

Executive Summary

In April 1999, the U.S. Department of Housing and Urban Development (HUD) issued a proposed rule for the voucher homeownership program, authorizing public housing authorities (PHAs) to allow low-income households receiving rental vouchers to apply their vouchers toward homeownership. By September 2000, the final rule was issued and PHAs were given specific guidelines and requirements for establishing their own “voucher homeownership” (VHO) programs.¹ By early 2004, HUD estimated that 300 public housing authorities were operating voucher homeownership programs, and roughly 2,000 homes had been purchased through the program. By December of 2005, more than 450 PHAs were operating VHO programs, and more than 4,000 purchases had been reported.

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

The homeownership program has some other distinct requirements, including mandatory homeownership counseling and a time limit of 10 to 15 years of assistance (depending on the terms of the mortgage) for non-elderly, non-disabled families.² In addition, all homes purchased through the voucher homeownership program are required to pass two separate inspections: a Housing Quality Standards (HQS) inspection and an independent inspection.

During 2001-02, HUD sponsored an exploratory study of program implementation based on site visits to 12 selected PHAs.³ That study afforded many insights into how the selected PHAs were implementing and operating the programs, but did not attempt to develop a comprehensive national picture. Given the rapid expansion in the program, HUD commissioned the present study to develop a broader, national view of the characteristics and outcomes of voucher homeownership programs. This report presents the results of that study. Topics covered in this report are:

- Program Planning and Design;
- Financing Homeownership;
- Characteristics of VHO Purchasers and Their Neighborhoods;
- Characteristics of Housing Markets in VHO Communities; and

¹ HUD sometimes refers to the program as the homeownership voucher (HVO) program.

² Elderly and disabled households are eligible for 30 years of assistance.

³ Jennifer Turnham *et al.*, *Voucher Homeownership Program Assessment* (Volumes 1 and 2), US Department of Housing and Urban Development, July 2003.

- The Relationship Between Program and Market Factors and the Rate of Home Purchase.

Study Objectives and Data Sources

The primary objective of the present study was to provide a broad, statistically accurate picture of the VHO program nationwide, based on in-depth case study assessments of selected sites operating particularly active or noteworthy programs and a survey of PHAs that have reported at least one VHO purchase. The key research issues were:

- What roles are PHAs playing in implementing the program?
- What kinds of partnerships are PHAs forming to implement the program, and what are the roles of program partners?
- What targeting criteria (if any) are PHAs using to recruit prospective VHO participants?
- What funding sources are PHAs and their partners using to support program services and to assist purchasers?
- What is the format and content of the pre-purchase counseling provided to program participants? What (if any) post-purchase support is offered?
- How is the HAP used to support mortgages? What other sources of financing help purchasers?
- What factors seem to contribute to higher rates of program purchases, including PHA characteristics, program components, and housing market characteristics?

The 10 VHO programs selected for site visits were chosen based on their record in helping voucher recipients purchase homes and for their diversity in location and program design. Although not intended to be a representative sample of VHO programs nationwide, these interviews provided insight into the workings of programs that have achieved success in moving voucher program participants to homeownership in a diverse range of settings. The site visits also allowed us to explore program issues in greater depth and provide context for the information collected in the survey (described below.) The following 10 sites were visited:

Bernalillo County Housing Department, Bernalillo County, New Mexico

CHAC Inc., Chicago, Illinois

Housing Authority of Fulton County, Fulton County, Georgia

Indianapolis Housing Authority, Indianapolis, Indiana

Lorain Metropolitan Housing Authority, Lorain County, Ohio

Housing Authority of the City of Los Angeles, Los Angeles, California

Montgomery County Housing Authority, Montgomery County, Pennsylvania

New Hampshire Housing Finance Agency, State of New Hampshire

Pinellas County Housing Authority, Pinellas County, Florida

Waco Housing Authority, Waco, Texas

The second data source was a survey of program administrators at 206 PHAs that were operating VHO programs and had at least one purchase at the time of the survey. Surveys were conducted primarily by telephone and included the following topics:

- eligibility requirements, targeting strategies, and outreach methods;
- program staffing;
- types of partner organizations and nature of agreements with partners;
- format and content of pre-purchase counseling and (if offered) post-purchase assistance;
- treatment of the voucher assistance in qualifying participants for mortgages;
- other funding sources used to help VHO participants;
- counts of how many participants have enrolled, completed pre-purchase counseling, and purchased a home; and
- incidence of mortgage delinquencies or defaults.

Supplementary data sources were used for analyses of housing market characteristics, purchaser incomes and characteristics, neighborhood features, and purchase transactions. These sources included the 2000 Census, the 2004 American Community Survey, HUD's Resident Characteristics Reports and Public and Indian Housing Information Center (PIC) system, and purchase transaction data collected at the 10 case study sites for a random sample of purchases.

Findings on Program Planning and Design

Through regulation, HUD establishes basic program guidelines, but provides PHAs with broad discretion in deciding what role the PHA will play in the program, whom to target for homeownership, and what functions (if any) partner organizations will assume. Findings on how programs across the country are addressing targeting and outreach, homeownership counseling, home search and inspections, and post-purchase activities were drawn from the national survey of voucher homeownership program administrators and from the site visits conducted to 10 case study sites.

- ***PHAs implement VHO programs because homeownership fits with the agency's mission and may enhance existing programs.*** Most of the PHA staff we interviewed in our site visits elected to implement a VHO program because voucher homeownership offered a logical add-on to their FSS programs or other asset-building initiatives. Other reasons to implement the program included existing or newly established relationships with counseling organizations, lenders, and other partners; the affordability of the local housing market; and the potential for homeownership to enhance the PHA's image in the broader community.
- ***PHAs are generally "casting a broad net" in recruiting prospective homebuyers.*** Fewer than 20 percent of VHO administrators said their programs had income or employment criteria beyond HUD's minimum requirements. Of those programs with additional targeting, Family Self-Sufficiency (FSS) participants were the most commonly

targeted group: 29 percent of programs require FSS, and 33 percent gave preferential access to FSS participants.

- ***The level of interest in homeownership has met or exceeded most VHO administrators' expectations.*** However, a number of survey respondents noted that high home prices and problematic credit histories dampened some potential applicants' enthusiasm for the program.
- ***Most PHAs (85 percent) have engaged program partners to provide pre-purchase counseling to program participants.*** However, PHAs using partners still devoted considerable staff time to assisting VHO participants before, during, and after they bought a home.
- ***Pre-purchase counseling covered the topics suggested in HUD's Final Rule and was typically provided using a combination of group instruction and individual sessions.*** Few programs developed and provided counseling exclusively for VHO program participants. More often, VHO program participants received at least some of their pre-purchase counseling in groups with other first-time homebuyers. Program administrators generally said their pre-purchase counseling curriculum was effective, although they considered the material to be complex and difficult to convey in the amount of time allocated for counseling.
- ***PHA staff sometimes provided program participants with lists of real estate agents, but otherwise generally did not help program participants with the home search process.*** In the case study sites (where we were able to discuss the home search process in more detail than in the survey), program staff in both high- and low-cost communities reported that finding an affordable home in a good neighborhood was a challenge. Continued increases in home prices could make this more difficult over time.
- ***Once participants find a home, the HQS and independent home inspections do not generally derail the purchase.*** It was not uncommon for homes to fail the first HQS inspection, but the problems usually were minor and easily remedied by the seller. We heard of only a few cases where problems identified by an independent inspection caused a purchase to fall through.
- ***The majority of VHO administrators we interviewed said they offered some post-purchase support to VHO purchasers.*** Post-purchase assistance was less well-developed than the pre-purchase counseling component. Even in the roughly one-half of VHO programs that required post-purchase counseling, administrators acknowledged that only about two-thirds of purchasers participated. Focus group participants in several of the case study sites that offered post-purchase activities confirmed that they were not aware of or had not participated in these activities. In addition, staff in at least one of the case study sites said they had not yet developed policies and procedures for preparing purchasers for the time when their voucher assistance would end. The staff suggested this is an area for additional HUD guidance.

Findings on Financing Homeownership

Some 3,400 homebuyers have purchased homes through the 206 voucher homeownership programs whose staff were interviewed for our survey. We examined the circumstances of

the financing for those who have purchased, both at the PHA level for the programs surveyed and at the individual level for a random sample of 98 purchases taken from our 10 case study sites. Key findings include:

- ***VHO purchasers in most programs have access to additional funding sources to help them buy homes.*** Downpayment assistance grants were available to at least some purchasers at the vast majority of surveyed programs (84 percent). Three-quarters of surveyed programs had purchasers who used FSS program escrow accounts to help finance their purchases. Below-market or forgivable second mortgages were available at almost half of surveyed programs (47 percent), as were Individual Development Accounts (IDAs) or other matched savings programs (46 percent). Grants or below-market loans for rehabilitation costs were available to purchasers at a quarter of surveyed programs.
- ***Most VHO programs work with a limited number of lenders, according to survey respondents.*** VHO administrators reported working with 4.4 lenders, on average. Sixty-nine (69) percent of surveyed programs worked with between one and five lenders. About a fifth of programs (18 percent) worked with between six and 10 lenders.
- ***Mechanisms to monitor mortgage payments were limited.*** Some 40 percent of programs rely on the lender to report any late payments to the PHA. Seventeen (17) percent of programs rely solely on the VHO purchaser to notify the PHA if they have a payment problem.
- ***Foreclosures have been very rare, according to survey respondents.*** Only 4 percent of PHA respondents (8 agencies) said there had been any foreclosures among their VHO purchasers. In total, these 8 agencies reported 10 foreclosures across the approximately 3,400 purchases reported by all survey respondents; no single agency reported more than two foreclosures. Delinquencies were more common than foreclosures, but still fairly infrequent. About 12 percent of respondents (25 agencies) reported at least one delinquency, but none reported more than two.
- ***Analysis of a random sample of 98 purchases from the 10 case study sites found the average Purchase Loan to Value (LTV) to be 99.7 percent.*** In spite of these high LTVs, there was a strong perception among program participants who participated in our focus groups that they are building assets for the future and will be able to pass those assets on to their children. Even program participants with an LTV of 100 percent at the time of purchase will have built some equity by the end of the term of the voucher assistance, especially with a low-interest mortgage and if the property appreciates in value.
- ***For the 486 purchasers from the 10 case study sites with records in HUD’s Public and Indian Housing Information Center (PIC) administrative data system, the Principal, Interest, Taxes and Insurance (PITI) Burden—defined as the ratio of the purchaser’s share of the monthly PITI payment (not including the HAP) to the purchaser’s gross monthly income—averaged 18 percent.***⁴ This average was lower than one might have

⁴ We obtained PIC data for the universe of 486 purchasers in the 10 case study sites. The PIC data contain sufficient data on household income and share of the monthly PITI payment to calculate payment burdens for this larger sample, but the PIC data do not contain more detailed data on the purchase transaction, such as the purchase price, sources and amounts of financing assistance, and mortgage terms. We collected this more detailed transaction data for the 98 purchases in the case study sites.

expected, given that limits on PITI burdens are generally in the range of 28 to 33 percent for conventional and FHA loans. However, several of the case study sites were using the HAP as income model, which typically results in lower PITI burdens. In addition, PHAs factored in other housing costs (utilities and maintenance and replacement reserves) in addition to the PITI when calculating the amount of the HAP and evaluating the maximum loan the purchaser could afford.

- ***The Total Housing Cost Burden—defined as the ratio of the purchaser’s monthly contribution to total housing costs (PITI, condo fees, allowances for utilities, maintenance, and repairs/replacements, etc.) to the purchaser’s gross monthly income—averaged 38 percent for the 486 purchasers in the case study sites (according to PIC data).*** Across all purchasers at the case study sites, 29 percent had total housing cost burdens below 30 percent of their gross monthly income. The majority of purchasers (56 percent of all purchasers at the sample sites) have total housing cost burdens between 30 and 49 percent of gross monthly income. However, 14 percent of all program purchasers across the sample sites had total housing cost burdens at or above 50 percent of their gross monthly income. Purchasers with high housing cost burdens may find it difficult to pay for maintenance and replacement needs as they arise. Indeed, for very low-income families, even modest payment burdens of 30 percent or more may leave little disposable income to meet such unexpected costs.

Findings on Characteristics of VHO Purchasers and Their Neighborhoods

To examine purchaser characteristics in the case study sites in greater detail, we obtained client-level data from HUD’s PIC system for the case study sites. These data give insight into who was purchasing homes through the VHO program and the kinds of neighborhoods and housing markets in which they were purchasing.

- ***VHO purchasers were primarily female heads of household with children, most of whom (69 percent) were members of minority groups.***
- ***According to PIC data, the 10 case study programs were serving a substantial proportion of people with disabilities (about one-third of purchasers overall).*** This is not surprising given the number of voucher holders with disabilities and the assistance of organizations that specialize in homeownership support for this population.⁵
- ***Most purchasers moved to a different neighborhood from where they had rented; on average, purchasers moved 3.3 miles away.*** They generally moved to neighborhoods with more homeowners and more single-family homes than their pre-purchase neighborhoods. Poverty rates were slightly lower in post-purchase neighborhoods, but most purchasers (69 percent) lived in low-poverty neighborhoods both before and after they purchased.

⁵ According to HUD’s PIC data, 36 percent of households in the tenant-based voucher program are disabled (18 percent are non-elderly persons with disabilities and no children, 9 percent are elderly disabled with no children, 8 percent are non-elderly and disabled with children, and 1 percent are elderly and disabled with children.)

Findings on the Relationship Between Program and Market Factors and the Rate of Home Purchase

One of the goals of this study was to assess the extent to which programmatic and housing market factors were associated with larger numbers of home purchases through voucher homeownership programs. The analysis of these factors was intended to shed light on the situations in which housing vouchers are most likely to be able to support homeownership.

The total volume of purchases achieved by local VHO programs may be a function of a number of factors. In order to learn whether housing market characteristics seemed to influence VHO programs' ability to achieve more purchases, we examined PHA and market data for a subset of 45 programs that both were represented in our survey of VHO programs and had jurisdictions populous enough to be included in 2004 American Community Survey (ACS) data. We compared programs with larger volumes of purchases (14 programs with more than 40 purchases) with programs with smaller volumes of purchases (31 programs with 40 or fewer purchases).⁶ Findings from this portion of the analysis include:

- ***Voucher programs with more than 40 purchases were at PHAs with much larger voucher programs***, likely reflecting both the greater organizational capacity and the larger number of qualified program participants at larger PHAs.
- ***Both median house values and household incomes were slightly lower in the jurisdictions served by programs with larger volumes of purchases***, reflecting the lower-income jurisdictions within metropolitan areas in which the programs with more than 40 purchases were located.
- ***There was no real difference between the two groups when affordability was measured using the ratio of house values to local incomes and to voucher purchaser incomes.*** However, when using the ratio of annualized FMRs to house values, programs with more than 40 purchases appeared somewhat *less* affordable. This unexpected finding may be explained by the fact that voucher homebuyers typically used other subsidies together with the voucher in order to afford purchases and that state and local governments provide larger subsidy amounts in markets with higher home prices relative to incomes.

The same data sources were then used to examine the relationship between program and market features and the home purchase rates experienced by a subsample of 44 voucher homeownership programs represented in the survey.⁷ The home purchase rate was defined as the number of home purchases, adjusted for the number of years the program had been in

⁶ This examination of market characteristics did not include any VHO programs that had not yet reported one purchase or PHAs that were not currently offering a VHO program. While it was outside the scope of the current study, including such programs and PHAs in a comparison of market characteristics would be informative, providing information on whether certain market characteristics were associated with programs that had not yet achieved their first purchase and with PHAs that had decided not to operate VHO programs.

⁷ One of the 45 programs used in the earlier analysis had to be dropped because of missing data, leaving a sample of 44.

operation and for the total number of vouchers managed by each PHA. A set of variables related to program and market characteristics were defined in an attempt to capture factors that might be related to the home purchase rate, including:

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

The association between the home purchase rate and program and market characteristics was evaluated in several ways. First, a correlation coefficient between the home purchase rate and each of the variables related to program and market characteristics was estimated. The 44 programs were also divided into quartiles based on their annual rate of home purchase in the voucher homeownership program. The correlations were tested on the complete sample of 206 PHAs that responded to the survey, although market data were not available for all the agencies in the larger sample. In addition, the assessment of the complete sample focused on the annual number of home purchases rather than the purchase rate per voucher managed, because the number of vouchers managed at each PHA was not available for the larger sample.⁸ Finally, the program and market features that appear to be most associated with higher home purchase rates in the sample of 44 PHAs were used in an ordinary least squares regression model to examine the relationship between each of these variables and purchase rates, after simultaneously controlling for other potentially important factors.

This analysis was severely limited by both the small sample size of PHAs for which programmatic and housing market variables were available and the imprecise nature of the variables. However, the patterns found provide some indication of the factors that may be important for program success in supporting homebuying activity.

- ***The strongest predictor of the home purchase rate was the share of all the PHA's voucher holders that complete homeownership counseling.*** This result is consistent with the idea that greater effort by PHAs to extend homeownership services to voucher holders increases the home purchase rate. However, it is also likely that more voucher holders will complete counseling in situations where homeownership is more likely to be attainable. The results cannot distinguish between these interpretations of the observed relationship.
- ***Another factor that was found to have a fairly strong association with the home purchase rate realized by a PHA was whether the PHA imposed any additional restrictions on program participants beyond those required by HUD in terms of income***

⁸ We did not collect information in the survey on the total number of vouchers managed by each agency. We assembled this information for the smaller sample of 44 PHAs, but not for the full survey sample.

and employment, or had other requirements related to credit, savings, or debt levels.

Programs that had more stringent requirements were found to have lower home purchase rates in the sample of 44 PHAs that were the focus of the most detailed analysis.

However, this association was not evident in the larger sample of 206 PHAs.

- ***The analysis found only a weak and statistically insignificant association between the home purchase rate and house price levels.*** It had been expected that the level of home prices would exert a strong influence on the home purchase rate, with low-income households finding it difficult to achieve homeownership in high-cost markets even with the subsidies offered by a housing voucher. However, this association was not evident among the sample of 44 PHAs and could not be tested in the larger sample as market data were only available for the smaller sample.
- ***The analysis found only limited support for the importance of additional subsidies in determining home purchase rates.*** It would be expected that the availability of additional subsidies beyond the housing voucher, such as downpayment assistance grants, below market interest-rate mortgages, or matched savings programs, would also help to increase the home purchase rate for voucher homeownership programs. While we collected information on the availability of these types of assistance, we were not able to collect detailed information on the amounts. The analysis of the sample of 44 PHAs found little correlation between the ability of purchasers to take advantage of programs of these types and the home purchase rate, although analysis of the larger sample of 206 PHAs found a statistically significant association.

In general, the fairly low explanatory power of the estimated regression model and the limited number of statistically significant relationships found indicates that the data available for this analysis did not adequately capture the factors that are most important in influencing the rate of home purchase of voucher homeownership programs. Future evaluations of the voucher homeownership program could extend this analysis by obtaining better measures of the program and market factors, particularly house prices, for a broader cross section of PHAs. It would be particularly helpful to have better measures of the quality of program services, the characteristics of voucher holders, and the types and amounts of financial assistance available to program participants.

Summary and Implications of the Study Findings

Some of the study's key findings and the implications for the VHO program going forward are summarized below.

- ***The number of VHO programs is growing, but most programs still have small numbers of purchases.*** About 60 percent of our survey respondents reported 5 closings or fewer, and the median total number of vouchers PHA respondents expected to allocate to homeownership was only 18. It is thus likely that vouchers used for VHO purchases will always be a small percentage of the total vouchers allocated. However, even at this small scale, PHAs viewed the homeownership option as a logical add-on for their Family Self Sufficiency Programs and a valuable tool for asset-building for families. Staff in some agencies said offering homeownership enhances the PHA's image in the broader community as well.

- ***Most agencies are “casting a wide net” by recruiting prospective VHO participants without imposing additional program requirements.*** Fewer than 20 percent of VHO administrators surveyed said their programs had either income or employment criteria beyond HUD’s minimum requirements. Such additional screening criteria may be associated with lower rates of purchases. If so, PHAs need to assess the trade-off between a lower risk of delinquencies or defaults and a larger number of purchases.
- ***Interest in the program is as great or greater than most program administrators expected it would be, but high housing prices are seen as a significant barrier to moving renters to homeownership.*** Among the case study sites, program staff and focus group participants commonly commented that it was difficult for VHO participants to find homes they could afford in neighborhoods where they wanted to live. This was true even in some of the lower-cost housing markets, such as Indianapolis. We found some evidence that programs with additional sources of financing assistance to make purchases more affordable have greater success in achieving purchases, although our measures were somewhat imprecise. Helping VHO program administrators identify existing sources of assistance for low-income homebuyers may help more renters move to homeownership.
- ***Defaults and delinquencies have been rare, perhaps in part because of the prevalence of the “HAP as income” model for financing VHO purchases.*** Some 60 percent of survey respondents said the HAP as income model is used most frequently in their VHO programs. This model yields less purchasing power, but also results in lower payment burdens for the homebuyer. While it is still early to assess loan performance over time, this conservative approach to using the HAP may help buyers avoid payment problems. This is an area for future monitoring and research.
- ***Purchasers are moving to different neighborhoods to buy homes, but the post-purchase neighborhoods do not differ markedly from the neighborhoods where they were previously renting.*** The majority of purchasers in a sample of transactions we analyzed were living in low-poverty neighborhoods both before and after they bought homes. Nevertheless, purchasers in at least two of the case study sites said that another benefit of owning was escaping the stigma they had experienced as voucher program renters.
- ***The purchasers who participated in focus groups for this study confirmed that the home purchase process was challenging, but they were, on balance, satisfied with the support they received from PHAs and their partners and were happy with their homes and neighborhoods.*** Purchasers found the challenges were worth the benefits of homeownership – building the family’s assets and feeling the accomplishment of owning one’s own home. In the words of one program purchaser who participated in a focus group,

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

