

2011 NCSHA Award Nomination
Ohio Housing Finance Agency



Homeownership: Encouraging New
Production

**New Home Sweet Home:
Program Enhancement**

Douglas Garver, Executive Director
Cindy Flaherty, Director of Homeownership

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The Ohio Housing Finance Agency's (OHFA) New Home Sweet Home Program is an extended lock option for homebuyers who purchase a new home and want to use OHFA's first-time homebuyer programs. By allowing for a conditional loan reservation, a lender can offer a rate lock for up to 180 days while a builder completes the construction of the home.

Several OHFA lenders and homebuilders expressed that they wanted to offer homebuyers the benefits of the Agency's First-Time Homebuyer Program, but the time frame for reserving, closing and delivering loans under the mortgage revenue bond program did not work for new home purchases. The New Home Sweet Home program extends the time from reservation to closing to six months, so that homebuyers can sign a purchase contract knowing that they will be able to use OHFA financing for their mortgage.

Lenders who offer mortgage financing for homebuyers who are purchasing a new home typically provide a long-term rate lock so the builder and buyer will know the cost of financing the home purchase very early in the construction process. Long-term rate locks are problematic, however, for housing finance agencies using the Mortgage Revenue Bond (MRB) program. If the rate is locked prior to sale of the bonds, the interest rate may be insufficient to support the cash flows. If it is set after the sale, the agency will incur negative arbitrage until the mortgage is purchased.

After considering the risks and benefits, OHFA decided that it would be possible to offer an extended time frame from loan commitment to loan closing if the Agency hedged the interest rate risk by charging an additional .25 percent and limited the risk exposure by allowing for no more than \$3 million (approximately 200 loans) to be in the Conditional Commitment stage at any time.

The process starts when a lender reserves a loan and selects the New Home Sweet Home program. Within 30 days, the lender must submit a package for Conditional Commitment. After reviewing the package for borrower eligibility (tax compliance), OHFA issues a Conditional Commitment based on the status of the borrower at that time. The Conditional Commitment allows the lender to proceed with final underwriting while the home is being constructed. Before scheduling the loan closing, the lender must submit a final package within 120 days of the Conditional Commitment updating borrower income and eligibility documentation. After OHFA completes a second review for borrower eligibility, OHFA issues the Final Commitment. The lender then has 30 days to close the loan, and 30 days after that to deliver a complete loan package for purchase.



The qualifications for homebuyers in the New Home Sweet Home program are similar to OHFA's traditional First-Time Homebuyer program. A first-time homebuyer is defined as someone who has not owned or had an ownership interest in his/her principal residence within the last three years or is a qualified military veteran. Target Area Loan applicants do not have to be first-time buyers. All buyers must meet certain household income limits. OHFA limits the New Home Sweet Home program to single family one unit properties with a purchase price equal to or less than the maximum purchase prices for the MRB program. Lenders may select from any of OHFA's loan types: FHA, VA, Conventional or USDA-Rural Development loans.

One of the attractive features of New Home Sweet Home is that eligible buyers can combine OHFA's Down Payment Assistance Grant (DAG) with the New Home Sweet Home mortgage to help pay for down payment, closing costs, and other out-of-pocket expenses associated with buying a home. The DAG is a grant for 2.5 percent of the home purchase price offered in conjunction with an OHFA first mortgage. The interest rate on a first mortgage that includes a DAG is set at .5 percent above the "unassisted" mortgage rate. All homeowners who take advantage of the DAG must complete a homebuyer education course offered by any U.S. Department of Housing and Urban Development (HUD) approved housing counseling agency or through OHFA's streamlined program.

Additional incentives such as Grants for Grads or Homes for Heroes are also available for qualifying homeowners. Grants for Grads provides down payment assistance as an incentive for recent college graduates to purchase homes in Ohio using the OHFA program. Homes for Heroes offers a .25 percent reduction in the relevant first mortgage rate to homebuyers who work in critical professions such as military, public safety, health or education. A one page marketing fact sheet was designed and posted on the OHFA website for lenders to print and use. OHFA also promoted New Home Sweet Home at our annual spring lender meetings, through the Agency's continuing education courses for real estate professionals, and an ad in the Ohio Association of Realtors publication.

OHFA launched the New Home Sweet Home program in November 2010. To date seven loans have closed and there are 42 loans in the pipeline, including nine in target areas. This program is an effective way to engage lenders and to reach potential homebuyers otherwise would not have used OHFA's program.

OHFA ANNOUNCES “NEW HOME SWEET HOME” PROGRAM FOR NEW CONSTRUCTION LOANS

BY DANA SMITH
MANAGER OF REAL ESTATE RELATIONS

OHFA has been providing financial assistance to first-time homebuyers for over 27 years. However, one of the common qualifying factors for the more than 130,000 homes sold is that they were all existing homes. For years, home builders and lenders throughout Ohio have inquired about using OHFA for buyers wanting to build a new home. Unfortunately, buyers wanting to benefit from OHFA's competitive financing options to build a new home were unable to use any of OHFA's First-Time Homebuyer programs -- until now!

In December of 2010, OHFA rolled out its newest program appropriately named “New Home Sweet Home”. This new program provides qualified first-time homebuyers with an opportunity to secure an OHFA loan at a set interest rate prior to construction. The program works like a regular First-Time Homebuyer program (FTHB) loan in that the buyer will contact an OHFA participating lender who will complete the loan application and submit the loan to their underwriting department. Throughout underwriting and processing of the loan, the rate at the time the loan is approved will be guaranteed until the home is completed and ready to be occupied by the buyer. Builders who are also lenders in OHFA's First-Time Homebuyer Program may participate as well.

There are specific requirements buyers, builders and lenders should be aware of for deciding to use the New Home Sweet Home program.

1. The home to be constructed must be a single family property - no duplex or multifamily dwellings are permitted.
2. The builder has 150 days to construct the home and an additional 30 days to close.
3. Eligible borrowers may qualify for financial assistance using OHFA's 2.5 percent grant.
4. Borrowers using OHFA financial assistance must complete homebuyer education through a Housing and Urban Development (HUD) approved housing counseling agency or through OHFA prior to closing the loan.

Any of our over 200 lenders can originate OHFA's New Home Sweet Home program loan for borrowers who qualify. The



interest rate for this program is .5 percent higher than the FTHB program (currently at 4.25 percent). This is to allow for any possible market fluctuation during the time the home is being built. Remember the rate is set at the time the loan is approved.

If you have buyers who want to build their first home rather than buy an existing home, please visit OHFA's website at www.ohiohome.org for additional program details and a list of OHFA participating lenders by county. We look forward to helping even more homebuyers open the doors to an affordable place to call home.

HFA: Ohio Housing Finance Agency

ENTRY NAME: New Home Sweet Home:
Program Enhancement

new home *Sweet home*

OHIO HOUSING FINANCE AGENCY

For the first time in our history, the Ohio Housing Finance Agency (OHFA) is offering an extended reservation option for your customers who build a new home and want security from fluctuating loan pricing in an unsteady market.


The *New Home Sweet Home Program* provides your clients a reservation at the current mortgage interest rate during new-home construction for up to 180 days while a builder completes the home.

Visit www.ohiohome.org to learn more about OHFA's *New Home Sweet Home Program* today!



www.ohiohome.org

OHIO HOUSING FINANCE AGENCY

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The Ohio Housing Finance Agency is an Equal Opportunity Housing entity. Loans are available on a fair and equal basis regardless of race, color, religion, sex, familial status, national origin, military status, disability or ancestry. Please visit www.ohiohome.org for more information.

