

Innovative:

Delaware State Housing Authority (DSHA) introduced the 203K Acquisition-Rehabilitation Set-Aside on December 2, 2010. To give the program a jump start in a lagging housing environment, DSHA offered the acquisition-rehab package for the historically low interest rate of 3.49%. The interest rate has attracted prospective buyers who otherwise may not have intended to purchase *and renovate* their first home. As of June 30, 2011, the 203K had generated \$5.6 million in mortgage revenues, spurring the improvement of communities statewide. Thirty-eight families are now purchasing or have purchased their first home through the 203K Acquisition-Rehab Set-Aside.

The 203K program enables the buyer to purchase a home that the seller is unwilling or unable to repair for various reasons. Primarily, in the current economic environment, the sellers may owe more money on the property than they can receive on the sale. Consequently, they cannot afford to complete the repairs. The Delaware real estate community has called the addition of the 203K program a “game changer” in the remarketing of properties in Delaware, allowing homes suffering from deferred maintenance or functional obsolescence to be renewed. Additionally, in pairing the 203K loan with DSHA’s Second Mortgage Assistance Loan (SMAL) to cover down payment and closing costs, DSHA provides unique purchasing power to first-time homebuyers.

DSHA’s decision to reduce the interest rate helped to “kick-start” the housing market in Delaware by (1) increasing affordability to first-time homebuyers, and (2) helping to rebuild homes and communities that have languished during the extended economic downturn.

Replicable

Housing Finance Agencies (HFA) can readily replicate this program by subsidizing their own specific set-aside. DSHA financed the \$5 million set-aside through a larger bond issuance, leveraging the New Issue Bond Program (NIBP) resource. The Federal Housing Administration (FHA) is the agency administering the loan guidelines and parameters. To ensure the program’s success, DSHA’s lenders were trained by DSHA, as well as our master servicer and representatives from the U. S. Department of Housing and Urban Development (HUD). Although there were initial misconceptions and barriers to the program, these melted away as lenders began to understand and apply this program to their customers’ needs.

Effectively Employ Partnerships

An important partner in this roll out was the Real Estate Agent community. We worked closely with our Boards and Associations to reach them, educate them, and assist them in linking their customers and participating lenders. DSHA has benefitted from the support of agencies such as the New Castle County Board of REALTORS®. Robert Weir, CEO of the organization, stated: “The real estate marketplace is overwhelmed with properties that the owners can’t or won’t make the repairs lenders are requiring. Whether it is a short sale, bank-owned or a downcast seller who needs to write a check at the settlement table, otherwise qualified buyers need to get repairs done. DSHA’s new program is a

multi-use tool designed to help those one- to four- unit properties that are languishing for want of a buyer. Most people would describe it as a buyers' program, but I see it as assisting those sellers in a rough place, too."

Respond to an Important Housing Need

As the State Housing Finance Agency, Delaware State Housing Authority is charged with helping our citizens find safe, decent and affordable housing. In light of the current economic environment, affordable homes that are for sale frequently need minor repairs. Sellers have often not been able to perform ongoing necessary maintenance and upkeep due to a foreclosure or short sale. The Acquisition-Rehab Program strengthens the buyer's long-term investment, while strengthening the community where the home is located.

Demonstrate Measurable Benefits to HFA Targeted Customers

The 203K Acquisition-Rehabilitation Set-Aside was designed to kick-start Delaware's entry in the purchase/rehab arena, offering a rock bottom, 30-year interest rate of only 3.49% to first-time homebuyers statewide. The program provides homebuyers the opportunity to purchase and rehabilitate the home of their dreams, while taking advantage of below-market interest rates. In addition to the competitive mortgage rates, borrowers may utilize the SMAL program to help with down payment and closing costs.

This program benefits not only the buyer, but also the community where the property is located. Many homes that are in need of repair are typically bought by investors that have the money to fix them up, after which they RENT the homes. In this case, the buyer is able to purchase the property *and* borrow the needed cash to complete the repairs. Communities typically thrive when they are owner-occupied. Trends and data reveal borrowers using the 203K product with DSHA are experiencing after-repair value increases of up to 25%.

Proven Track Record

Based on 2010 data, DSHA is on track to originate as many 203K loans in 2011 as were made by the FHA in all of Delaware during 2010.

Benefits Outweigh the Costs

The rock-bottom, 30-year fixed introductory rate of 3.49% garnered immediate attention from lenders and realtors alike. The market for an affordable acquisition-rehab loan has quickly grown due to the condition of the housing market. The initial low rate, combined with reaching an untapped niche market, generated enough interest to continue bringing more lenders and homebuyers into the program. The increased participation allowed DSHA to slowly increase the rate up to a high of 4.75%, without losing momentum. In the long run, the revenue offset the initial subsidized rate. The economic impact to DSHA at the outset was nominal; however, the benefit for the communities where these properties are located is that marginal properties that were difficult to sell now have renewed marketability.

Demonstrate Effective Use of Resources

By partnering with current lenders participating in Delaware’s first- time homebuyer program, and leveraging the local real estate community and HUD resources for training, the number of lenders offering 203K loans has increased five-fold in the first 6 months of the program. Additional 203K providers are coming onboard each month.

Achieve Strategic Objectives

Homes purchased and renovated by first-time buyers through DSHA’s 203K program become an asset to the community. In the six months since DSHA added the FHA 203K Acquisition-Rehabilitation program to Delaware’s First-Time Homebuyer program, DSHA has reserved, committed or closed thirty-eight 203K loans for a total of \$5,661,005. To put that into perspective, during fiscal year 2010, FHA originated a total of ninety 203K loans in the entire State of Delaware. Although the original \$5 million set-aside for the initial low rate has been depleted, the program continues to gain traction that exceeds expectations. As more and more homes fall victim to foreclosure and short-sale, we anticipate the demand for this product will continue to grow – allowing us to achieve our strategic objective of providing opportunities for first-time homebuyers while rebuilding homes and communities.