Homeownership: Empowering New Buyers
You Can Teach an Old Dog New Tricks:
MassHousing Purchase & Rehabilitation Loan Program

Successful lending programs for a housing finance agency happen when the Agency is able to read the market – and design a program that meets a need in an effective and cost-efficient way. This is even truer in the changed mortgage lending landscape that has resulted from the market disruptions of 2008, since even sensible mortgage products that were once widely available are now impossible to find. Finding the right niche for a new product can be as much art as science, but the foundation for any lending product for a housing finance agency should be sustainable homeownership lending that targets unmet needs in the marketplace.

MassHousing has stepped forward to provide purchase and rehabilitation lending even as the rest of the mortgage lending market has stepped back. This lending is critical to preserving neighborhoods and improving housing stock that is at risk because of foreclosure. It also leverages resources that many housing finance agencies already have, such as New Issue Bond Program resources, HOME funds and NSP funding.

For many years, MassHousing has had a Purchase and Rehabilitation program available through its Mortgage Revenue Bond program. However, the program was largely under-utilized and looked like several other products in the marketplace. MassHousing's program sought to allow first-time homebuyers to combine the cost of rehabilitation and the selling price into the first mortgage with a debt-to-income ratio as high as 97% of the *improved* value of the home.

In MassHousing's program, the interest rate for first time buyers is reduced through the mortgage revenue bond financing but the loan underwriting on a Purchase and Rehabilitation mortgage is the same as a MassHousing loan that does not include rehabilitation. MassHousing buys the loan after a thorough review of the loan file and funds are released to the lender including monies to cover the rehabilitation costs.

This approach allows a borrower to finance needed home improvements within its first mortgage. As Fannie Mae and Freddie Mac have tightened underwriting guidelines, and as home equity loans have become harder to find, a significant gap emerged for purchase money mortgage financing that financed rehabilitation work. In short, borrowers wanting to finance homes that needed significant rehabilitation were required to fund most or all of the work from their own pockets. This rehabilitation loan financing gap emerged at exactly the same time as a larger inventory of foreclosed and REO properties materialized that would need just this type of financing in order to become viable housing assets. As these properties sit unoccupied, they risk becoming more blighted and in turn hurting surrounding home values, and neighborhoods.

Over the last few years, the drastic changes to the real estate market and the increased availability of affordably priced housing units has resulted in a surge of interest in MassHousing's Purchase and Rehab Program. With many mortgage wholesalers unwilling to commit to purchasing loans until the rehabilitation is completed and the homes are occupied, there was no effective way to finance these loans in the secondary market. MassHousing stepped up to provide financing on a whole loan basis, using its NIBP resources as the ultimate funding vehicle. Since whole loans are allowed under NIBP, and a long-term rate can be achieved through the issuance of bonds, it became an ideal fit for purchase and rehabilitation loans. Obviously other resources (HOME funds, NSP funds, etc.) can also be used to help supplement rehabilitation costs.

As a practical matter for borrowers – MassHousing's program means:

- A borrower purchases a $150,000 home that requires $50,000 of rehabilitation.

- Most lending products will limit borrowing to 97% of home value – or in this case $145,500. As a result, the rehabilitation work of $50,000 is unfunded.

- Under MassHousing's program, the MassHousing loan funds 97% of improved value. If rehabilitation work improved the value of the home to $200,000, a loan of $196,000 would be made, with rehabilitation work funds escrowed at loan closing. The amount of rehabilitation work for MassHousing loans is currently averaging $30,000 and this was on an average loan amount of almost $180,000.

MassHousing has taken advantage of the low interest rates available through the NIBP financing coupled with access to the Agency's own Mortgage Insurance Fund to re-energize this program by publicizing the Purchase and Rehabilitation program particularly in those low and moderate-income communities targeted by the Commonwealth that have been hardest hit by delinquencies and foreclosures. In Fiscal Year 2011, MassHousing purchased 38 loans representing $8.6 million. Of these loans, eleven were either foreclosure or REO sales, with another three short sales.

MassHousing's Purchase and Rehabilitation mortgage loan is a 30-year fixed interest rate available to income eligible first-time homebuyers purchasing a home priced within the maximum purchase price limits. An escrow account is set up by the lender at loan closing to cover the rehabilitation costs. Local non-profit groups are available to assist both the lender and the borrower throughout the process. MassHousing pays a fee to the borrower and the LRA fee, if required, is paid by the borrowers.

Again, one of the most important aspects of this program's resurgence is that a majority of the loans closed during this fiscal year have been in neighborhoods targeted by Massachusetts Governor Deval Patrick for foreclosure prevention activities. This includes: Boston, Chelsea, Worcester, New Bedford, Lawrence and Brockton. The benefit to the cities of this rehabilitation of distressed properties is obvious. It means the stabilization of both the housing stock as well as the surrounding neighborhoods. In this way, the investment of MassHousing funds in these neighborhoods is beginning to play a part in the rebuilding of these cities.

Dusting off an existing loan program at a critical time in a depressed real estate market has proved to be better than introducing a new, untested loan program to new buyers or lenders. It was also important for MassHousing to be able to look at its Purchase and Rehabilitation program objectively – to find way to improve it – and reintroduce it to the market. Given the history of loan products introduced during 2004 to 2006, new buyers and lenders have turned their attention to safe, sustainable loan products that have a track record of reliability. MassHousing has that reliability and its own "renovation" of an existing loan product appropriate for today's housing needs, provides the extra push that is needed to help home buyers, neighborhoods and cities rebound from the current unstable real estate market.

Sometimes you can teach old dog new tricks. This is especially valuable if the new tricks involve new wallboard, hammer, nails and a paintbrush!