

Agency: Tennessee Housing Development Agency
2009 Entry: Homeownership – Encouraging New Production

A “New Start” for Tennessee Non-Profits

Background

From 1989 through 1999 the Tennessee Housing Development Agency (THDA) received a portion of the state real estate transfer tax and the mortgage recording tax, which made approximately \$10 million available annually for the Housing Trust Fund (then called the HOUSE program). Over 30% of these grant funds were allocated each year to non-profit organizations for new construction of single family homes.

In 2000 during a budget crisis the Governor and the Tennessee General Assembly temporarily diverted these funds away from THDA into the State General Fund, and in 2001 the diversion was made permanent. This was a big blow to the non-profits who relied on these grant funds as additional cash flow for their building programs. THDA decided to use its balance sheet strength to create a program whereby qualifying loans could be sold by the non-profit to THDA, thereby providing an immediate replacement of cash instead of relying on loan repayments. This would enable the non-profits to build more houses sooner rather than later, building their capacity and addressing the needs of Tennesseans.

How the Program Works

THDA administers the New Start Loan program consistent with the Single Family Mortgage Revenue Bond delivery system. It is designed to be delivered through program partners across the state that originate, close and service the mortgage loans which THDA subsequently purchases.

The program partners are Tennessee based non-profit organizations with an IRS Code 501 (C)(3) status whose experience includes the development and construction of single family housing for low and very low income households. There are currently 35 active program partners, many of which are Habitat affiliates. The program partner is responsible for selecting the homebuyer, determining eligibility, constructing the home, providing homebuyer education, originating and servicing the New Start loan. Additionally, the program partner is also responsible for the guarantee of the loan in the event of a default. The loan is serviced on a scheduled/scheduled basis meaning full payment must be remitted to THDA each month regardless of the status of the loan.

The New Start Loan program is a conventional mortgage loan with a maximum LTV of 75% of the appraised value or purchase price, whichever is lower. The maximum loan amount is \$110,000 with a term of 15, 20, 25 or 30 years. Eligible New Start borrowers must meet the following criteria:

- First-time Homebuyer
- Income limits
- Acquisition Cost limits
- Single Family residence
- Owner-occupied
- Maximum debt-to-income ratio of 45%
- Homebuyer Education

The New Start Loan program is a two-tiered program. Tier I borrowers must meet the income limits established at 60% of statewide median income. Tier II borrowers must meet the income limits established at 70% of statewide median income. Tier I New Start mortgage loans bear an interest rate of 0% whereas, Tier II New Start mortgage loans bear an interest rate at ½ of the Mortgage

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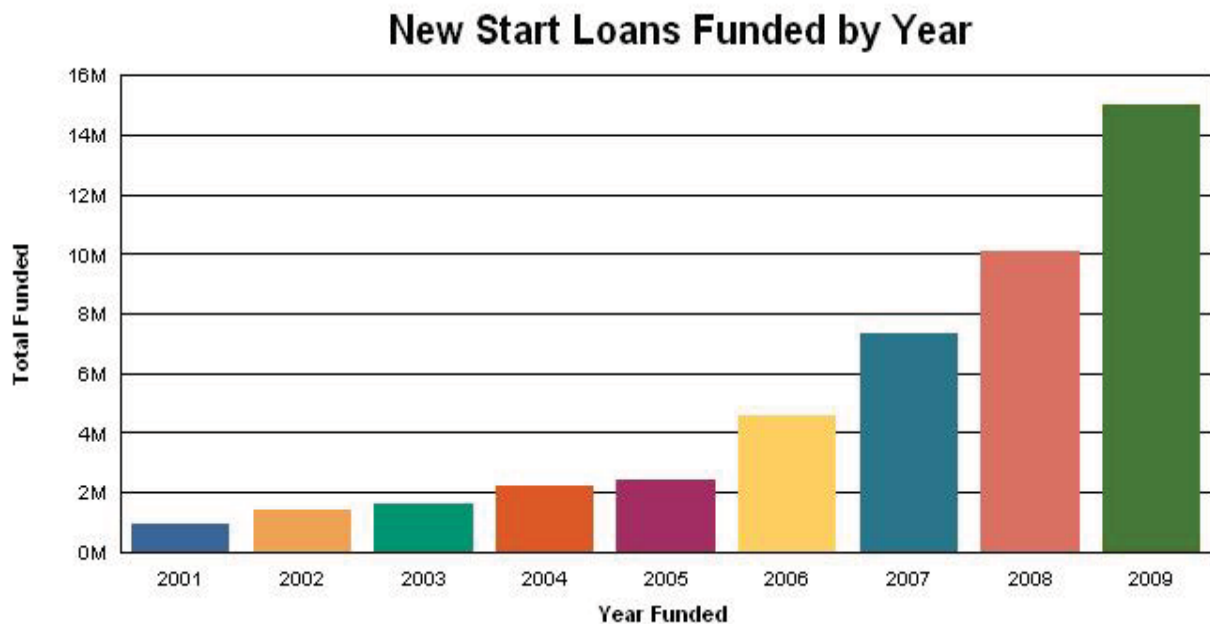
Revenue Bond program loan interest rate. The New Start partner is responsible for underwriting the credit, however, the debt-to-income ratio must not exceed 45%.

From the program's inception, THDA has funded the program from reserves available in the organization's bond resolutions. However, in order to sustain the program and allow it to grow, it is THDA's intent to utilize bond proceeds as a funding source for this program. When the tax-exempt bond market improves, THDA should be able to structure its bond deals to allow for the provision of 0% mortgages.

Results (So Far)

The New Start Loan program is continuing to grow. In THDA's five-year financial plan, we allocate \$8 million annually for the New Start Program. However, due to the success of this program and extenuating circumstances in the housing market this year, THDA has provided more funding for our partners to meet the increased demand (see graph below). The program partners are encouraged to leverage other resources with the New Start Loan program in order to broaden the program.

Since inception in 2001, the New Start Loan program has generated 700 loans for a total funding amount of \$45,434,582.



This program has met needs beyond our original expectations and has resulted in providing extremely affordable housing to a very low-income population. This model is used extensively with Habitat for Humanity entities as well as other non-profit organizations specializing in single family homeownership development.

Testimonials

The clear measure of success of any new program is the impact it has on local communities. Listed below are quotes and comments from some of the non-profit agencies that have utilized the New Start program:

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“When hardworking families can purchase an affordable home, they gain access to wealth through home equity growth. The New Start Program of THDA has been a major factor in helping our agency utilize assets to grow in service to hundreds of families. This program’s loans are used by NAHFH to purchase and develop land that will become homes to Nashville’s working class families through the Habitat Mission. The Nashville Area Habitat for Humanity (NAHFH) has grown 6 times in size in the last 7 years and the variety of our service to the Nashville community continues to expand to include financial counseling and life skills education, repair and reconstruction services, deconstruction and recycling programs as well as new home construction. NAHFH has built over 400 homes for 1,400 family members in 24 years and the New Start Program has helped our agency build a land endowment that will reach an additional 440 families in the next 10 years with the life-changing opportunity of homeownership.” *Chris McCarthy, executive director (Nashville Area Habitat for Humanity)*

“The THDA New Start Program has provided 24 families the opportunity of achieving the American Dream of homeownership. Notwithstanding the value of creating personal wealth for the individual families, the economic value of the over \$3.5 million dollars of New Start funds has created a substantial impact to the communities served by allowing families access to affordable housing. The effect of the New Start Program for our families can also be seen by the creation of neighborhoods with families becoming vested in the local workforce, as well as school and community involvement.” *Terry Cunningham, executive director (Kingsport Housing and Redevelopment Authority)*

“For the 52 Habitat for Humanity affiliates in Tennessee who build over 200 homes a year, THDA’s New Start Mortgage program has proven to be a dynamic and beneficial resource to these affiliates, both large and small. Because this innovative program provides a no-interest loan that equals the cost of the mortgage, affiliates are able to immediately invest the infusion of cash to build more houses, buy more land, and most importantly, increase house production to change lives in a very real and practical way. THDA’s New Start Mortgage program has positively affected hundreds of Habitat families, and the best way to understand this program’s affect is when you see the smile of a child at a home dedication, as they give you a tour of their very own bedroom, something they have never been able to do before. This program has helped transform thousands of lives through homeownership.” *Colleen Dudley, executive director (Habitat for Humanity of Tennessee)*

THDA is very proud of the New Start program and the positive impact it is having on the development of new affordable homes in Tennessee. We are committed to continuing this important initiative for the foreseeable future.

Supporting Documentation:
Pictures of Projects, Additional Testimonials