section 8 Homeownership initiatives in Massachusetts. This report analyzes the data collected from the survey responses to provide preliminary information on the Section 8 Homeownership Program in Massachusetts. It identifies specific information on

the housing authorities' programs, including data on financing and it discusses the challenges and barriers that housing authorities have faced.

In addition to citing survey results, the report includes information on financing and underwriting loans with Section 8 and ways housing authorities can serve people with disabilities, including providing reasonable accommodations, and housing authority responsibilities under fair housing laws.

## Section 2: Brief Description of HUD's Section 8 Homeownership Option

The following is a summary of the key features of the Section 8 Homeownership Option as included in the final rules dated September 12, 2000.

- a. **Program is Optional:** It is up to Public Housing Authorities (PHAs) to decide if they wish to offer a homeownership program. No special funding is provided for homeownership assistance payments and related tasks (i.e. additional administrative costs). PHAs can choose to limit program size and restrict eligibility by adding requirements beyond those required by HUD. PHAs cannot reserve a specific number of vouchers or a specific funding level nor establish special waiting lists for homeownership.
- b. **Household Eligibility:** It is open to current and new Section 8 participants who meet HUD and PHA eligibility standards. HUD generally requires that participants be first-time homeowners (defined as a household who has not owned a home in the prior 3 years), have family incomes of at least \$10,300 excluding public assistance, and include at least one adult who has worked full-time (30 hours a week or more) for the prior year. Exceptions apply to elderly and disabled households. PHAs can set additional eligibility requirements, such as establishing a preference for households participating in Family Self-Sufficiency programs.

PHAs have the flexibility to establish higher income standards. However, a family that meets the minimum income requirement, but not the higher standard established by the PHA can be considered eligible. The household must be able to demonstrate that it has been pre-qualified or pre-approved for financing that meets the PHA's financing requirements and is sufficient to purchase housing that meets the housing standards in the PHA's jurisdiction.

If a household chooses to participate, it must locate a home, obtain financing and close the sale within any deadlines the PHA establishes and must complete a free homeownership counseling program prior to closing.

- c. **Eligible Properties:** Section 8 homeownership assistance can be used for new construction or existing units, but can only be used to purchase a single-family home, condominium or cooperative. It can be used to purchase PHA-owned units. At least two pre-purchase inspections are required and PHAs may reject units with serious physical problems. The unit must pass a PHA-conducted Housing Quality Standards (HQS) inspection and the household must pay for a home inspection by an independent, Massachusetts licensed home inspector they have selected. The household must incur the cost of the independent inspection and the inspection must cover major building systems and components. The inspector must send the report to the PHA and the household. The PHA can deny assistance if either of the inspections are not satisfactory.

- d. Amount of Section 8 Assistance:** Assistance will be the difference between the Payment Standard (or Monthly Homeownership Expenses, if less) and 30% of the household's monthly adjusted income (or 10% of gross or public assistance allowance, if higher). At the discretion of the PHA and the lender, payments can be made to the homeowner or to the lender.

PHAs determine the Monthly Homeownership Expense for a household. It is the sum of the following:

- Principal and interest payments on the mortgage, plus mortgage insurance
  - Utility allowance (using the same schedule for the rental voucher program)
  - PHA allowance for maintenance repairs
  - PHA allowance for major repairs and replacements
  - For condos and coops, it may include operating charges or fees
  - Land lease payments as long as the household has the right to occupy the site for a period of at least 40 years and the home has a permanent foundation
  - Cost of debt incurred to finance work to make a unit accessible for a household member with disabilities if needed as a reasonable accommodation
- e. Financing:** The maximum term a household can receive homeownership assistance is 15 years (for homes with a mortgage term of 20 years or more) or 10 years (for mortgages with terms less than 20 years). There is an exception for elderly and disabled households.

Participating households must secure their own financing. PHAs can adopt HUD financing standards or their own. They can set their own requirements regarding underwriting except for Federal Housing Administration (FHA) insured mortgages which must meet FHA underwriting standards. PHAs can set additional requirements regarding financing and affordability including lender qualifications and financing terms. PHAs can disapprove of proposed financing based on terms or determination that the household cannot afford it.

- g. Disabled and Elderly Households:** There are several key enhancements to the Section 8 Homeownership Option for both disabled and elderly households (more information on disabled and elderly households can be found in **Section 5**):

- The restriction of eligibility to first-time homeowners does not apply to a household with a member with disabilities for whom the Homeownership Option is a reasonable accommodation.

- The minimum income requirement of \$10,300 does not apply to disabled and elderly households.
- Elderly and disabled households are exempt from the full-time work requirement.
- The time limit for Section 8 assistance does not apply to disabled and elderly households, nor does it apply if a household head or spouse becomes disabled after purchase.

**h. Reasonable Accommodations:** A reasonable accommodation is a change in the rules, policies, or practices to allow a person with a disability to participate equally in a situation (such as work, housing, or a public program) that would otherwise be unavailable to them.

HUD expects PHAs to make accommodation decisions on a case-by-case basis. In situations where the PHA has otherwise opted not to implement a homeownership program, the PHA “may determine that it is not reasonable to offer homeownership assistance as a reasonable accommodation.”<sup>3</sup>

Reasonable accommodations will be discussed in greater length in **Section 5**.

**i. Post Purchase:** PHAs can choose to require post purchase counseling, either through the PHA or through a non-profit partner. PHAs are not required to perform annual inspections after the purchase of property, but can adopt a policy to make periodic inspections if they choose. Households are allowed to refinance and should notify the PHA if they intend to do so. The property must remain the household’s primary residence.

PHAs must reexamine household income and composition annually and adjust the homeownership assistance accordingly. The payment standard will be adjusted at the annual re-certification but can never be lower than that used at the start of the assistance.

Households are allowed to buy another home with their homeownership assistance, as long as it is in compliance with program requirements. To move, households must again meet eligibility requirements, but are not required to take additional homeownership counseling, unless required by the PHA.

**j. Defaults:** To be eligible to participate in the Homeownership Option, households cannot have previously defaulted on a home loan while using Section 8 homeownership assistance. If a household does default while using assistance, the PHA must terminate the homeownership assistance and can decide whether or not to permit the household to move to a new unit with a rental voucher.

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<sup>3</sup> 24 CFR, Parts 5, 903, 982; September 12, 2000.

In addition to the above mentioned rule, HUD issued a final rule on October 18, 2002 on Downpayment Assistance Grants and Streamlining Amendments with regard to the Homeownership Option. This rule has two significant areas:

- This rule allows, in lieu of paying a monthly homeownership expense on behalf of the family, the PHA to provide homeownership assistance for the family in the form of a single grant for down payment assistance. This final rule, however, does not give PHAs the authority to offer down payment assistance until HUD publishes a notice in the Federal Register announcing the appropriated funds are available for this use. This has not occurred yet.
- This rule removes the recapture provision from the September 12, 2000 rule. It states the PHAs may not impose or enforce any requirements for the recapture of voucher homeownership assistance. This change ensures that families who purchased prior to this amending rule will receive the benefit of having the recapture provision removed.

Copies of both rules are included in the appendices of this report.

## **Section 3: Survey Results**

In the fall of 2003, Citizens' Housing and Planning Association (CHAPA) surveyed housing authorities in Massachusetts about HUD's Section 8 Homeownership Option. The purpose of the survey was to gather data about which housing authorities have decided to implement programs, what challenges have been identified, and what accomplishments have been made. CHAPA feels that the information collected from the surveys portrays an important picture of the Section 8 Homeownership Program in Massachusetts. CHAPA sent a similar survey out to housing authorities in 2002 and the most recent surveys indicate that there has been a significant amount of progress in the last two years.

CHAPA received survey responses back from 33 housing authorities. Fifteen of those agencies have implemented Section 8 Homeownership Programs; three indicated they are planning to implement a program; 13 have decided not to; and, two agencies remain undecided about whether or not it is feasible for them.

### **I. Agencies That Have Not Implemented Programs**

With the exception of the nine regional housing agencies that administer Section 8 vouchers on behalf of the Department of Housing and Community Development, most of the agencies that answered the survey and have not implemented homeownership programs were overwhelmingly smaller housing authorities. Eight indicated the lack of administrative funding to support such an effort was the primary reason for not implementing a program. Ten agencies described the program as administratively burdensome. Two agencies indicated that they have seen little demand from their current Section 8 recipients for a Homeownership Option, and seven agencies cited the high prices of housing in their community as a deterrent.

Six of these same agencies indicated a lack of homeownership knowledge among staff as a challenge to implementing a successful program, ten reiterated high housing costs as a challenge, one cited the lack of lenders available to provide financing, one agency saw providing adequate rental housing as their greatest need, and two did not have enough staff support the effort.

Nine housing authorities indicated that another challenge to implementing a program is the lack of savings among Section 8 recipients. Of those nine agencies, only four of them had Family Self-Sufficiency (FSS) programs. FSS is a program administered by the housing authority that helps Section 8 recipients and/or public housing tenants become more economically self-sufficient through education and training and the creation of an escrow savings account at the PHA that assists them in saving money.

### **II. Agencies That Are Planning to Implement Programs**

Three housing authorities indicated that they were planning to implement a Section 8 Homeownership Program. Of those three agencies, two are currently undergoing internal discussions with staff and Board members. All three agencies indicated eligible households would be current Section 8 recipients from their agencies and FSS participants and cited a lack of homeownership knowledge among PHA staff, high home costs, a lack of savings among households with Section 8s and concerns over finding lenders to participant as primary challenges and obstacles.

### **III. Agencies That Have Implemented Programs**

Fifteen housing authorities answered “YES” to CHAPA’s survey and have implemented a Section 8 Homeownership Program. These housing authorities are: Braintree, Boston, Chelmsford, Framingham, Gloucester, Greenfield, Holyoke, Lowell, Lynn, Quincy, Somerville, Springfield, Taunton, Woburn and Worcester.<sup>4</sup>

Most of the housing authorities that responded to the survey started their programs in 2002. They have had 46 closings combined. Two PHAs have had larger number of closings (11 and 9), but overall, most PHAs have had five or fewer closings since the inception of their programs. PHAs projected, on average, a total of 73 closings in 2004 or, on average, six closings per agency.

#### A. Eligibility Guidelines

The vast majority of participating housing authorities have eligibility guidelines that require households to currently have a voucher from their PHA and have targeted households participating in the Family Self-Sufficiency program.

Other eligibility guidelines include:

- Four PHAs will accept households who have a voucher from another housing authority which is not willing to implement a homeownership program.
- Ten agencies indicated that they currently include people with disabilities in their programs.
- Four housing authorities require that households purchase within the PHA’s community only, while seven agencies said that households could purchase within any community in the state.
- One agency will consider a household’s desire to purchase outside of the PHA’s community on a case-by-case basis and two indicated they would allow a household to purchase outside of their community if they can transfer their voucher to another participating housing authority in that community.

#### B. Working with Lenders

One difference between CHAPA’s 2002 survey of housing authorities and the most recent survey is the number of lenders that are participating. In 2002, only seven lenders were listed as participating with housing authorities that answered CHAPA’s survey, and the majority of the respondents were working with Citizens Bank, who early on worked with Fannie Mae to develop ways to underwrite Section 8 loans.

Today, survey respondents listed 17 lenders, with many housing authorities working with multiple lenders. The lenders are: Banknorth, Central Bank, Citizens Bank, Eastern Bank, Fleet Bank, Greenfield Cooperative Bank, Greenfield Savings Bank, Lowell Cooperative Savings Bank, Lowell Five Cents Savings Bank, MassBank, Middlesex Savings Bank, Randolph Savings Bank, Reading Cooperative Savings Bank, Salem Five Cents Savings Bank, South Shore

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<sup>4</sup> Not every housing authority that has implemented a program in Massachusetts answered CHAPA’s survey. In the appendices of this report is a master list of participating housing authorities issued by the U.S. Department of Housing and Urban Development (HUD).

Savings Bank, Washington Mutual, and Wells Fargo. While the majority of these lenders are small, community-based banks, there are some larger lenders participating, such as Citizens Bank and Fleet Bank.

One initially troublesome area for lenders was how to service, or accept payments for loans underwritten with Section 8 vouchers. Unlike landlords or management companies, lenders do not typically accept two different payments for one loan. Over time, this issue has seemed to resolve itself, with housing authorities and lenders coming up with several different solutions:

- Eight housing authorities have worked it out with lenders so that they will accept two different payments: one from the homeowner for their portion, and one from the housing authority for the remaining portion.
- One housing authority requires that the homeowner must send their portion of the payment to the PHA first, and then the PHA sends in one complete payment to the lender.
- Four lenders have required that both the housing authority and the homeowner set up a special account with them in which both the housing authority and the homeowner deposits their portions of the payment into an account from which the lenders draws down the amount automatically every month.
- And, one housing authority simply sends their portion of the payment directly to the homeowner every month and relies upon the homeowner to make the full payment.

### C. Pre-Purchase and Post-Purchase Homebuyer Counseling

Both pre-purchase and post-purchase counseling is being provided by a variety of different agencies, mostly agencies within the PHA's community. In very few cases, the housing authority has chosen to provide the counseling themselves, but in these cases the PHA already had a well-established homebuyer counseling program.

Twelve agencies were identified as providing counseling to households interested in using their Section 8 for homeownership. The agencies are: Community Service Network (Stoneham); City of Boston, Department of Neighborhood Development; City of Somerville, Office of Housing and Community Development; Homeownership Center of Worcester; Holyoke Housing Authority; Lynn Housing Authority and Neighborhood Development; Massachusetts Affordable Housing Alliance (Boston); Merrimack Valley Housing Partnership (Lowell); Neighborhood Housing Services of the South Shore (Quincy); Quincy Community Action Programs; Rural Development, Inc. (Turners Falls/Franklin County); Springfield Neighborhood Housing Services; and, Urban Edge (Boston).

In addition to the agencies that the housing authorities identified, CHAPA sent surveys out to the approximately 60 homebuyer counseling agencies that are members of the Massachusetts Homeownership Collaborative. We received responses from sixteen agencies, the majority of whom are willing to provide counseling services to households using their Section 8 for homeownership.

Several of the agencies have specific contracts with housing authority to provide services. Of those, the majority of agencies require that Section 8 households attend the same first-time

homebuyer training that all prospective first-time homebuyers attend. Some of the agencies offer additional one-on-one counseling, including post purchase counseling.

Some of the counseling groups cited a lack of understanding on how the Section 8 and Family Self-Sufficiency programs work as a challenge to working with households. In addition, some counseling groups commented that it is difficult to counsel a household who wants to pursue the Section 8 Homeownership Program when their housing authority has not implemented a program. Many counselors felt frustrated because they were not sure how to advise the household to proceed.

#### D. Challenges and Barriers

The vast majority of housing authorities cited high housing prices as the number one barrier and challenge to running a successful homeownership program.

Other challenges included:

- Nine agencies found a lack of savings among Section 8 recipients to be challenging.
- Seven felt that bringing lenders to the table to participate was a problem.
- Three housing authorities each found a lack of homeownership knowledge among staff, the long educational process the program takes, and preparing clients for financial readiness to be challenging.

Barriers included:

- Seven housing authorities found onerous Section 8 regulations, such as lead paint removal or the provision that only allows for the purchase of single family homes and condominiums, to be barriers.
- Seven PHAs also felt that HUD's lack of administrative funding for Homeownership Options was an obstacle.
- One housing authority felt that the challenge of finding homes affordable to Section 8 recipients, but that will also pass the PHA's Housing Quality Standards home inspection, created a barrier to the program.

#### **IV. Data on Households Who Have Purchased Homes**

In addition to filling out survey questions on the scope of their Section 8 Homeownership Programs, CHAPA also asked housing authorities to provide data on each of the buyers they have assisted. This is another area where significant progress has been made since 2002. In 2002, while a handful of housing authorities were actively working with prospective buyers, none had had any closings.

This year, we received data on 44 households, representing 132 people. (While PHAs reported serving 46 households in the surveys, CHAPA only received purchase information on 44 households.) The average household size was three people and CHAPA estimates that a significant portion of the people served are children. Nine of the households included people with disabilities, the majority of whom were heads of household.

Six of the 15 housing authorities had five or more loan closings: Framingham, Holyoke, Lowell, Lynn, Springfield and Woburn. At the time of the survey, the Lynn Housing Authority had had the highest number of closings, with ten households purchasing homes. The Woburn Housing Authority had nine closings.

Households purchased homes in the following 17 communities: Acton, Ashland, Boston (5), Braintree, Cambridge, Greenfield, Holyoke (5), Lowell (6), Lynn (10), Millbury, Peabody, Springfield (5), Wakefield, Wayland, Westborough, Woburn (2) and Worcester.

#### A. Lenders and Mortgage Amounts

Eleven lenders financed these purchases:

- 18 households used Citizens Bank
- 7 households used Salem Five Cents Savings Bank
- 5 households used Wells Fargo
- 3 households used Fleet and Central Bank, respectively
- 2 households used Lowell Five Cents and Lowell Cooperative, respectively
- 1 household used Reading Cooperative Bank, Middlesex Savings Bank, Eastern Bank and MassBank, respectively

Mortgage amounts varied, based upon the different payment standards used at various housing authorities and differing home prices. In Greater Boston, mortgage amounts were as low as \$99,000 and as high as \$239,000. The majority of the mortgage amounts were between \$160,000 and \$170,000 in the Greater Boston area.

In the Western part of the state, mortgage amounts ranged from \$60,000 to \$97,000. In the Lowell area, amounts ranged from \$76,000 to \$108,000.<sup>5</sup> In the Worcester area, the range was from \$143,000 to \$183,000. Interest rates varied, but based on the data that CHAPA received, appeared to be consistent with the market.

#### B. Purchase Prices and Down Payments

Similarly to the mortgage amounts, the purchase price amounts varied throughout the Commonwealth. Purchase prices in Greater Boston ranged as low as \$112,000 and as high as \$299,000. Prices in the other regions of the state were lower, ranging from \$70,000 to \$143,000.

Statewide, approximately 12 households purchased homes developed through a state or federal program that were sold at below-market prices. In some cases, these homes were developed by the housing authority, and in other cases were developed by a private developer and sold through a lottery. These homes were primarily located in Holyoke, Lowell and Wayland.

The average down payment was \$23,250. On average, \$7,750 came from the households' savings and the rest from a down payment assistance program, or a gift from friends or family members. A few households had large savings accounts, including \$22,000 and \$30,000 that they had saved through their housing authority's FSS program.

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<sup>5</sup> In both Holyoke and Lowell, the housing authorities developed affordable properties. The low mortgage amounts are a reflection of those lower than average purchase prices.

In total, the 44 households represented in the surveys made \$720,661 in down payments on their homes. \$217,048 came from their own savings, and \$503,613 was leveraged from other sources, including one buyer who received \$130,000 from the City of Cambridge's First-Time Homebuyer Program.

The sources and/or agencies that provided the down payment assistance included: Neighborhood Housing Services of the South Shore; HOME funds; Seacoast Collaborative; Federal Home Loan Bank of Boston Affordable Housing Program Funds; City of Lowell; Coalition for a Better Acre; City of Lynn; CHAPA's Home of Your Own Program for people with disabilities; City of Cambridge; and, Community Service Network.

## **V. Overall Comments from the Surveys**

There are two main points that can be derived from housing authority staff comments on the Section 8 Homeownership Option: 1) it is a uniquely challenging program that requires a significant amount of staff time, knowledge of the regulations and flexibility, and 2) it is an incredibly rewarding and necessary program that makes homeownership possible for households that would not otherwise have the opportunity.

Many housing authorities felt that the program works best with households that are FSS participants, who have been working for up to a year on becoming more economically sufficient and have had the opportunity to save money for a down payment. Even with FSS, several housing authorities cited a lack of down payment as a major concern and barrier.

Some advice that housing authorities gave to agencies considering running a program is:

- Partner with other agencies and groups who are more experienced in running homeownership programs; rely on them to assist you in developing your program and partner with agencies to provide homebuyer counseling.
- Talk to other agencies that have already implemented programs. Today, there are more and more housing authorities that have developed homeownership programs, including successful programs in other states. Talk to them, and learn from what they have accomplished.
- Think about partnering with a developer to build affordable housing, or start doing it yourself. High housing prices and finding affordable housing in good condition were cited as a challenge to successfully helping Section 8 households into homeownership. Several housing authorities develop their own affordable housing and have found that it works really well both with households purchasing with Section 8, and with other residents of the housing authority that are ready for homeownership.

There are also many non-profit and for-profit developers building affordable housing in Massachusetts. Chapter 40B, the state's "anti-snob" zoning law, allows developers to override local zoning laws to build housing denser than normally allowed as long as 25%

of the units are affordable. Many developers are building homeownership units and it could be a great way for households purchasing with Section 8 to find a brand new affordable home. CHAPA maintains a list of upcoming affordable rental and homeownership lotteries on its website at [www.chapa.org/housing\\_lotteries.htm](http://www.chapa.org/housing_lotteries.htm).

## **VI. Summary**

Overall, the survey results show that significant progress has been made in Massachusetts on the Homeownership Option. At least 15 housing authorities have implemented programs. While that only constitutes a small percentage of housing authorities with Section 8 voucher programs in Massachusetts, it does indicate a growing interest in increasing homeownership opportunities and creating innovative programs for low-income households.

The survey results also indicate that the Homeownership Option does successfully help households achieve homeownership, and in many cases, households that would not be able to obtain homeownership otherwise. Even in a high cost housing market like Massachusetts, 44 households were able to locate affordable housing and obtain financing to purchase their first homes.

## **Section 4: Financing**

A key component of the Section 8 Homeownership Program is financing. This is one area that many housing authorities find to be challenging, as it can be very different from typical job functions of housing authority staff. This section attempts to make the role that financing plays in the Section 8 Homeownership Program a little easier to understand, by explaining basic underwriting terms and processes, and by summarizing the different ways that lenders can use Section 8 payments when determining the loan amount that a household will qualify for.

### **I. Financing Basics**

When any potential homebuyer goes to a lender for a mortgage loan, there are four key areas that the bank looks at: credit, capacity, capital and collateral. These four areas help the bank determine if the household is ready for homeownership and to determine what kind of loan, and how much of a loan, they will qualify for. The same is true for households with Section 8.

Households purchasing a home with Section 8 assistance must have a good credit history and a positive record of borrowing money and repaying debts on time; capacity to repay the loan in the form of income, including assistance from Section 8; capital in the form of additional monies to pay for the down payment and closing costs, including any grants or gifts that the household may be receiving; and, collateral to protect the lender if the household defaults on his or her mortgage. The bank usually uses an appraisal to determine if the property will serve as sufficient collateral.

Once a household has been determined to have sufficient resources in the above mentioned areas, the bank will determine how much the household can afford to spend on a property. Usually, the bank will first do a pre-qualification or a pre-approval prior to the household finding a property, so they know how much they can afford to spend, and therefore look for homes in their price range.

A pre-qualification is an unofficial estimate of how much the household can afford to spend on a home. The pre-qualification is usually based only on what the household discloses to the bank about their income, savings and debts and it is not verified by the bank. A pre-approval guarantees a mortgage loan in writing (typically for a period of 30-45 days) and is based on actual verification of employment history, credit report, Section 8 payment, etc. Neither a pre-qualification or a pre-approval, however, locks a homebuyer into a mortgage commitment.

Lenders use two qualifying guidelines to determine what size mortgage the household will be eligible for: 1) the household's monthly housing costs as a percentage of their gross (pre-tax) monthly income; and 2) the household's monthly housing costs plus other long-term debts (such as car or student loans) as a percentage of monthly gross income. Many standard mortgage programs have qualifying ratios of 28% (monthly housing costs) and 36% (total indebtedness). Some special mortgage programs may offer more flexibility.

Mortgage payments include principal, interest, taxes, and insurance. Lenders usually refer to these items as PITI:

- Principal = the amount of money borrowed
- Interest = the cost of borrowing money, usually expressed as an annual percentage of the loan amount
- Property Taxes = taxes paid to the local government, usually charged as a percentage of the property value
- Hazard Insurance = insurance that protects against financial losses that may result from fire, wind or other hazards
- Mortgage Insurance = an insurance policy paid by the homeowner that insures lenders for part of their financial losses if the homeowner defaults on their mortgage
- Flood Insurance = if the home is located in a flood zone flood insurance will be necessary

These basic financing terms are important for PHAs to understand when assisting their participants through the homeownership process.

## **II. Lending Initiatives**

As indicated in the survey results discussed in **Section 3**, the number of lenders participating in the Section 8 Homeownership Program has grown significantly over the last two years. The survey results indicated that 17 lenders have either shown significant interest in the program, or are currently underwriting mortgages with their local housing authorities. This is an increase of 140% since 2002.

In addition to lender participation, federal lending initiatives have also shown increased interest and participation in the Homeownership Option in the last several years. Early on, Fannie Mae and Freddie Mac developed underwriting guidelines that lenders can use to underwrite loans using Section 8 assistance.

Fannie Mae and Freddie Mac are shareholder-owned corporations established by the U.S. Congress. Both entities purchase mortgages from lenders and sell them to investors on the secondary market, with the goal of increasing the availability and affordability of housing for low, moderate, and middle income homebuyers. Homebuyers cannot directly access the secondary market by going to Fannie Mae or Freddie Mac for a loan. Both Fannie Mae and Freddie Mac offer a variety of special mortgage programs targeted to first-time and low and moderate income homebuyers available through local lenders.

### A. Fannie Mae

In 2001, Fannie Mae developed some guidelines for housing authorities when developing their homeownership programs and adopting a Section 8 Homeownership Plan:

- Demonstrate capacity to operate successful program by allowing financing that is insured or guaranteed by state or federal government, or that complies with secondary mortgage market underwriting or with generally accepted private sector underwriting standards;

- Minimum down payment requirements comply with secondary mortgage market underwriting and do not include minimums that could limit borrower flexibility;
- Employment interruptions during the year prior to homeownership are accepted;
- Loan terms comply with secondary market's community or affordable lending guidelines;
- New cooperative unit housing guidelines are adopted;
- Housing Assistance Payments (HAPs) are made directly to a dedicated, limited access account established by the lender and/or mortgage servicer;
- Post purchase counseling is required;
- Borrowers are encouraged to participate in Family Self-Sufficiency (FSS) programs;
- PHAs adopt the same policy as defined in HUD's Final Rule for granting rental vouchers to borrowers who default on conventional mortgages as for those borrowers who default on FHA insured mortgages.<sup>6</sup>

More information about Fannie Mae and Fannie Mae mortgage products can be found at: [www.fanniemae.com](http://www.fanniemae.com).

In addition, Fannie Mae established three different methods for lenders to use to take the Section 8 payment amount into consideration when determining the loan amount.

1) Deduct the Housing Assistance Payment (HAP) from Principal, Interest, Taxes and Insurance (PITI) Option:

Under this option, the borrower's HAP amount is deducted from the PITI, and the housing debt to income ratio is calculated on the "net housing obligation" of the borrower. When this option is used, it must be coupled with (1) ratios of 28/36 for all Section 8 mortgages using PITI reduction, regardless of the mortgage product chosen by the borrower, and (2) direct deposit of the monthly HAP payment into a dedicated, limited access account established by the lender and/or mortgage servicer.

This option usually results in generous mortgage mounts, giving the buyer the greatest buying power. This option, however, is used the least in Massachusetts.

2) Add HAP to Income Option:

An alternate option is to calculate total income as the total of (1) the tax-exempt HAP (grossed up by 25%) plus (2) the borrower's income from employment, using underwriting ratios specific to the product being used.

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<sup>6</sup> Fannie Mae and the Section 8 Homeownership Program: Breaking New Ground with Public Housing Agencies, May 2001, [www.hud.gov/offices/pih/programs/hcv/homeownership/fanniemae\\_section8.cfm](http://www.hud.gov/offices/pih/programs/hcv/homeownership/fanniemae_section8.cfm)

This option is the most popular among lenders in Massachusetts, but provides a more conservative mortgage amount.

### 3) Two Mortgage Option:

The borrower is qualified for the first mortgage using only earned income, and the HAP is used to pay the full P&I for a second mortgage. This option works if the term of the second mortgage is no longer than the maximum allowable term by HUD for the Section 8 payments (15 years for mortgages with financing of 20 years or more and 10 years for financing less than 20 years).

This Option is attractive because the borrower's portion of the mortgage payment stays fixed based upon their earned income, and the second mortgage is paid exclusively by the Section 8 and disappears at the same time that the Section 8 payment does. However, it is not used often in Massachusetts. Due the high housing prices in Massachusetts, many housing advocates and housing agency staff have found that the second mortgage would be, in many cases, larger than the first mortgage. This poses a problem because there is no consistent funding source available in Massachusetts to underwrite the second mortgage.

### B. Freddie Mac

Also in 2001, Freddie Mac created guidelines for lenders to use when underwriting Freddie Mac loans with Section 8 Homeownership. While many of the guidelines are similar to those of Fannie Mae, there are a few differences:

- The debt-payment to income ratios are 38%-40% for all products
- The payments can go from the housing authority and borrower to the lender's servicer or from the housing authority to the borrower and the borrower will be responsible for paying the full mortgage amount
- The same three underwriting methods are used, but there is no additional income to debt ratio applied to the Deduct the HAP from PITI Option. The ratios remain the standard underwriting ratios for whichever Freddie Mac product is used.<sup>7</sup>

More information about Freddie Mac and Freddie Mac mortgage products can be found at: [www.freddiemac.com](http://www.freddiemac.com)

### C. Federal Housing Administration (FHA) Insured Mortgages

Congress created the Federal Housing Administration in 1934 to encourage lenders to make more mortgage loans. The FHA does not make mortgage loans itself, but insures mortgages made by local lenders for home purchases and refinancing and compensates the lender if the buyer defaults on his/her mortgage. FHA's largest program is called Section 203(b) and insures fixed-rate mortgages for one-to-four unit properties. Generally, FHA mortgages offer flexible terms with regard to credit and a low down payment.

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<sup>7</sup> Freddie Mac's Section 8 Homeownership Program, Publication Number 408, October 2001

In 2001, HUD released a notice that allows lenders to use Section 8 Homeownership vouchers when underwriting FHA Insured loans. HUD requires that the Section 8 subsidy be treated as income when qualifying households for FHA insured loans.

More information about FHA insured mortgages can be found at:  
[www.hud.gov/buying/insured.cfm](http://www.hud.gov/buying/insured.cfm).

#### D. Massachusetts Soft Second Loan Program

Massachusetts has a very successful mortgage program for first-time homebuyers called the Soft Second Loan Program. Created in 1990 by the Massachusetts Housing Partnership, Soft Second combines a conventional first mortgage with a subsidized second mortgage. Dividing the mortgage into two loans lowers the primary mortgage amount and allows borrowers to avoid Private Mortgage Insurance (PMI), therefore lowering their monthly payments. PMI is required by lenders if borrowers are putting less than a 20% down payment, something that is very challenging for first-time homebuyers in high housing markets. PMI can add approximately \$100 to the monthly mortgage payment.

The Soft Second program is offered through participating lenders that can be found on MHP's website at [www.mhp.net](http://www.mhp.net) along with more specific information about the program. The key features of the loan include a first mortgage that amounts to 77% of the purchase price (the homeowner pays principal, interest, taxes and insurance on this mortgage, as with any conventional loan); a second mortgage amounting to 20% of the purchase price, which the homeowner pays interest only on for the first 10 years of the loan (interest subsidies are available for income-eligible homeowners); and a 3% down payment, of which only 1.5%, or \$1,500, has to come from the borrower's own funds.

Recently, MHP released guidelines that allow lenders to underwrite Soft Second loans using Section 8 assistance. While not all lenders participating in the Soft Second program offer this feature, some do and some households using their Section 8 for Homeownership have taken advantage of it.

Participants must meet all standard Soft Second program requirements to use their Section 8 with Soft Second and must purchase through a participating Soft Second lender in a participating community. Participating lenders will underwrite and approve loans based on Fannie Mae's underwriting guidelines for Section 8 (explained above) and there are purchase price guidelines based on household income.

### **III. Tools for PHAs to Determine Monthly Payments**

While all of the above mentioned initiatives assist lenders in determining how to underwrite loans using Section 8 assistance, several housing authorities have also developed tools to determine how much a household's mortgage payment will be, once the lender has determined what the loan amount will be. Both the Holyoke Housing Authority and the Lowell Housing Authority have forms that are included in the appendices that they use for this purpose.

The Holyoke Housing Authority has developed a model that provides homebuyer counselors or housing authority homeownership staff with a tool that allows her/him to demonstrate what the

payment amounts will be for the homebuyer. Other housing authorities may find this tool useful in their own homeownership programs.

### **Example**

Using Holyoke Housing Authority's Section 8 Payment Calculation sheet found in the appendices, housing authority staff can review all of the calculations with the homebuyer to determine if they are comfortable with the increase in housing costs they'll be experiencing as homeowners.

The Holyoke Housing Authority (HHA) uses this form for each person participating in its homeownership program and it becomes the basis for the payment plan to the lender for each individual loan. Using this form gives each housing authority staff an opportunity to show the prospective homebuyer what their actual costs will be each month.

On this sample form, the potential homebuyer, Jane Doe has 4 people in her household. The annual gross household income is \$23,176, or 38% of the area median income for Holyoke.

Calculation #1 determines what the housing assistance payment would be using the standard formula of deducting 30% of the tenant's adjusted income from the voucher payment standard for the number of bedrooms in the new home.

Jane has a 3-bedroom Section 8 voucher, with a payment standard of \$857/month.

30% of Jane's monthly gross income is \$514.

$\$857 - \$514 = \$343$

HAP Calculation #1 = \$343

Calculation #2 determines the absolute costs that the homebuyer will incur each month based on the mortgage payment information provided by the lender and all other expenses. At the Holyoke Housing Authority, they factor in the Monthly Maintenance Allowance at \$75 and the Monthly Maintenance/Repair Allowance at \$75. The Authority does not collect this money nor do they require proof that the homeowner is putting the money aside.

They also show the homebuyer that their utility allowance as a renter would be factored at \$233.

This payment is not made to the homeowner nor does it reduce their share of the mortgage by that amount but is used to demonstrate what the approximate cost of utilities might be.

In this example, the lender determined that Jane's monthly PITI is \$639.54. The Holyoke Housing Authority then adds the monthly maintenance allowance and the standard utility allowance to PITI to determine the total housing costs.

Mortgage PITI:	\$639.54
Monthly maintenance allowance:	\$75.00
Monthly maintenance report allowance:	\$75.00
Utility allowance:	\$233.00
<b>Total:</b>	<b>\$1,022.54</b>

The HHA deducts 30% of the household's monthly income (\$514) from the total housing costs. HAP Calculation #2 = \$508.54.

HHA then determines that the actual HAP amount will be the lesser of Calculation 1 and Calculation 2, which turns out to be \$343 (Calculation #1).

In the example on the form, the true housing costs for the homeowner, including PITI and all utilities and maintenance costs is \$1,022.54. The Authority's share of the mortgage payment is \$343. To determine the homeowner's share the HHA deducts the HAP from the PITI which equals \$296.54 (\$639.54 - \$343 = \$296.54). While the homeowner's share is only \$296.54, calculating the payments with the homeowner using this method shows the homeowner what the other real costs for the home are.

#### IV. Summary

The financing documents associated with the Section 8 Homeownership Program can be a confusing and time-consuming component of the program. The following are some tips for ways that PHAs can learn more about financing and work effectively with lenders:

- Talk to other PHAs who have already implemented homeownership programs and have had closings with buyers and ask them to provide some of the resources and tools that they used to get started.
- When meeting with lenders to discuss homeownership programs, especially lenders that are familiar with the Section 8 Homeownership Program, ask them to go through some underwriting examples with PHA staff to better understand how the process works and to make sure the PHA has a clear understanding of what the lenders are looking for in qualified applicants.
- During the homeownership process for buyers work closely with the lenders and stay in contact with them throughout the process. Make sure to provide accurate HAP payment amounts, and let the lender know if the HAP has changed from the initial pre-approval period. Also, make sure that the PHA and lender are using the same PITI amounts to qualify the buyers.
- Attend the closings of the homebuyers.
- Talk to non-profit homebuyer counseling agency partners.

## **Section 5: People with Disabilities and the Homeownership Option**

Like many minority groups in the United States, people with disabilities are less likely to own a home than the average American. An estimated 1-2% of people with disabilities own their own home compared to approximately 70% of the general population nationwide<sup>8</sup>. Increasingly, however, people with disabilities are seeking the benefits of homeownership and programs have been created across the country to assist them.

This section will describe some programs that people with disabilities have utilized to become successful homeowners, will describe the enhancements in the Section 8 Homeownership Program for people with disabilities and elderly households in greater detail, discuss various fair housing laws as they pertain to the Homeownership Option, and give some examples and definitions of reasonable accommodations and resources for PHAs when working with people with disabilities.

### **I. Case Studies of Homeowners with Disabilities<sup>9</sup>**

Massachusetts has been a relatively progressive state in assisting and encouraging people with disabilities to pursue homeownership. Through various down payment assistance programs, special mortgage products, and other creative ways, Massachusetts has assisted many people with disabilities achieve and sustain homeownership over the last decade.

Citizens' Housing and Planning Association (CHAPA) manages a down payment and closing cost assistance program called the Massachusetts Home of Your Own Program. Since 1997, CHAPA has assisted 66 people with disabilities into homeownership. Most recently, CHAPA has assisted six disabled households using their Section 8 for homeownership.

The following represent short descriptions of a few of the buyers.

#### **Ethel**

One of the Boston Housing Authority's first Section 8 Homeownership buyers, Ethel showed immense patience in her quest for homeownership. The lottery winner of an affordable property in Roxbury, Ethel's closing was held up for months due to financing concerns over the affordable deed restriction. Finally resolved, Ethel moved into her new home in July 2003.

Although disabled, Ethel is employed. Her income was approximately \$18,000 a year from employment, plus supplemental income that totaled about \$10,000 a year (Ethel's supplemental income from caring for a foster child was used to when qualifying her for a mortgage, but was not used to determine income eligibility for the Section 8 Homeownership Program).

With her Section 8 she was able to qualify for a loan to purchase an affordable property in Roxbury for \$155,000. She received \$7,500 from the Home of Your Own Program and closing cost assistance from the City of Boston. Ethel had also been a participant in the BHA's Family

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<sup>8</sup> The reference to people with disabilities here excludes elders who may have disabilities but who have owned their homes prior to becoming disabled.

<sup>9</sup> False names have been used upon request by the homeowners.

Self-Sufficiency program since 1999 and used some of her escrow account savings toward her down payment.

In Ethel's personal statement in her application to the Home of Your Own Program she cited stability and security as her primary reason for wanting to own her own home. Ethel has one son and a foster child.

### **Michael**

Michael acquired a permanent physical disability in July 1986 and as a result, became eligible for many social service programs, including Social Security disability benefits, Vocational Rehabilitation, and public housing. In 1996, Michael received a Section 8 rental voucher from the Lynn Housing Authority, immediately following his graduation from Salem State College with a B.S.W.

Michael became a first-time homeowner in November 2003 when he purchased a condominium in Woburn. He took full advantage of the opportunities presented to him as a person with a disability to achieve this goal. Michael began full time employment in 1998 with the Commonwealth of Massachusetts. By becoming gainfully employed, he was able to phase out his Social Security benefits and started participating in the housing authority's Family Self-Sufficiency program. This program allowed Michael to save a portion of his monthly rent into an account that matured over five years, which he used for a portion of his down payment, needed repairs in his new home, and to purchase some new furniture. At the end of his five year FSS contract is also when Michael began participating in the Section 8 Homeownership Program.

In addition to Section 8 assistance, Michael received financial assistance from Community Service Network and \$10,000 from CHAPA's Home of Your Own Program. Michael is grateful that he was able to purchase his condominium when interest rates were low. He feels that without the Section 8 Homeownership program and the two down payment assistance programs this opportunity would not have been possible.

### **Mary**

Mary applied to the Home of Your Own Program in 2001 and worked tirelessly for two years to make the Section 8 Homeownership Program work for her. There not many housing authorities participating in the Homeownership Option when Mary first began to pursue homeownership. She spent a lot of time talking to housing authorities and helping them learn more about the program. She was eventually successful in transferring her voucher from a non-participating housing authority to the Woburn Housing Authority.

Mary lived in Cambridge for 12 years as a renter before being able to purchase a condominium there and has expressed over and over how much she loves being a homeowner. Mary lost her sight as a teenager, but didn't let that get in the way of her goals to pursue her quest for homeownership. Mary is happy to be leading a fully independent life. As a homeowner, she has been able to purchase a washer and dryer that are accessible to her, and is looking forward to one day replacing all of her appliances so that they are more accessible and useable to her.

Mary also received buy-down and down payment assistance from Neighborhood Housing Services of the South Shore, CHAPA's Home of Your Own Program and the City of Cambridge's First-Time Homebuyer program to reach her homeownership goals.

## **II. Enhancements to the Rules for People with Disabilities**

As their stories indicate, the Section 8 Homeownership Program has had a significant, positive impact on the lives of these individuals. Becoming homeowners posed unique challenges because of their disabilities. Recognizing these challenges, HUD's Section 8 Homeownership regulations make some exceptions to the rules for elderly and disabled households.

These include the following:

- The minimum income requirement of \$10,300 does not apply to disabled and elderly households. The final rules issued on October 18, 2002 establish a separate national income standard for disabled and elderly households. This minimum income standard is equal to the monthly Federal Supplemental Security Income (SSI) benefits for an individual living alone, multiplied by twelve.

While PHAs can set a higher minimum income standard, a household that meets the minimum income requirement (or the standard established for disabled or elderly households), but not the higher standard established by the PHA, can be considered eligible. The household must be able to demonstrate that they have been pre-qualified or pre-approved for financing that meets the PHA's financing requirements and is sufficient to purchase housing that meets the housing standards in the PHA's jurisdiction.

- Disabled and elderly households are exempt from the full-time work requirement.
- The time limit for Section 8 assistance (10 years for a loan of 20 years or less; 15 years for a 30-year loan) does not apply to disabled and elderly households, nor does it apply if a head of households or a spouse becomes disabled after the purchase of the property. The Section 8 assistance lasts for the entire length of the mortgage.
- People with disabilities do not have to be first-time homebuyers if the Homeownership Option is being utilized as a reasonable accommodation.

## **III. Section 504 of the Rehabilitation Act of 1973**

In order to ensure that people with disabilities can participate equally in federally funded programs, such as the Section 8 Homeownership Program, Congress passed, and federal agencies such as HUD implemented, Section 504 of the Rehabilitation Act of 1973. Section 504 requires that federally funded programs be "readily accessible" to people with disabilities<sup>10</sup>. Many Public Housing Authorities have implemented Section 504 accessibility requirements in public housing programs and the Section 8 Housing Choice Voucher Program; Section 504, however, also applies to the Authority's Section 8 Homeownership Programs.

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<sup>10</sup> 24 CFR 8.24

Each PHA has to do their own assessment to determine whether their program is readily accessible to people with disabilities. Some of the questions an authority might want to review include:

- Is the program office accessible to someone who uses a wheelchair? Are training and meeting rooms accessible?
- If someone who is deaf and uses a TTY calls the office, does the office have a TTY? Does the office staff know how to use the TTY?
- Does staff know how to contact a sign language interpreter if needed?
- Does the program have the capacity to provide information in alternative formats such as large print for someone who has low vision?

HUD and the Department of Justice have technical assistance resources available for such assessments. Organizations such as Adaptive Environments ([www.adaptiveenvironments.org](http://www.adaptiveenvironments.org)) or Local Independent Living Centers ([www.mass.gov/mrc/il/ilcenters.htm](http://www.mass.gov/mrc/il/ilcenters.htm)) may also be able to assist with such assessments.

#### **IV. Reasonable Accommodations**

An important policy every program should have in place is a reasonable accommodation policy. A reasonable accommodation is a change to a policy or procedure to allow a person with a disability to participate fully in the program.

For example, many homeownership programs require that a certain percentage of the down payment for the home be from the homebuyer's personal savings. People with disabilities receiving SSI or SSDI as income risk losing their source of income if they have savings over a certain amount (generally \$2,000). To the extent this prohibits their participation in the program the PHA may have to waive this rule as a reasonable accommodation.

PHAs do not have to provide reasonable accommodations that pose an undue administrative or financial burden, or fundamentally alter the nature of the program. So, for example, while it might be reasonable for a PHA to waive a certain level of savings, a PHA may determine it is unreasonable or a fundamental alteration of the program to not require the borrower to have any personal savings.

In situations where an individual with a disability requests an accommodation that is not reasonable for the PHA or the lender, the PHA or lender should consider offering another accommodation that is reasonable that may meet the needs of the individual. For example, a person with chemical sensitivities may ask the program to request that other participants not wear perfume to training sessions. If the PHA feels this is not reasonable and that it cannot guarantee the behaviors of other participants, it may offer to provide the training one-on-one, and ensure the program's trainer does not wear perfume.

The final rules require PHAs to make accommodation decisions on a case by case basis for the Homeownership Option. In cases where the PHA has otherwise opted not to implement a homeownership program, the PHA “may determine that it is not reasonable to offer homeownership assistance as a reasonable accommodation”.<sup>11</sup> The October 18, 2002 rule clarifies that it is the sole responsibility of the PHA to determine whether it is reasonable to implement a homeownership program as a reasonable accommodation.<sup>12</sup>

PHAs should consider the following in order to comply with reasonable accommodation requirements and requests:

- Have a written reasonable accommodation policy in place;
- Notify applicants and participants of the policy by including mention of it on application forms and providing a summary notice of the policy in packets; and,
- Have a procedure for quickly processing reasonable accommodation requests.

When developing a reasonable accommodation policy and procedure PHAs should limit the specific questions that are asked about a person’s disability. Generally, a PHA may ask the individual to verify their disability but not make specific inquiries, such as the type of disability or about medication. PHAs may only ask for specific information if necessary to verify a specific reasonable accommodation request.

## **V. Title III of the Americans with Disabilities Act**

Title III of the Americans with Disabilities Act includes similar accommodation requirements for lenders working with people with disabilities. Lenders cannot discriminate on the basis of disability. This includes not using eligibility criteria that screen out or tend to screen out any class of individual with disabilities<sup>13</sup>. Further, lenders, like PHAs, are required to make reasonable modifications in policies practices or procedures when such are necessary for individuals with disabilities<sup>14</sup>. However, lenders, similar to PHAs, are not required to take any steps that would fundamentally alter the nature of the program or create an undue burden<sup>15</sup>.

## **VI. Examples of Accommodations**

The following are examples of typical accommodations which may be requested of the PHA, homebuyer counselor and/or lender.

Homebuyer counseling or training: Homebuyer trainings are typically offered to groups of participants. Some people with disabilities may request individual training sessions as a reasonable accommodation. A person with cognitive disabilities who cannot follow along with the group, for example, and may require simplified or repeated explanations may request individual counseling. Someone whose disability makes it difficult to be in a group, such as

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<sup>11</sup> 24 CFR Parts 5, 903, 982; September 12, 2000

<sup>12</sup> 24 CFR Part 982, October 18, 2002

<sup>13</sup> ADA Title III Section 302 (b) (2)(i)

<sup>14</sup> ADA Title III Section 302 (b)(2)(ii)

<sup>15</sup> ADA Title III Section 302 (b)(2)(iii) and (iv)

people with chemical sensitivities or high levels of discomfort in groups, may also make such a request. In most cases it is reasonable to provide these individuals with one-on-one or smaller group trainings.

Effective Communication: Some people with disabilities require accommodations to communicate effectively with the PHA, counselor or lender. For example, a person who is deaf and uses sign language will need a sign language interpreter to participate in a training or to attend an individual meeting. The PHA should research how a sign language interpreter can be obtained.<sup>16</sup> The PHA is responsible for covering the cost of the interpreter.

Similarly, programs need to know how to communicate effectively with people with other sensory disabilities. People who have low-vision or are blind may use large print, Braille or information on tape. In programs such as these, where so much important information is provided on paper, providing the information in alternative formats is critical.

Outreach: The PHA must ensure that any outreach that is conducted also reaches people with disabilities. If the PHA knows that households in its program have low-vision or are blind, it should contact these households to ensure they have received the information or ask how it can best be provided to them. If the PHA conducts outreach to the community at large, the PHA should ensure that disability organizations such as the local independent living center, mental health center, local Arcs and other disability organizations are included on any outreach list.

Income source: Nationally only 30% of people with disabilities are employed. While some applicants with disabilities may have employment income, many will have other sources such as SSI, SSDI, trust income and other non-employment sources. While the PHA and lender have the right to deny those whose income is not stable or sufficient to participate in the program, excluding individuals or denying them based simply on the source or type of income would be considered discriminatory.

Although a household receiving SSI income may be restricted to having a certain amount in assets, such as money in savings accounts, assets from homeownership, such as the value of a home and/or the land that the home is on, does not count toward the SSI asset limit.<sup>17</sup>

Guardianship/Trusts: Some people with disabilities will have to have their home owned or co-owned by a trust or with a guardian. This may be for financial reasons or for disability related reasons, such as the individual needs a guardian to oversee their financial affairs. Such arrangements should not preclude participation in homeownership programs. It is likely to be reasonable to have a trust own the property. However, the PHA will still want the participant (and his/her guardian, if applicable) to take the homebuyer classes and participate fully in all aspects of the program.

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<sup>16</sup> The Massachusetts Commission for the Deaf and Hard of Hearing (MCDHH) has a program that provides sign language interpreters for a fee. More information is available at: [www.mass.gov/mcdhh](http://www.mass.gov/mcdhh). Local Independent Living Centers may also be useful resources: [www.mass.gov/mrc/il/ilcenters.htm](http://www.mass.gov/mrc/il/ilcenters.htm)

<sup>17</sup> Supplemental Security Income, Social Security Administration Publication No. 05-11000, April 2003, [www.ssa.gov/pubs/11000.html](http://www.ssa.gov/pubs/11000.html)

Family Self-Sufficiency Program: Many PHAs limit the homeownership program to participants in the Family Self-Sufficiency Program. To the extent that such a requirement excludes people with disabilities, the PHA should ensure the program literature states that elders and people with disabilities who are not in the FSS Program are eligible for the homeownership program. While some people with disabilities are employed, many are not. They can still be good candidates for the program.

## **VII. Homeownership Resources**

The following are homeownership resources for people with disabilities that PHAs might find useful:

Home Of Your Own (HOYO) Programs: HOYO Programs are focused on assisting people with disabilities achieve homeownership. HOYO programs offer assistance and sometimes resources such as targeted down payment assistance. Historically, there were 23 states that offered home of your own programs. It is not known if all states still manage programs, however the National Home of Your Own Alliance website has a list at: <http://alliance.unh.edu/nhoyo.html>. Massachusetts has had an active Home of Your Own Program since 1997. The Massachusetts program has been managed by Citizens' Housing and Planning Association (CHAPA) and information can be found on CHAPA's website at [www.chapa.org](http://www.chapa.org).

The Massachusetts Home of Your Own Program also produced a guidebook in 2002 titled "A Home of Your Own: Increasing Homeownership Among People with Disabilities in Massachusetts" that details various mortgage programs, rehabilitation programs and other resources for first-time homebuyers with disabilities. The report can be found on CHAPA's website at [www.chapa.org/resources\\_publications.htm](http://www.chapa.org/resources_publications.htm)

Home Modification Funds: Some potential homebuyers who have physical disabilities may have difficulty locating an accessible home. They may have to identify a home that can easily be made accessible. When there is not sufficient equity to make such modifications, the program may want to refer the homebuyer to programs that provide funds for home modifications. In Massachusetts, the Massachusetts Rehabilitation Commission has a Home Modifications Loan Program that is administered regionally. Information on Massachusetts' program is available at: [www.mass.gov/mrc/agency/homemods.htm](http://www.mass.gov/mrc/agency/homemods.htm). Information on home modification programs around the country is available at: [www.homemods.org](http://www.homemods.org).

Targeted lending programs: Fannie Mae has a mortgage program specifically targeted to people with disabilities. HomeChoice is a single-family mortgage program designed to meet the unique mortgage underwriting needs of low- and moderate-income people with disabilities, or families with members with disabilities living with them.

In Massachusetts, HomeChoice is available exclusively through Citizens Bank. Some of the eligibility guidelines are as follows:

- Household income cannot exceed 100% of the area median income (and may exceed 100% in Boston, a HUD-designated area for having high housing costs).

- An eligible borrower may have a legally appointed guardian, provided the legal guardian has a 24-month history of managing their financial affairs and intends to do so for the foreseeable future.
- The borrower's debt-to-income ratios shall not exceed 50/50.
- A non-occupant co-borrower may be a part of the transaction, provided the co-borrower is a family member or legal guardian.
- Eligible properties are single-family, detached houses, townhouses condominiums or cooperatives.
- The minimum down payment is 3% of the purchase price, however only \$500 must come from the borrower's own funds; the balance can be from a down payment assistance program or a gift from family or friends.
- Borrowers purchasing properties requiring rehabilitation or accessible modifications can be eligible for Fannie Mae's HomeStyle Community mortgage using the underwriting guidelines for HomeChoice.

For more information on HomeChoice, please contact:

[www.fanniemae.com](http://www.fanniemae.com)

Gari Stanley, Citizens Mortgage, 800-852-5577

Janna Peckham, CHAPA, 800-466-3111

## Appendix A

This page is located on the U.S. Department of Housing and Urban Development's Homes and Communities Web site at <http://www.hud.gov/local/ma/homeownership/hsgvouchers.cfm>.



## Homeownership Vouchers

Housing Choice Vouchers help people rent or buy decent and affordable housing. The following housing authorities in Massachusetts are participating in the program. Contact your local housing authority to inquire if they participate in the program.

### **Amesbury Housing Authority**

180 Main Street  
Amesbury, MA 01913-1913  
Phone: (978) 388-2022, ext. 3

### **Boston Housing Authority**

52 Chauncy Street  
Boston, MA 02111-2325  
Phone: (617) 988-4000

### **Braintree Housing Authority**

25 Roosevelt Street  
Braintree, MA 02184-8663  
Phone: (781) 848-1484

### **Brockton Housing Authority**

45 Goddard Road  
Brockton, MA 02301-7070  
Phone: (508) 588-6880

### **Chelmsford Housing Authority**

10 Wilson Street  
Chelmsford, MA 01824  
Phone: (978) 256-7425

### **Department of Housing & Community Development**

1 Congress Street  
Boston, MA 02114  
Phone: (617) 727-7130 x 655

### **Framingham Housing Authority**

1 John J. Brady Drive

### **Lynn Housing Authority**

10 Church Street  
Lynn, MA 01902-4418  
Phone: (781) 592-1966

### **Medford Housing Authority**

121 Riverside Avenue  
Medford, MA 02155-4611  
Phone: (781) 396-7200

### **Merrimac Housing Authority**

52 Merri Village  
Merrimac, MA 01860-1860  
Phone: (978) 388-2022

### **Plymouth Housing Authority**

P.O. Box 3537  
Plymouth, MA 02361-3537  
Phone: (508) 746-2105

### **Quincy Housing Authority**

80 Clay Street  
Quincy, MA 02170-2745  
Phone: (617) 847-4350

### **Shrewsbury Housing Authority**

36 North Quinsigamond Avenue  
Shrewsbury, MA 01545-2455  
Phone: (508) 757-0323

Somerville Housing Authority  
30 Memorial Road

Framingham, MA 01702-2307  
Phone: (508) 879-7562

**Franklin County Regional Housing Authority**

42 Canal Road  
P.O. Box 30  
Turners Falls, MA 01376  
Phone: (413) 863-9781

**Gardner Housing Authority**

116 Church Street  
Gardner, MA 01440-2556  
Phone: (978) 632-6634

**Gloucester Housing Authority**

99 Prospect Street  
Gloucester, MA 01930-3742  
Phone: (978) 281-4770

**Greenfield Housing Authority**

1 Elm Terrace  
Greenfield, MA 01301  
Phone: (413) 774-2932

**Holyoke Housing Authority**

475 Maple Street  
Holyoke, MA 01040-3775  
Phone: (413) 539-2202

**Lowell Housing Authority**

P.O. Box 60  
Lowell, MA 01853-0060  
Phone: (978) 937-3500

Somerville, MA 02145  
Phone: (617) 625-1152

**Springfield Housing Authority**

25 Saab Court  
P.O. Box 1609  
Springfield, MA 01101-1609  
Phone: (413) 785-4513

**Taunton Housing Authority**

30 Olney Street  
Taunton, MA 02780  
Phone: (508) 823-6308

**Weymouth Housing Authority**

402 Essex Street  
Weymouth, MA 02188  
Phone: (781) 331-2323

**Winchester Housing Authority**

13 Westley Street  
Winchester, MA 01890  
Phone: (781) 721-5718

**Woburn Housing Authority**

59 Campbell Street  
Woburn, MA 01801-3612  
Phone: (781) 935-0818

**Worcester Housing Authority**

40 Belmont Street  
Worcester, MA 01605-2655  
Phone: (508) 635-3000

Content current as of July 1, 2004

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

451 7th Street, S.W., Washington, DC 20410

Telephone: (202) 708-1112 [Find the address of a HUD office near you](#)

## Appendix D

### Implementing a Section 8 Homeownership Program

The following is a suggested roadmap to implementing a successful Section 8 Homeownership program. These suggestions were developed in part by CHAPA's Section 8 Homeownership Committee.

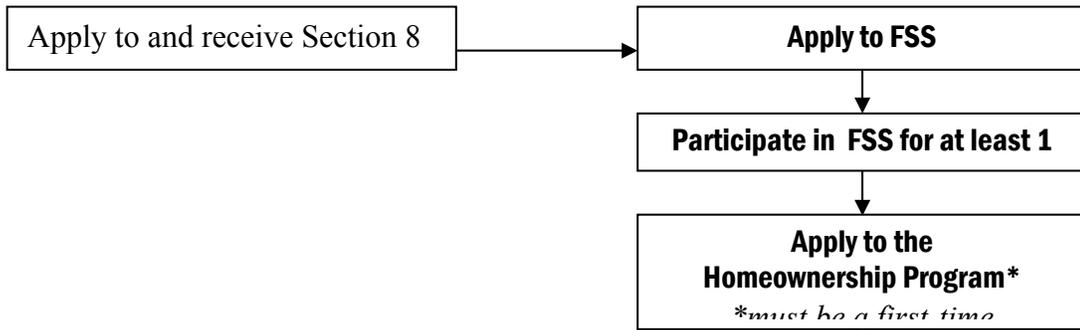
1. Start internal discussions – how many households does your housing authority serve through Section 8? How many do you think you would serve through a homeownership option? What is your housing market? Will households be able to find homes they can afford or will they have to purchase outside your community? Do you have a Family Self-Sufficiency (FSS) Program? What is your staff capacity to run this kind of program? What is the interest level among your FFS participants/tenants?
2. Begin Board discussions and approval process.
3. Identify external partners, such as counseling agencies in your area and potential lenders. Counseling agencies may provide you with assistance in identifying lenders that they have good relationships with and that are committed to affordable homeownership opportunities.
4. If your housing authority doesn't currently offer any homeownership programs, consider attending an entire homebuyer education workshop series offered by a non-profit counseling agency in your area. It's a great way to understand the homeownership process better and be more informed of affordable mortgage products and down payment assistance programs in your area.
5. Obtain Board approval.
6. Amend Administrative Plan and submit to HUD.
7. Cultivate a working relationship with lender(s).
8. Design program – eligibility guidelines, program application, etc.
9. Begin working with external partners to identify training needs, both for housing authority staff and lenders and counselors who will work with prospective homeowners.
10. Put together a list of local real estate brokers, local home inspectors – inform them of the program.
11. Determine how you will conduct marketing – will you send a mailing? Conduct information sessions? Will there be one staff person to handle all questions? Will you advertise in the paper and to non-profits?
12. Begin conducting marketing efforts; field phone calls.
13. Start meeting with prospective homebuyers – do they meet the initial eligibility requirements? What are their needs – credit counseling, need to attend a first-time homebuyer course, work on saving for a down payment, etc.
14. After prospective homebuyers attend first-time homebuyer education, meet with them to determine if they are ready to move forward – did they pull their credit report? Are there any

credit issues to address? Is their income enough to support a mortgage? How much savings do they have (including FSS escrow accounts)? Will they need assistance in obtaining down payment assistance?

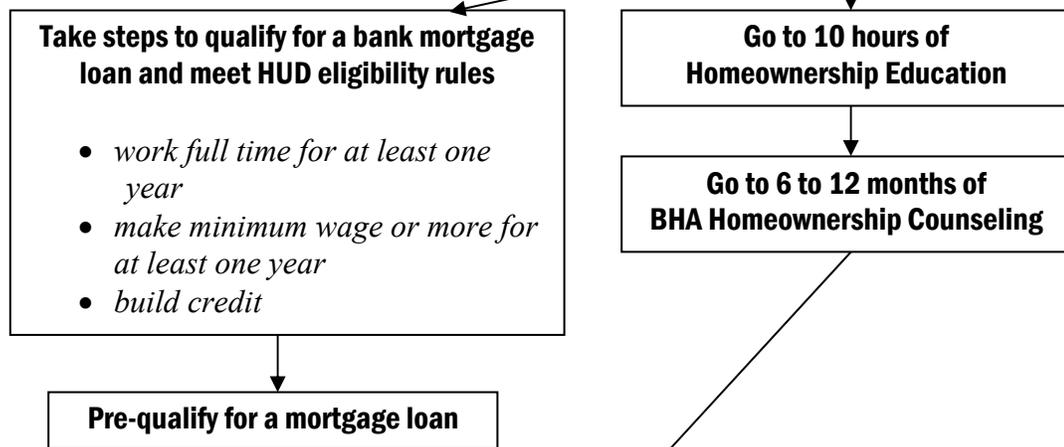
15. Prospective homebuyers who are ready to move forward go to the lender for a pre-qualification or pre-approval. Continue to work with prospective homebuyers that are not ready to move forward to address the areas that they need to work on.
16. Assist prospective homebuyers with housing search; stay informed of affordable homeownership opportunities offered by non-profit and for-profit developers.
17. Serve as a liaison between the prospective homebuyer, the homebuyer counselor, the lender, the real estate broker and other parties.
18. Review Purchase and Sales agreement, home inspection and mortgage commitment information when available. Coordinate the HQS inspection. Mandate a lead inspection, if necessary. Make sure all documents are satisfactory to the PHA.
19. Based on the mortgage amount, determine the homebuyer's contribution and the PHA's contribution.
20. Accompany the homebuyer to closing; make sure that they understand the program rules and guidelines and understand how and when to make their mortgage payments.
21. Arrange for post purchase counseling for the homebuyer, if applicable.
22. Send the PHA's portion of the monthly mortgage payment on time.
23. If the PHA has decided to perform annual property inspections make sure the homeowner understands how and when this will occur.
24. Perform annual income reviews of homebuyers and determine if the mortgage contributions need to be adjusted. If so, contact the lender/servicer to inform appropriate parties of any changes in payment amounts.

**Boston Housing Authority  
Section 8 Homeownership Participant  
FLOWCHART**

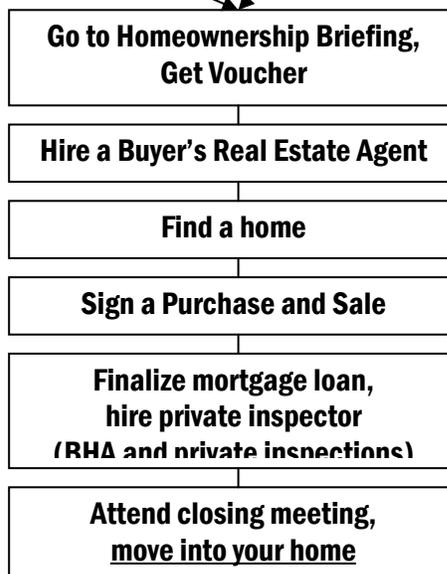
**Part One: Applying**



**Part Two: Getting Ready**



**Part Three: Buying a Home**



**Appendix F**

**Section 8 Homeownership Mortgage Payment Calculation Sheet  
Holyoke Housing Authority**

<b>HOMEOWNERS' NAME , ADDRESS &amp; ECS #</b>			
DOE, Jane 333 Bermuda Avenue, Holyoke MA - 4444			
Family Composition	4		
Annual Gross Income	23,176.00		
AMI % (Area Median Income)	38%		
<b>CALCULATION 1</b>			
VOUCHER PAYMENT STANDARD BEDROOMS	3	\$ 857.00	
MINUS THP (Total Homeowners' payment)		\$ 514.00	
30% OF ADJUSTED INCOME			
HOUSING ASSISTANCE PAYMENT (CALCULATION #1)		\$ 343.00	
<b>CALCULATION 2</b>			
MONTHLY HOMEOWNER EXPENSES			
MORTGAGE PITI		\$ 639.54	
MMA (Monthly maintenance allowance)		\$ 75.00	
MMRA (Monthly maintenance repair allowance)		\$ 75.00	
UTILITY ALLOWANCE		\$ 233.00	
TOTAL		\$1,022.54	
MINUS THP		\$ 514.00	
HAP CALCULATION #2		\$ 508.54	
<i>HAP CALC = LESSER OF CALC 1 OR CALC 2</i>		\$ 343.00	
PITI		\$ 639.54	
MINUS HAP		\$ 343.00	
HOMEOWNERS' PAYMENT TO BANK		\$ 296.54	
Homeowners' income percentage ratio towards PITI		17%	
Last modified 5/28/2004			

**Appendix G**

**Lowell Housing Authority  
Determination of Subsidy Payment  
Section 8 Homeownership Program**

RECORD # \_\_\_\_\_  
APPLICATION # \_\_\_\_\_

1. APPLICANT NAME: \_\_\_\_\_ VOUCHER # \_\_\_\_\_ BR. \_\_\_\_\_

2. PRESENT ADDRESS: \_\_\_\_\_ UNIT # \_\_\_\_\_

3. NAME OF OWNER: \_\_\_\_\_ VENDOR # \_\_\_\_\_

4. ADDRESS OF OWNER: \_\_\_\_\_ HA ID# \_\_\_\_\_

**30% of Adjusted Income (TTP) \_\_\_\_\_**

---

**The Payment Standard is the lower of  
Bedroom Size Required by the Family or Actual Bedroom Size of the Home**

**Payment Standard: \_\_\_\_\_**

**The Subsidy Payment to be made on behalf of the Family will be the Lesser of the following:**

- A) The payment standard minus the total tenant payment
- B) The Family's monthly homeownership expenses minus the total tenant payment

---

**Option A**

**Payment Standard** \_\_\_\_\_

**Minus TTP** \_\_\_\_\_

**Subsidy Payment** \_\_\_\_\_

---

**Option B**

**Principle & Interest** \_\_\_\_\_  
**Real Estate Taxes** \_\_\_\_\_  
**Sewer and Water Fees** \_\_\_\_\_  
**Trash Pick up** \_\_\_\_\_

<b>Homeownership Insurance</b>	_____
<b>Allowance for Maintenance Expenses</b>	_____
<b>Allowance for Major Repairs</b>	_____
<b>Utility Allowance</b>	_____
<b>Principle &amp; Interest on debt associated with HCP</b>	_____
<b>Accessibility</b>	_____
<b>Total Costs</b>	_____
<b>Minus TTP</b>	_____
<b>Subsidy Amount</b>	_____

---

**Subsidy Payment (Lesser of Option A or B)** \_\_\_\_\_

---

<b>ACCOUNTING DEPARTMENT – ACTION REQUIRED</b>	<b>DATE EFFECTIVE</b>
--	-----------------------

HAP NEW: \_\_\_\_\_

HAP RENEWAL: \_\_\_\_\_

RENT STOP (REASON): \_\_\_\_\_

DATE TENANT VACATED: \_\_\_\_\_ ANY ADJUSTMENT DUE: \_\_\_\_\_

RENT RESTART: \_\_\_\_\_

RENT CHANGE: \_\_\_\_\_

LEASE DATE BEGINS: \_\_\_\_\_ ENDS: \_\_\_\_\_

DATE SENT TO ACCOUNTING DEPT.: \_\_\_\_\_

DATE PENDING CONTRACT BUILT: \_\_\_\_\_ BY: \_\_\_\_\_

**form effective 11/2000**