

# Targeting Low, Very Low, and Moderate Income Homebuyers

**Texas Department of Housing and Community Affairs**  
Homeownership: Empowering New Buyers

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## PROGRAM INTRODUCTION AND OVERVIEW

The Homeownership Division of the Texas Department of Housing and Community Affairs (TDHCA) is responsible for the creation, oversight, and administration of TDHCA's homeownership programs. Targeting low, very low, and moderate income homebuyers, eligible homebuyers must be at or below 100% AMFI for households of 1-2 persons, and 115% AMFI for households of 3 or more (with exceptions for targeted areas and veterans). These income limits apply to loans originated through TDHCA's TBA, bond, and MCC programs.

TDHCA continues to modify and expand its menu of financing options to provide maximum choice, allowing homebuyers to select the option that best meets their specific circumstances. TDHCA maintains a menu of financing options that includes government (FHA, VA, and USDA) and conventional loans (Fannie Mae HFA Preferred), down payment and closing cost assistance between 3% and 5%, and options that can be combined with MCCs. Through its financing structure and by providing down payment and closing cost assistance as a deferred repayable second (30-year, non-amortizing, 0% interest, due on sale or refinance), TDHCA is able to keep mortgage rates and, consequently, monthly mortgage payments, low for maximum affordability.

## AN INNOVATIVE INITIATIVE

In September 2018, TDHCA expanded its financing options to include:

My Choice. My Choice is the only TDHCA financing option that does not have a first-time homebuyer requirement and the only option that allows income calculation using standard 1003 credit qualifying income (versus IRS methodology for tax-exempt bonds). Since inception in September, 2018, My Choice has provided financing to 700 homebuyers, providing first mortgage loans totaling approximately \$130 million and second loans totaling approximately \$5.4 million.

Unassisted Loans. Following the crash of 2008 and the migration to TBA, all TDHCA loans included down payment and closing cost assistance, due to the high demand for DPA and the inability to offer a below-market mortgage rate for an unassisted loan. Prior to the crash, when TDHCA offered borrowers the choice between a low, unassisted rate and a higher, assisted rate, over 95% chose the assisted loan option. However, recognizing that market conditions and credit requirements had changed significantly in recent years, TDHCA implemented its 2018A tax exempt bond program with a borrower choice, with the goal of expanding financing opportunities and providing an option to meet the requirements of low to moderate income homebuyers that had saved the funds for their down payment and closing costs.

On September 12, 2018, TDHCA closed on its 2018A bond issue, which made available \$36 million of bond proceeds (25% of the issue) at a 3.75% unassisted mortgage rate for government loans. Lender and homebuyer response was overwhelming, and the funds were committed in less than four weeks. Based on the success of the 2018A issue, TDHCA provided an unassisted option for its 2019A bond issue, which closed March 19, 2019. The 2019A issue provided up to \$50 million (30% of the issue) for unassisted loans with a 3.99% rate for government loans and a 4.38% rate for conventional loans. Again, the response was tremendous, and available funds for the unassisted option were fully committed within six weeks.

With a high demand for financing assistance across all income levels, TDHCA continues to focus on serving low and moderate income homebuyers. As market conditions and dynamics change, TDHCA will continue

to adapt, using its TBA and bond programs to provide the best possible financing options to Texas homebuyers.

#### A REPLICABLE PROGRAM

Targeting specific income levels with financing options that provide a menu of choice is easily replicable. For TDHCA, it has been an ongoing process of evaluating and improving the financing options that we offer. Most HFAs already allow 1003 income for qualifying borrowers. And a below-market, unassisted mortgage rate can be included in most tax-exempt bond issues; it may cost the HFA zeros that could have been created for future financings, but it reduces the issuer contribution to the transaction, as it reduces the DPA that must be funded. The key is to focus on the specific financing options that will appeal to and meet the requirements of the targeted borrower population.

#### RESPONDING TO AN IMPORTANT STATE HOUSING NEED

In May 2018, the U.S. Census Bureau released their list of the fastest growing large cities. San Antonio topped the list of the largest numeric increase by adding an average of 66 people per day, while Dallas, Fort Worth, Frisco and Austin rounded out the top 15. Additionally, seven other Texas cities were included in their top 15 list of cities with the largest percentage increase. With Texas growing rapidly and the demand for housing increasing, affordable housing becomes a barrier that residents must overcome. TDHCA will continue to prioritize developing and offering the best possible financing options to low and moderate income homebuyers in Texas.

#### DEMONSTRATING MEASURABLE BENEFITS TO HFA-TARGETED CUSTOMERS

The success of TDHCA's efforts is reflected in the following summary of 2018 loans purchased through TDHCA's bond and TBA programs. In 2018, 32% of TDHCA loans were made to borrowers at or below 60% AMFI, with 70% of loans made to borrowers at or below 80% AMFI.

2018 Summary Results			
AMFI	# Loans	% of Total Loans	Cumulative %
<=60%	1,757	31.9%	31.9%
>60% to 80%	2,132	38.7%	70.5%
>80%	1,624	29.5%	100.0%
<b>Total</b>	<b>5,513</b>	<b>100.0%</b>	<b>N/A</b>

#### A PROVEN TRACK RECORD OF SUCCESS IN THE MARKETPLACE

In the past 12 months (through March 2019), TDHCA has provided financing to 6,431 homebuyers through its bond and TBA programs – over 4 times the homebuyers served in calendar year 2016. The increase has been due to several factors, not the least of which has been the continued expansion of financing options to reach TDHCA's targeted borrowers -- low, very low, and moderate income homebuyers in Texas. The above summary confirms the success of our efforts in this area.

#### PROVIDING BENEFITS THAT OUTWEIGH COSTS

The costs of offering options to better serve TDHCA's targeted homebuyers depend on the specific option. Some costs have to do with the fact that you have more homebuyers with smaller loan amounts when you target the low to moderate income, increasing operational costs. Other costs are financing option specific, such as including the unassisted rate option in bond programs. Each option and related cost needs to be evaluated to determine if the benefits outweigh the costs. The financing options implemented by TDHCA are those that have passed that test. There have been many that we have considered, but for which the costs could not be justified.

#### DEMONSTRATING EFFECTIVE USE OF RESOURCES

TDHCA has limited staff and limited liquidity, and has designed its homeownership programs to leverage existing assets and resources for maximum benefit to TDHCA targeted homebuyers. A key factor to our success in reaching our target homebuyers is the strong relationship between TDHCA and its Participating Lenders.

#### EFFECTIVELY EMPLOYING PARTNERSHIPS

Banks and Bank Syndicates. In August 2018, TDHCA partnered with Woodforest National Bank, Tolleson Private Bank, and Hancock Whitney Bank, providing \$12 million in loans that TDHCA used for DPA, allowing TDHCA to maintain low mortgage rates and provide attractive financing options to target homebuyers. The banks, in return, will be able to realize CRA credit for this partnership.

NeighborWorks America. In 1997, the Texas Legislature charged TDHCA with the development and implementation of the Texas Statewide Homebuyer Education Program ("TSHEP"). To ensure uniform quality of homebuyer education throughout the state, TDHCA partners with NeighborWorks America to administer TSHEP and to teach local nonprofit organizations the principles and applications of comprehensive pre and post purchase homebuyer education, and to certify participants as providers.

#### ACHIEVING STRATEGIC OBJECTIVES

TDHCA's financing structure and menu of homebuyer options have been carefully designed and implemented to ensure the sustained financial stability of TDHCA's programs. TDHCA's programs are economically viable, and will continue to meet the needs of the low and moderate income homebuyers of Texas today, tomorrow, and long into the future.



## Texas Department of Housing and Community Affairs

Financing Options	DPA Provided		Income Limits - AMFI		Requirements	
	FHA, VA, USDA	Conventional Fannie HFA Preferred	Households of 1 or 2	Households of 3 or More	Qualifying Income	First-Time Homebuyer Requirement
<b>Bond Program</b>						
Assisted Mortgage Loans	4%	N/A	100%	115%	IRS	Yes
Unassisted (Low Rate) Mortgage Loans	0%	0%	100%	115%	IRS	Yes
<b>TBA Program</b>						
My FIRST Texas Home Bond Eligible Loans, No MCC	4%	3% or 5%	100%	115%	IRS	Yes
My FIRST Texas Home Combo Loans with MCC	4%	3% or 5%	100%	115%	IRS	Yes
My CHOICE Texas Home Taxable Loans, No MCC	4%	3% or 5%	100%	115%	1003	No