

Pennsylvania's housing stock is among the oldest in the nation. As in many states, Pennsylvania was experiencing a booming new home construction business until the economy soured across the nation in 2008 and new home starts came to virtually a crashing halt, further dampening the economy. The same economic climate that caused a downturn in new construction also resulted in mortgage industry changes including stricter guidelines, higher downpayment requirements, as well as the reduction in funding for or elimination of many locally-funded closing cost and downpayment assistance programs. These changes made newly constructed homes out of reach for many buyers, resulting in an unusually large inventory of homes either finished or under construction that were sitting, unsold.

In February of 2009, PHFA met with both state and local building association groups, as well as the Pennsylvania Association of REALTORS® to think of ways that could PHFA could assist with the struggling building industry. Those conversations helped us to craft the ever-popular Tax Credit Advance Loan Program (TCA). To help move the inventory of new homes, it was decided that those buyers could receive an additional \$1,000 in advance funds (\$6,000 total versus \$5,000 to purchasers of existing homes). The program was rolled out in April of 2009. However, while the TCA program was a huge success that generated over 3,200 loans in about a year, only 120 of them were to buyers of new homes.

So, in December of 2009, just prior to the consummation of the New Issue Bond Program, PHFA decided to launch a new initiative aimed at generating more loans for new homes. We established a special discounted rate of 4.5% to be used for the purchase of newly constructed homes (the rate on the regular MRB program was 5.25% at the time and is currently 4.75%). The rate applied to buyers of a new home (specifically, a new home that had never been occupied) using the MRB program for their mortgage financing. Other benefits include a 240 day rate lock at no additional fee and closing cost assistance of up to \$3,000 for eligible buyers.

Since the inception of the discounted new construction rate, we have seen a definite increase in the number of loans that meet this program's criteria. In all of 2009 we financed 152 new construction loans. In the first seven months of 2010 we have funded 284; an increase of 86% over the prior year. We anticipate continued success in this program while the initiative is in place.

This program certainly has a ripple effect as well. The buyer has a lower mortgage payment and therefore more disposable income. The program also helps the builders and contractors and their vendors (cabinet makers, flooring and tile companies, etc.) Additionally, new construction results in more consumption of goods in the form of new appliances, window coverings, furniture, and on and on. Dr. Elliot Eisenberg, Senior Economist with the National Association of Home Builders, presented the findings of a recent study to a meeting of elected officials, municipal executives, planners, builders, bankers, real estate professionals, and others in Harrisburg, Pennsylvania on Feb. 17, 2010. Eisenberg's study concluded that revenue generated for Harrisburg-area communities by home building outweighs costs by more than 2-to-1. It further predicted that a representative group of 100 single-family and 67 multifamily homes built in the Harrisburg metro area in 2008 will generate a cumulative \$29.2 million in revenue over a 15-year period, offsetting \$13.8 million in costs. The study also notes that the home building industry was the eighth largest employer in the Harrisburg area in 2008.

The initiative was simplistic in design yet responded to feedback received from both the builders and REALTORS[®]. It would be very easy for other states to implement. The key to success is partnering with the building and real estate community to market the program. We also held a press event with the Governor (press release included). The Pennsylvania Association of REALTORS[®] also did a podcast (link provided) with the Agency's Homeownership Programs Director, and the Pennsylvania Builders Association[®] released an article in their newsletter.