

FirstHomes 100+ Homeownership: Home Improvement and Rehabilitation

The Challenge

With so many vacant and foreclosed properties on the market, Rhode Island Housing is concerned with the number of potential homebuyers who may inadvertently purchase a new home only to find unpleasant and costly surprises they cannot afford. We have witnessed first-hand the alarming and increasing trend of homebuyers who decided to forego a home inspection, only to find out that the home has no hot water or heat or needs a new roof. Not only is skipping a complete inspection a risk for individuals, it may lead to a whole new wave of buyers who are stuck in homes they cannot afford to fix. Then the houses end up back in foreclosure – a continuation of the current crisis. While we encourage people to take advantage of the real estate deals that are available right now, we also want to underscore the need, now more than ever, to buy smart.

In purchasing their first home, it's not unusual for homebuyers to have tapped all their available financial resources, leaving them with no other funding sources to cover any necessary and costly repairs that in some cases may prevent a home from being habitable. Some customers are being sent to Rhode Island Housing by their lenders in the hopes of getting another loan to fix the problem after purchasing their home, which is not always possible. In working with homeowners to explore options to try to save the home, it has become clear that an answer is needed for this growing problem.

As distressed sales now make up more than half of reported sales, how do we help people entering the market to acquire safe loans that assist them with the purchase and rehab of these properties?

The Response

In response to this concern, Rhode Island Housing has created a loan package that incorporates the funds to ***purchase and rehab*** the home, in one low, fixed-rate mortgage. The new product, called *FirstHomes100+*, provides all the benefits of our FirstHomes100 mortgages – including 100 percent financing – plus the money needed to complete essential repairs and upgrades, all together in one fixed, 30-year loan. Rhode Island Housing services the loan, and provides free counseling, education, and support for the life of the loan.

The loan product's intent is clear:

Buying Smart is about looking at all the factors – know what you are buying and know what you can safely afford. We help homebuyers make an informed decision about whether a house is the right home for them and their family, while supplying a product that provides the funds to offset any needed repairs.

While there are a lot of bargain-priced homes out there and now could be an ideal time for those looking to purchase a home, we want to do everything in our power to help homebuyers avoid unpleasant and costly surprises. Rhode Island Housing encourages all buyers to request a full home inspection and requires one on all vacant or foreclosed properties. In conjunction with the new loan product, we also launched a public service campaign to provide homebuyers with *100 Things to Know Before You Buy a Home*. The campaign hit the press in at the start of the spring homebuying season. (The list can be viewed at www.rhodeislandhousing.org.) It is being promoted on television, websites, billboards and print publications. One hundred may sound like a lot, but we encourage anyone who is serious about buying to review the list. This is the biggest purchase most people will make in their lifetime, so it's important to know all there is to know. We have all seen, on a very large scale, the evidence of making uninformed purchasing decisions.

Outreach and Partnerships

To ensure our loan product was a success, we reached out to and partnered with our housing partners, lenders, realtors and potential homebuyers through a targeted and effective communications campaign. A combination of traditional ads in local media outlets, prominent displays on our website, e-news blasts and educational workshops allowed us to effectively communicate our message – with FirstHomes 100+, Neighborhood Stabilization Program (NSP) funds and other community initiatives, it is easier than ever for Rhode Islanders to afford to buy - and keep - a home. Additionally, we expanded our education and outreach efforts by partnering with all four Rhode Island REALTORS boards – the first time all four boards were brought together for a program such as this.

By educating realtors on how their customers can take advantage of all the opportunities in today's real estate market, we ensured buy-in and understanding of the product early on in the roll out. Our housing partners, local lenders and realtors offer us one-on-one communications with potential homebuyers, allowing us to communicate our message directly to the consumer.

Meeting the Needs of Homebuyers/Meeting the Needs of Lenders

One of the challenges to the product's success was that it is a very complicated loan product and some of our lending partners lack the infrastructure to handle the complicated nature of these loans. We realized early on that in order for the product to be a success, we needed to reconsider our business model and offset the operational challenges of our lending partners by underwriting and closing loans in our name. This model meant that lenders could participate and offer the product to their consumers and our flexibility also attracted other lenders to the table.

The Results

Our *FirstHomes100+* program is a very effective lending tool in our current market. Many of our customers are purchasing foreclosed, vacant or properties sold through short sale. Most of these properties need repairs. Our *FirstHomes100+* provides 100% financing and rehab funds to repair the property. The maximum CLTV, after closing, is 110%. Since repairs do not always net a dollar for dollar return in value, the 110% CLTV is helpful. Repairs are made after closing in a much more prudent manner than if the seller were making repairs to sell the property.

FirstHomes100+ offers qualified buyers 100 percent financing, 100 percent local service, and 100 percent personal attention and support through the life of the loan. The mortgages include closing-cost assistance, renovation assistance, free Homebuyer Education, no pre-payment penalties, and local mortgage servicing. Beyond all this, *FirstHomes100+* incorporates the funds to purchase and rehab the home in one low, fixed-rate mortgage.

Our loan product requires a home inspection, which offsets the temptation of getting a great deal that has many buyers jumping at the opportunity to purchase 'as is' homes – and to do so without a complete home inspection. Yet, home inspections are critical on foreclosed and vacant properties as the majority of more serious and expensive problems cannot be seen with a 'visual' inspection or an appraisal.

In addition, our *FirstHomes100+* loan can be used with other funding sources such as Rhode Island Housing's Neighborhood Stabilization Program (NSP) Homebuyer Assistance. The product's success is illustrated by the high numbers of applications received in such a short time period: 91 applications totaling \$11.8 million. Thus far, we have closed on 53 loans worth \$6.5 million.

A Homeowner....at last

Laura Marlane and her two teenage boys counted the days until they could move into their new home in Pawtucket, Rhode Island. Requiring renovation prior to move in, Laura and her sons now have a beautiful nine-room Victorian to call home, thanks to the Neighborhood Stabilization Program (NSP) Homebuyer Assistance and Rhode Island Housing's *FirstHomes100+* mortgage. Laura was the first homebuyer in Rhode Island to take advantage of the NSP Homebuyer Assistance program. The NSP funds, coupled with the repair funds she received through her *FirstHomes100+* financing, enabled her to purchase and refurbish the 1920 home – including installing a new furnace, painting the exterior, adding new fixtures and railings, and upgrading the kitchen and bathrooms. “From the beginning, I knew Rhode Island Housing was looking out for my best interests,” says Laura. “I still can’t believe how incredibly helpful they were. “This home is a dream come true for me and my children. We are going to create wonderful memories here.”

Why it is meritorious:

Innovative: The product's success derives from the innovative packaging with other loans and products, which provides increased purchasing power to consumers. The program works well with new tools, including our NSP Homebuyer Assistance program and the homebuyer tax credit.

Replicable: This re-packaged product is easily replicated by other HFAs who can also pair it up with their own loan products.

Responds to an important state housing need: With numerous neighborhoods suffering the adverse effects of foreclosures, and with affordable housing still beyond the reach of many, this loan product works to revitalize neighborhoods while opening the doors to homeownership to new homeowners.

Demonstrates measurable benefits to HFA targeted customers: The loan product is a direct response to a market need; with over 80% of business focused on foreclosed properties, we needed to provide new homebuyers with the tools they need to succeed as homeowners.

Have a proven track record of success in the marketplace: The loan product has proven extremely successful in today's market. It is perceived as a “win-win” product, with realtors happy to be closing on homes, homebuyers happy to have the necessary funds to purchase and rehab their new homes, home sellers (in many cases banks) happy to have completed a sale with no additional investment on their part, and communities who will no longer feel the effect of blighted and foreclosed homes in their neighborhoods.

Provide benefits that outweigh costs: Program costs are kept to a minimum, with promotion of the loan product through targeted advertising and outreach with key partners and the lending community.

Demonstrates effective use of resources: Loan product is complemented by new and existing products and programs, including our NSP Homebuyer Assistance program; product becomes more powerful in today's market while utilizing available resources.

Effectively employs partnerships: Strengthens our relationships with housing partners, the lending community and realtors. By offering both educational workshops and partner breakfasts we have ensured our partners have the tools they need to respond to this challenging housing/lending market.

Achieves strategic objectives: Responds to our strategic objectives regarding foreclosed properties while meeting the needs of homebuyers in today's housing market

1. serve and attract new buyers;
2. save and rebuild neighborhoods;
3. ease the pain of those suffering through this crisis