

HFA: Mississippi Home Corporation
Entry Name: Mississippi's Home Buyer Advantage Program

Background

Through the Neighborhood Stabilization Program (NSP), the U.S. Department of Housing & Urban Development allocated \$43 million to the Mississippi Development Authority to help communities in Mississippi which had been severely impacted by mortgage foreclosures and declining property values.

In March 2009, the Mississippi Development Authority (MDA) allocated \$20.7 million of this money to the Mississippi Home Corporation (MHC) to provide one time down payment assistance forgivable grants for eligible homebuyers buying these properties as their permanent residences. In response to other state needs, MDA reallocated funds leaving MHC with a final \$16.4 million for grants. The goals of this program are to 1) alleviate the number of foreclosed properties on the market, and 2) Stabilize neighborhoods with qualified permanent homeowners most ready and able to purchase a foreclosed property and sustain ownership over time. Forty-eight communities in thirty one counties in MS were identified by MDA as being the areas of greatest need based on their high percentage of foreclosures, delinquencies or subprime mortgage loans.

The number of foreclosed property in inventory at any point in time is difficult to document accurately. In January 2009, MHC estimated there were upwards of 6,000 foreclosed properties in Mississippi. Our goal was to move 600 properties (10% of the estimated inventory) into private owner hands during the course of the program.

Program Highlights:

The home selected for this program must be in foreclosure status and located in an eligible community. The purchase price of the home must be at least 1% below appraised market value and cannot exceed \$238,000. The homebuyer must qualify based on the income limits (120% of area median income) set for that community and must credit qualify through one of our participating lenders for a mortgage loan without the grant being considered. The homebuyer must use this home as their primary residence. This program is not for investors. The buyer must attend a pre-purchase HUD-approved homebuyer education class. The buyer will receive a base grant amount of \$14,999 and then can qualify for up to an additional \$25,000 depending on their credit score. The total amount of assistance cannot exceed \$39,000 and cannot exceed 50% of the home's purchase price. The grant can be used for FHA, VA, Rural Development, Fannie Mae or Freddie Mac loan types.

Judging Criteria

I. Innovative

Lenders are not allowed to let the homebuyer "buy up" to a higher-priced property with the grant. This feature addresses the federal goal of stabilizing neighborhoods by ensuring the homeowner can sustain ownership over time by keeping the mortgage payment well within a comfortable debt to income ratio. The program also allows buyers to qualify for higher grant amounts based on credit score, an uncommon grant allocation criteria. The purpose was to incentivize households with strong credit behavior to buy these older, vacant properties, many located in distressed areas. We also expected that buyer uncertainty about where home prices and values were headed would make them reluctant to consider buying a home. We believed the incentive structure would attract buyers because they would move into the home with an immediate equity cushion. Finally, the incentives helped capture the public's attention in the midst of a very challenging housing market and encouraged them to act within the short window MHC had to originate purchase. The program generates numerous calls to a hotline at the corporate office which will serve as a database for future programs.

II. Replicable

The program is replicable because it uses information lenders already incorporate to make loan decisions with a few additional steps and documents to demonstrate the property was foreclosed, and to comply with federal environmental review and federal funds recapture requirements. The Home Buyer Advantage Program was designed to work similar to other programs administered by MHC which makes it easy on our partners. We use our current partnerships with lenders, realtors and counselors who already know our programs, while creating some new partnerships in the process.

III. Respond to an important state housing need

The goals of the Home Buyer Advantage Program are to move foreclosed properties into owners' hands in the state and stabilize neighborhoods. Over the course of 11 months, we have reduced the number of foreclosed properties in the state, supported home purchases by individuals who might not have even been in the market, required home buyer education classes which built better counselor-lender relationships and provided counselors with additional funds, and helped to stabilize the neighborhoods by putting educated qualified buyers into mortgages with affordable payments.

IV. Demonstrate measurable benefits to HFA targeted customers while showing success in the marketplace

This program targeted households with incomes at or below 120% of AMI. To date:

- \$14.8 in grants allocated, of which \$10.4 million is with mortgages that have been closed
- 481 homes have received allocations, mortgages closed on 337 of these.
- Income range of buyers well distributed: 15% <= 50% AMI 43% at 51-80% AMI; 42% at 81-120% AMI
- Average grant amount: \$30,795
- Price range of homes purchased is well distributed: <\$75,000 (17%); \$75,001--\$100,000 (23%); \$100,001-\$150,000 (44%); >\$150,001 (16%)
- Racial composition of buyers mirrors the state: White (63%); Black (27%); Other/No Answer (10%). In 2004 Mississippi's population was 61% White and 36% Black.
- Credit scores of buyers: <625 (3%); 625-650 (15%); 651-700 (22%); 701-750 (27%); >751 (33%)
- Buyers received great deals from sellers. Purchase price as discount below appraisal (with share of buyers getting this discount): 0-5% discount (35% of buyers); 5-10% (24%); 10-20% (21%); >20% discount (20% of buyers).

V. Provide benefits that out weigh costs

The benefits of a program like this outweigh the costs by improving communities through homeownership. Studies show that foreclosed properties in neighborhoods incur crime and decreased property values. With a program such as this one, property values will increase and maintain a solid property value. Our results are already showing instant equity from the purchase of these foreclosed properties.

VII. Demonstrate effective use of resources

The program has been very low cost for MHC to administer. Through the first 11 months of the program, MHC has drawn down \$12,024,000 in buyer grants, and MHC's project delivery cost has totaled \$413,141, which is 3.3% of the total grant funds drawn down to date. Approximately 50% of

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delivery cost was for staff salary, and 34% for advertising. MHC was able to further control marketing costs by designing and printing all materials in-house. The window of opportunity to use this program is only 1 year so in the planning process, we knew that we needed to be very proactive in our push to the public. We basically had 4 Marketing phases during our campaign.

Phase 1 – During this time we trained our current lenders and any others who might be interested in using this program so they would be prepared as soon as it was released to the public. We set up our hotline to be able to handle calls and input them into a central database for tracking. Informational packets were sent out to the HUD approved counseling agencies to prepare them for added business. We set up a program link on our website to make it user-friendly for the homebuyers as well as lenders, realtors or anyone else trying to get information about the guidelines/requirements, find out if they qualify and to find available properties.

Phase 2 - We kicked off this program through a 32 page tabloid insert in our statewide newspaper. This insert gave an in-depth description of the program along with some feature stories about certain neighborhoods to show how the program could impact communities. The insert went to nearly 100,000 households across the state and then appeared in an online version for 30 days following. To help cover some of the costs, we recruited advertisements from our partners. The over-runs were then distributed to lenders and realtors to place in their offices.

Phase 3 – We made a TV commercial with Comcast which ran in 12 markets across the state for 5 months. Along with the commercial we had an online ad for the same amount of time on Comcast.net. We created an online calendar for the Homebuyer Education classes and requested that all of our counseling agencies submit class schedules to make it easier for a prospective homebuyer to find a class. Since the agencies were getting reimbursed, they were happy to do this for us.

Phase 4 – We increased our public awareness through HBA informational fairs across the state which included local lenders and housing counselors that were working the program in those areas as well as, added additional radio, TV and newspaper ads including the time sensitivity for the program.

VIII. Effectively employ partnerships

In order for this program to be effective, we have to have the support of our partners. Since we already had that network built, there was not much more that our partners had to change to be a part of this program. Our HUD certified counselors were excited about additional funding with nearly no additional work on their part. Lenders had to receive training to participate and had a couple of extra documents to worry about in addition to our programs. Lenders who've partnered with MHC for years participate. We gained new lender and realtor participation based on the aspects of the program which now will initiate new business for our other programs. Realtors were able to place their foreclosure listings directly on our website which in turn gave them some free advertising.

IX. Achieve strategic objectives

At the start of the program, MDA targeted 81 ZIP codes associated with 48 Mississippi communities. To date, HBA grants are active or have closed in 51 targeted ZIP codes (63%) and 40 targeted communities (83%). 481 homes have received allocations and mortgages have closed on 337 of these.

MHC sampled 5% of closed transactions to receive a quality control appraisal 60-90 days after closing. Review appraisal same as Pre-sale appraisal (69% of homes); Review above Pre-sale appraisal (17%); Review below Pre-sale appraisal (14%). But because of strong sales discounts, no home purchased had a purchase price below the Review appraisal value.

In summary, homebuyers and neighborhoods are now benefitting because their home values are generally holding stable or even increasing in the neighborhoods touched by the programs.