

# A SELF-FUNDED PROGRAM TO EXPAND MODERATE-INCOME HOME OWNERSHIP

*Presented by*



**New Prospect Consulting Services, Inc.**  
Specializing in home ownership for moderate-income families

## THE AMERICAN DREAM—OUT OF REACH?

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Owning a home, the “American Dream,” is considered an important social and economic indicator as well as a symbol of having a stake in society and contributing to the stability of the community. However, for a large number of moderate-income families throughout the country, the ancillary social and economic benefits of homeownership remain out of reach.

## AFFORDABLE HOUSING NOW AN ISSUE FOR MODERATE-INCOME FAMILIES

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- Large, growing population of young professionals or families, earning \$50,000 to \$90,000 annually, unable to find suitable housing within their price range:
  - Inability to meet monthly payments
  - Insufficient savings for traditional down payment and closing costs
  - High indebtedness (marginal FICO score)
- Lenders applying even stricter standards in qualifying borrowers for commercial mortgages.
- Without a high credit score, the only option may be an expensive subprime product.

*For these individuals and families, the question becomes not only “Can I get a loan,” but “Can I get a loan with terms I can afford?”*

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These would-be homebuyers are barred from qualifying for a conventionally priced mortgage because of an inability to afford monthly payments, insufficient savings for a down payment and closing costs, high indebtedness and marginal credit.

They are not “haves” and “have not’s” but regularly employed wage earners who are most likely renting but want to own a home, yet do not think of themselves as eligible for “affordable housing” assistance.

For these individuals and families, the question becomes not only “Can I get a loan?” but “Can I get a loan with terms I can afford?”

## HUD/FHA 203(b) PROGRAM PROVIDES A SOLUTION FOR LOW- AND MODERATE-INCOME HOMEBUYERS

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- HUD certified nonprofit housing agencies process loan applications, provide local housing expertise and credit counseling
- Funding provided by approved financial institutions
- FHA-insured to protect lenders against default
- Low down payment
- Low closing and settlement costs
- Easy credit qualifications

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An answer to this question exists in the HUD/FHA 203(b) program, which extends the reach of mortgage markets for sustainable home ownership by low- to moderate-income families. Any potential owner-occupant who meets standard FHA credit qualifications is eligible for 97% financing.

To ensure that both low- and moderate-income people are served, FHA sets upper and lower limits on the dollar value of the mortgage. These limits vary over time and by place, depending on cost of living and other factors; for example, the limits in the six New England states range currently from \$256,025 to \$362,790 for a one-family residence.

Loans are funded by approved private-sector lenders such as banks, mortgage companies, and savings and loans. The lender is protected against default on properties that meet certain minimum requirements.

## LIMITATIONS ON NONPROFIT CAPACITY FOR MODERATE-INCOME HOUSING

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- Funding uncertainties
- Limited staffing
- Contravening priorities for low- or very-low-income families
- Intricacies of the FHA-insured loan process
- Periodic recertification requirements

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However, nonprofit housing agency participation in the HUD/FHA 203(b) program can present formidable challenges in terms of administrative capacity as well as financial resources, and significant expansion of agency activities in the area of moderate-income buyers would create two major needs:

- (1) Readily available, competitive sources of funding
- (2) Expert outside assistance to relieve the associated administrative burden and ensure program execution in full conformance with HUD/FHA requirements

**New Prospect Consulting Services, Inc. (NP) is positioned to help meet these needs with an innovative lease-purchase program that is self-funded and self-sustaining for the certified housing nonprofit!**

## LEASE-PURCHASE BASIC CRITERIA

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Qualifications:      Tenant/buyer income up to 1.25 x area median income  
                                 Housing value up to 1.25 x area median

Advance payment:    Seller - 6% contribution to housing nonprofit to cover closing costs  
                                 Tenant/buyer - 6% tax exempt contribution to housing nonprofit

Tenant/buyer commits to road map of credit improvement and counseling.

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NP offers an innovative lease-purchase approach to moderate-income home ownership. Acting as an intermediary between lenders and HUD-certified nonprofit housing agencies, NP provides immediate access to a large funding reserve and performs critical follow-up monitoring throughout the mortgage process.

The lease-purchase program conforms to HUD/FHA 203(b) requirements, which allows certified housing agencies to finance FHA-insured mortgages under the same terms and conditions as an owner-occupant. Basic criteria for participation in this program are shown above.

Note that the tenant/buyer and the seller each make an advance payment equal to 6% of the purchase price (12% total). These payments are in the form of direct contributions to the nonprofit housing agency. In all cases, buyer credit counseling and improvement are mandatory to ensure the success of the mortgage transaction.

## LEASE/PURCHASE PROGRAM RESPONSIBILITIES

Tasks	NP	Housing Nonprofit
Assist in obtaining certification to participate in FHA single family activities	X	X
Maintain inventory of potential homebuyers	X	X
Maintain inventory of houses for sale	X	
Interview prospective tenant/buyer		X
Obtain credit information, including report		X
Develop, with buyer's concurrence, road map of credit counseling and buyer responsibility		X
Assist buyer in home search and selection	X	X
Collect 6% buyer contribution		X
Order house appraisal and inspection	X	
Issue funding commitment letter	X	
Review closing documents and confirm conformance with FHA regulations	X	
Close loan, disperse funds		X
Assist with FHA reporting and recertification requirements	X	X

Basic responsibilities shared by NP and the housing nonprofit are detailed above. NP monitors and supports these tasks throughout the mortgage process to ensure overall compliance with HUD/FHA requirements.

## THE NP PROGRAM IS SELF-FUNDED AND SELF-SUSTAINING

*Average Home Loan \$200,000*

	1 Home	10 Homes	20 Homes
Revenue:			
6% Seller Contribution	\$12,000	\$120,000	\$240,000
6% Tenant/Buyer Contribution	12,000	120,000	240,000
Total:	\$24,000	\$240,000	\$480,000
Closing Costs-Estimated:			
3% Down Payment	\$6,000	\$60,000	\$120,000
2% Closing Cost (Estimated)	4,000	40,000	80,000
1% Prepaid Insurance, Taxes	2,000	20,000	40,000
Fixed Consulting Fee	1,500	15,000	30,000
Total:	\$13,500	\$135,000	\$270,000
<b>Cash Flow after Closing Costs</b>	<b>\$10,500</b>	<b>\$105,000</b>	<b>\$210,000</b>
Recommended Reserve Fund	\$4,000	\$25,000	\$30,000
Immediate Free Cash	\$6,500	\$80,000	\$180,000

The lease-purchase program produces a significant income stream for the housing nonprofit, as shown in this example based on an average loan of \$200,000. Housing nonprofit outlays, covered by the seller/buyer contributions, include normal closing costs, a modest consulting fee, and a recommended reserve fund set-aside.

## NONPROFIT HOUSING AGENCY CONCERNS

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**Q:** Is there a need?

**A:** Strong demand at all income levels. NP focuses on potential moderate-income homebuyers who may think their only alternative is expensive subprime financing but in many cases can qualify for FHA mortgage assistance. (Approximately 18% of all subprime adjustable rate mortgages to date, representing billions of dollars, could have qualified.)

**Q:** Are homes available for sale?

**A:** Housing market currently weak, with sellers offering competitive pricing and willing to negotiate on homes within the FHA price range limitations for mortgage insurance coverage. Buyers have more market advantage.

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In discussions with various nonprofit housing agencies concerning the NP lease-purchase program, a number of questions were commonly raised:

**Q:** Is there a need?

**A:** A critical need exists at all income levels, but the NP approach focuses on moderate-income wage earners (\$50,000 to \$90,000 annually) who, with a credit roadmap and counseling, can meet the mortgage payments on homes priced within the FHA guidelines.

According to HUD, just 314,000 FHA-insured loans, totaling \$40 billion, were issued in 2006. In comparison, \$600 billion – or 20% of the total mortgage originations during the same period – were subprime loans at uniformly higher rates than those quoted by mainstream lenders. A recent report by Citigroup analysts concludes that, under current FHA requirements, approximately 18% of all “pre-reset” subprime adjustable-rate mortgages could qualify for an FHA loan!

The subprime market, which basically covers borrowers with the worst credit histories, has now collapsed under the weight of a spike in defaults and delinquencies, and lenders are turning back to the more reliable FHA-insured residential mortgages. This movement, coupled with tightened underwriting, is expected to precipitate a bigger push into FHA lending.

**Q:** Are houses available for purchase?

**A:** The housing market offers a wide range of homes within the price-ranges for FHA 203(b) mortgage insurance coverage (\$256,025 to \$362,790 for a single-family residence in the six New England states).

## NONPROFIT HOUSING AGENCY CONCERNS

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**Q:** Does it fit the nonprofit housing agency “mission?”

**A:** FHA 203(b) program specifically intended to “...help low- and moderate-income families become homeowners.”

**Q:** Risk?

**A:** Nonprofit owns home for 1 to 3 years. Default 2% or less with credit roadmap and counseling. Tenant/buyer 6% contribution to nonprofit reinforces incentive for future ownership.

**Q:** Cash flow?

**A:** Nonprofit realizes significant income stream from all transactions. Estimated \$10,500 net on \$200,000 purchase.

**Q:** Does the program involve a contractual agreement?

**A:** Yes. The nonprofit housing agency must enter into a formal contract with NP Consulting Services, Inc.

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Q: Does the NP approach fit the “mission” of the nonprofit housing agency?

A: Most nonprofits concentrate on assistance for low- to very-low-income populations, but the FHA 203(b) mortgage insurance program, which underpins the NP method, is intended specifically to “... help low- and moderate-income families to become home owners.” Further, it aims to provide “... opportunities for first-time home buyers and other borrowers who might not otherwise qualify for conventional mortgages on affordable terms.”

Q: Risk?

A: The nonprofit housing agency owns the house for 1 to 3 years (2 years on average) before the tenant/buyer qualifies to purchase the property. The default rate is 2% or less for agencies that deliver comprehensive credit-counseling, which is mandatory in this case. Also, the 6% upfront contribution to the nonprofit as well as the equity appreciation during tenancy establishes a strong incentive for future ownership.

Q: Cash flow?

A: As indicated on page 7, the NP lease-purchase program is self-sustaining for the certified housing nonprofit. Assuming a \$200,000 purchase price, the nonprofit realizes \$10,500 in immediate free cash on the initial home purchase. With \$4,000 set aside in a start-up loan loss reserve, the net yield is \$6,500.

Q: Does the program involve a contractual agreement?

A: A formal Consulting Agreement is required. The agreement runs for 5 years with the first year considered a firm commitment, renewable annually thereafter for the term of the contract.

## **NP CONSULTING SERVICES, INC. LEASE-PURCHASE PROGRAM A WINNING PROPOSITION**

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- The housing nonprofit receives quality transactional representation plus significant financial gains, and the buyer receives expert guidance in full compliance with HUD/FHA regulations throughout the mortgage process.
- More families own their homes, which is vital to households seeking to expand opportunity, solidify family finances, and hedge against economic uncertainty.
  - Personal fulfillment
  - Improved net worth

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The New Prospect lease-purchase program is a win-win proposition for both the nonprofit housing agency and the homebuyer. The agency realizes substantial financial gains, and the buyer is guided expertly through one of the most complicated financial commitments most households ever make.

Perhaps more importantly many credit-worthy, gainfully employed families, who have been unable to find affordable housing, can enjoy fulfillment of the “American Dream” and the associated social and economic benefits.