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FHA Streamlines Loan Process



Escalation clauses, home inspection waivers, and bidding wars. Almost unknown in real estate parlance less than a decade ago, these phrases have now become commonplace, and are merely some of the challenges that buyers face when looking for a home. Without a doubt, entry into the homebuying market is a daunting and often intimidating task for any first-time buyer, especially since most of the negotiation power lies with today's seller, rather than the buyer. Even still, with the average price of homes increasing by 12.5 percent over the past year – and

Homebuyers can use Streamline (k) Limited Repair program financing for \$5,000 to \$15,000 of repairs.

with some regions of the country, such as California, Florida, Hawaii, and Maryland, seeing increases of more than 20 percent – purchasing a home is one of the wisest investments an individual or family can make.

To empower homebuyers, HUD and the Federal Housing Administration (FHA) are developing new loan programs aimed at helping more low- and moderate-income individuals and families purchase the home they want, in the communities where they want to live, at a price they can afford. The Streamline 203(k) Limited Repair program is one such program. HUD's original Section 203(k) home rehabilitation program is FHA's primary tool for the repair of single-family properties. Because the 203(k) program has proven successful in helping homeowners rehabilitate their homes, HUD has developed a streamlined version to help even more Americans.

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Helping Families Achieve the Dream

FHA insures a number of financing options for low- and moderate-income homebuyers. In the past, FHA loan guidelines required sellers to repair their property before approving the purchase by an FHA borrower. Starting in June 2005, FHA's new Streamline 203(k) Limited Repair program, or Streamline (k), will increase the attractiveness of FHA-insured loans by allowing sellers to market their property in 'as-is' condition and sell homes to FHA borrowers without making any repairs, provided that no more than \$15,000 in repairs are needed. Streamline (k) will permit the borrower to add \$5,000 to \$15,000 to the loan amount and make the required repairs after loan closing.

Streamline (k) adds to FHA's existing 203(k) program, the primary FHA-insured mortgage option for financing the purchase of single-family properties in need of rehabilitation. The new program will facilitate a purchase transaction when the property needs minor rehabilitation work identified during the pre-purchase home inspection or the FHA appraisal.

Streamline (k) helps new homeowners cover basic repair costs between \$5,000 and \$15,000 if these funds are dedicated to repairing, replacing, or upgrading...

- Roofs, gutters, and downspouts;
- HVAC systems;
- Plumbing and electrical systems;
- Existing flooring;
- Kitchen remodeling that does not involve structural repairs;
- Exterior and interior painting;
- Weatherization, including storm windows and doors, insulation, and weather stripping;
- Appliances, including freestanding ranges, refrigerators, washers and dryers, dishwashers, and microwaves; and
- Accessibility enhancements for persons with disabilities.

Repairs must comply with local codes and ordinances, and the buyer or contractor must obtain all required permits before starting work. According to program guidelines, after the mortgage is approved and closed, modification of the list of repair items is not allowed unless the Direct Endorsement Underwriter approves a written change order. Change orders are limited to



The Streamline 203(k) Limited Repair program helps cover basic repair costs for 'as-is' homes in need of rehabilitation.

unforeseen conditions, such as damage caused by termites, mold, or water discovered during the course of the rehabilitation process. However, change orders may result in the reallocation of mortgage proceeds among cost categories or in the substitution of work items covered by the proceeds.

Unlike the standard 203(k) program, any FHA-approved mortgagee may originate a Streamline (k). The mortgage amount allows for purchase of the property and up to \$15,000 of the loan proceeds to be applied toward rehabilitation and repair. The Streamline (k) option does not replace the standard 203(k) program, but offers an alternative for homeowners seeking to make uncomplicated repairs without paid consultants, engineers, or plan reviewers. With the addition of Streamline (k), HUD and FHA are helping families achieve the dream of homeownership and build a stronger financial future.

According to the National Association of Realtors®, more than 68 percent of American households currently own their homes and, each year, first-time homebuyers account for 40 percent of the homebuying public. "The Department is committed to making FHA better, more modern, and more streamlined," stated HUD Secretary Alphonso Jackson in a recent press release announcing the Streamline 203(k) program. "This new mortgage product will help achieve that goal by enabling FHA borrowers to roll into the mortgage both the cost of the home and limited repairs."

For a Streamline (k) loan application, contact any participating FHA lender. Additional information about the program is available at www.hud.gov/offices/hsg/sfh/203k/203kslrp.cfm. **H.I.**

Austin's Garden Terrace Alleviates Homelessness and Encourages Self-Sufficiency

With the Garden Terrace housing community, Austin, Texas, is demonstrating how supportive housing can alleviate homelessness and encourage its disadvantaged residents to envision and pursue social and economic independence. The community is the city's first housing designed exclusively for the homeless and for low-income single working adults, retirees, and people with disabilities. Garden Terrace provides 85 efficiency apartments, including 12 accessible units, and offers a wide range of onsite supportive services that encourage individual self-sufficiency. It's conveniently located in South Austin on a major bus line, and is close to jobs, stores, and medical care.

Garden Terrace "is an important housing facility for the City of Austin's housing strategy," explains Paul Hilgers, the city's community development officer, "in that it allows people to live with greater independence." Although a single adult in Austin needs to earn at least \$10 an hour to afford basic necessities, almost a third of local jobs pay less. Until Garden Terrace opened, Austinites with low wages or physical impairments that left them unable to work had almost no housing opportunities. Austin's community-based government, housing, and social service agencies formed a partnership to solve this problem, successfully implementing the recommendations of both national and local housing experts on supportive housing. The fruit of their labors is the \$4.5 million Garden Terrace community, which took about three years to develop.

The most vocal proponents of Garden Terrace's success are its residents. Tracy, for example, was homeless—which was "terrifying, absolutely terrifying." She suffered for years with addiction. Now, thanks to Garden Terrace, she is moving toward wellness and a stable relationship with her young daughter. She learned about Garden Terrace from a television news-cast and called the station for more information. In one momentous week, she got both an apartment in the new community and a new job. Today—having overcome addiction with the help of a treatment program, therapy, and yoga—she envisions becoming a radiation technician. "It's funny. I'm beyond the 'Oh, my gosh, this is my bed, this is my stuff' feeling," she says with a laugh. "Now I feel safe and comfortable enough to focus on everyday things. The most important thing to me is being able to see my daughter."

Another Garden Terrace resident, Deantonio, is finding the energy to pursue his passions for singing, dancing, and editing digital video now that he has a stable and affordable home in the community. He explains, "I used to have a lot of stress from friends and family, but after getting to know people here, a lot of that stress has disappeared." He had been living in different apartments and staying with friends when a friend gave him a Garden Terrace brochure. "At first, I was very skeptical about the place—very skeptical," he says. Living there, he finds "lots of reassurance and a feeling of community." After he receives his degree in business management, he hopes to start a small theater center with classes, tutoring, and performances.

All Garden Terrace residents must be adults (18 or older) who live alone, have an income of 50 percent or less of the Austin median family income (\$24,900 a year) or be homeless, be a U.S. citizen or have



Simple amenities at Garden Terrace contribute to a better life for those who have lost almost everything.

eligible immigration status, meet criminal history criteria, and be willing to abide by community rules. The community intends its efficiency apartments and supportive services for the disabled, the elderly, veterans,

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Assessing Building Guidelines, the Impact of Refinancing, and the Extent of Lender Discrimination

How well do builders comply with the *Fair Housing Accessibility Guidelines*? What do homeowners do with the money they save by refinancing? Does lender discrimination exist? HUD USER looks at these issues and offers some compelling answers in the publications that follow.

Multifamily Building Conformance With the Fair Housing Accessibility Guidelines

HUD developed the *Fair Housing Accessibility Guidelines* in 1991 to help builders, architects, local government officials, and others in the building community adequately meet the *Fair Housing Act* requirement that "covered multifamily dwellings" include certain accessible design and construction features. Covered multifamily dwellings are found in buildings with four or more units with one or more elevator(s) and in ground floor units with four or more units. The *Guidelines* serve as a single, reliable source for information on compliance and are the most commonly known and used standards of their kind in the construction industry today.

Released in 2004 by HUD's Office of Policy Development and Research, *Multifamily Building Conformance With the Fair Housing Accessibility Guidelines* is an assessment of the extent of conformance with the *Guidelines* and offers explanations for patterns of conformance and nonconformance. The assessment used a 291-item questionnaire to survey 397 multifamily housing projects. A review of site and building plans, onsite inspections of buildings, and tabulations of individual building evaluations complemented the questionnaire and provided detailed data on the degrees of conformance and nonconformance. Although the study provides a broad national view of conformance, it cannot be used to extrapolate about local conditions, as building design and construction are regulated at the local or state level, and localities are subject to different building code or accessibility requirements.

Key findings of the study include:

- The percentage of conformance for individual items in the survey ranged from 33.2 percent to 100 percent for projects surveyed in the field, with most

items displaying conformance percentages in excess of 80 percent.

- Of the 291 items included in the survey, 130 showed conformance percentages of at least 95 percent for architectural plans and the buildings built from those plans.
- Conformance scores were universally high for buildings providing accessible building entrances on an accessible route, accessible and usable public and common use areas, usable doors, and accessible routes into and through the covered unit.
- Conformance scores were somewhat lower for accessible light switches, electrical outlets, thermostats, and usable kitchens and bathrooms.
- Conformance scores were lowest for reinforced walls (used to properly anchor grab bars), which many buildings did not have.

An Analysis of Mortgage Refinancing, 2001–2003

Declining interest rates spurred a dramatic increase in refinance loans in the United States, with numbers of loans jumping from approximately 2.5 million in 2000 to more than 15 million in 2003. Mortgage interest rate declines enabled homeowners to lower their monthly payments or take equity out of their homes for consumption and investment.

An Analysis of Mortgage Refinancing, 2001–2003 examines the recent refinancing wave and its impact on households' consumption and debt burden, how households are using their mortgage payment savings, and what they are doing with the cash-out equity.

Section I of the paper is an introduction to mortgage refinancing in the United States during 2001–2003, while Section II presents statistics on the recent refinancing wave and compares it to refinancing activity seen in the 1990s. Section III characterizes households' motivations for refinancing and estimates the impact of refinancing on household savings and consumption, while Section IV provides the demographics of households that refinanced during the latest refi wave.

Significant findings include:

- Mortgage interest rates dropped by more than 20 percent between January 2001 and June

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2003 — from 7.01 percent in first quarter 2001 to 5.52 percent in second quarter 2003.

- Household wealth, in the form of home equity, has increased substantially because of housing price appreciation. Many households have used their mortgage payment savings to borrow against this increased home equity. In 2003, households converted an estimated \$139 billion of equity into cash.
- Approximately 35 percent of cash-out equity was used for home improvement. Refinancing in 2003

alone helped to fund approximately \$100 billion in home improvements.

- Households used 47 percent of their cash-out equity to pay off high-cost consumer debt and to make investments.
- Minorities have taken advantage of recent drops in interest rates to refinance. However, African Americans and Hispanics continue to rely disproportionately on higher cost subprime loans to refinance.

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Austin's Garden Terrace Alleviates Homelessness continued from page 3

and people who are homeless, facing eviction, or leaving transitional housing.

Residents sign a one-year lease. Their rent is either \$300 for nonsubsidized apartments or one-third of income (with a minimum of \$50) for homeless-subsidized units. Because the demand is so strong, Garden Terrace has a waiting list. Those who want to add their names fill out a one-page application and receive notice when an apartment becomes available, at which time they complete a detailed application and a criminal history report. Then they have an interview and learn of their status.

Each furnished efficiency apartment of about 225 square feet has a private bathroom and kitchenette. Furnishings include a twin bed, bedside table, chest of drawers, table, and two chairs. Gas, electric, and water services are free, but residents pay for their own telephone and cable television service. The community also shares some living areas, a TV lounge, computer laboratory, a full kitchen, and an attractive courtyard.

Garden Terrace's supportive services are free and available to all residents. Each resident meets with his or her resident mentor to set goals intended to help the resident reach his or her maximum level of self-determination and self-sufficiency. To make even more assistance available to its residents, Garden Terrace has formed partnerships with several supportive service agencies, including the Austin-Travis County Mental Health and Mental Retardation Center, the U.S. Department of Veterans Affairs, and Caritas Re-Entry. Residents who have case managers with these or other organizations are encouraged to continue working with them. Resident services also include computer instruction, job training, social activities like movie nights, and regular community meetings.

To create Garden Terrace, the City of Austin provided HUD Community Development Block Grant funds to the local non-profit housing organization Foundation Communities, which worked in partnership with the Capital Area Homeless Alliance (now known as Front Steps) to acquire and convert a former nursing home. The city's Neighborhood Housing and Community Development Department and its Housing Finance Corporation were the lead agencies. The city leveraged its federal investment with additional HOME dollars to complete the acquisition of the project site. Many community-based, private, and public organizations, as well as individuals and churches, contributed to the project. Contributors included Advanced Micro-Devices, the Austin Community Foundation, Compass Bank, the Federal Home Loan Bank of Atlanta, the Housing Authority of the City of Austin, Houston Endowment, the Meadows Foundation, the Neighborhood Reinvestment Corporation-Rocky Mountain District, Sara and Dick Rathgeber, the Texas Department of Housing and Community Affairs, the Topfer Family Foundation, Travis County, and the Lola Wright Foundation.

Garden Terrace is part of the City of Austin's effort — as stated in its *Neighborhood Housing and Community Development Action Plan* — to create and/or retain 5,000 affordable housing units by the end of 2005. The strategy includes linking housing services through a continuum from homelessness to homeownership; increasing the supply of affordable, adaptable, accessible units, particularly rental units; and expanding the capacity of non-profit housing developers.

For more information, please see www.gardenterrace.org.



Baldwin's Run in Camden Replaces Drug-Plagued Public Housing With an Attractive, Affordable Community

Last December, the Camden, New Jersey, Housing Authority celebrated the completion of another phase of its attractive, ambitious Baldwin's Run affordable community with a ribbon-cutting ceremony for 49 new housing units. This accomplishment symbolizes how Baldwin's Run is helping Camden respond to its shortage of good-quality affordable housing – a crucial challenge to this struggling city of 80,000 across the Delaware River from Philadelphia.

The Baldwin's Run community is renewing East Camden's once-downtrodden Rosedale-Dudley neighborhood in stages. The new community stands on the site of the former Westfield Acres public housing complex, plagued at one time by drug trafficking and related street crime. When completed, Baldwin's Run will consist of more than 500 units of public and affordable housing for purchase or rent, as well as a community center and a Boys & Girls Club. Its well-designed houses are already attracting a diverse range of families, from first-time homebuyers to retirees with incomes at or below 72 percent of the area median income. The project's total cost is \$100 million, of which \$65 million is from the Camden Housing Authority's public and private partners and \$35 million is from a HUD HOPE VI grant to demolish Westfield Acres.

Quoted in the *Philadelphia Inquirer*, the project's lead architect, Stephen Schoch, explained that the Housing Authority and its non-profit partner, Saint Joseph's Carpenter Society, were "mending the torn fabric" of the community with Baldwin's Run. Westfield Acres had been the patch "that didn't quite fit." "By erasing the image of Westfield, we have been able to draw on the strengths of the surrounding neighborhood, including its architectural references," he notes. Moreover, "by bringing in the people for whom the housing was to be built and the people who would be living around it early in the process, we were able to get everyone to buy into the project."

Since its founding in 1985 with the modest goal of renovating a single house, the Saint Joseph's Carpenter Society has flourished, selling more than 500 professionally built homes in East Camden to low- and moderate-income families. When the Society was formed, one in every six houses in its neighborhood was empty and the average house sold for \$18,000.



Baldwin's Run in Camden, NJ uses HUD HOPE VI funding to reinvigorate the community through attractive, affordable housing.

Today, 1 in 40 homes is vacant and the average house sells for \$58,000. The Society is the recipient of the Presidential Service Award, the HUD National Best Practices Award, the Delaware Valley Builder of the Year Award, the New Jersey Governor's Excellence in Housing Award, and other honors. The Society's developer partner for Baldwin's Run is Pennrose Properties. Along with these organizations, the Camden Housing Authority's partners for Baldwin's Run include the New Jersey Department of Community Affairs, the New Jersey Housing and Mortgage Finance Agency (NJHMFA), the City of Camden, and HUD, as well as a number of community groups and service providers.

Baldwin's Run homebuyers can choose from 11 floorplans, ranging from 2 to 4 bedrooms. The designs of the detached and semidetached homes reinforce the prominent architectural styles in the surrounding neighborhood. To increase residents' security, the project's streets connect to adjacent neighborhoods, decorative street lighting provides excellent visibility, and all homes have fenced-in rear yards and security systems. Each house has new sewer, water, and electrical infrastructure; off-street parking; ample storage facilities; large thermal-pane windows; energy-efficient appliances and mechanical systems; central air conditioning; a front porch and rear patio; and landscaping. Operating costs stay in line

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Baldwin's Run in Camden Replaces Drug-Plagued Public Housing continued from page 6

because the project's houses meet energy conservation guidelines and feature low-maintenance construction of durable brick, maintenance-free siding, and roofs guaranteed for 30 years.

These new Baldwin's Run houses are being built in four phases, beginning in 2002 and ending later this year. The 93 homeownership units constructed in the first three phases were funded in part with \$2.2 million from the state's Urban Homeownership Recovery Program/Homeownership Incentive Fund and a \$2.4 million construction loan from NJHMFA. In all, Baldwin's Run has 219 homeownership units, as well as an additional 100 fully rehabilitated homeownership units in the surrounding area.

Baldwin's Run also offers 297 newly built rental units. Seventy-eight of these are eligible for a 9 percent tax credit from the NJHMFA, which raised about \$8.8 million in private equity. In addition, the rental units are receiving about \$3.6 million from the New Jersey

Balanced Housing Funds. Baldwin's Run also includes another 49 rental units at Carpenter's Hill that are complete and occupied. Each unit has three bedrooms and one and a half baths, except for four handicapped units that have two bedrooms. These units come with off-street parking, security systems, central air conditioning, washer/dryer hookups, outdoor storage, and fenced backyards. Thirty units are public housing. All former residents of Westfield Acres were invited to apply for rental housing at Baldwin's Run.

In 2003, Baldwin's Run received the HUD Secretary's award for design excellence achieved through cooperative public-private efforts that expand homeownership opportunities for underserved families. The National Association of Home Builders and Professional Builder magazine cooperated in sponsoring the award.

For more information, visit www.camdenhousing.org and www.sjcs Camden.org. ■■

Assessing Building Guidelines continued from page 5

New Evidence on the Relationship Between Race and Mortgage Default: The Importance of Credit History Data

Traditionally, testing for lender discrimination involves using a mortgage rejection equation to determine if there is an independent race effect, after controlling for risk factors that lenders typically consider when underwriting a loan. In the early 1990s, a Boston Federal Reserve study used this methodology to provide what many consider convincing evidence of discrimination against African American and Hispanic mortgage applicants in the Boston metropolitan area.

Berkovec et al. developed an alternative model in the mid-1990s to test for lender discrimination based on mortgage performance following origination.¹ In this model, lenders discriminate by holding minorities to higher credit standards; a practice that suggests minorities would have lower default probabilities than non-minorities for given values of other default-related factors. Berkovec et al. argued their empirical results could be interpreted as evidence against mortgage discrimination; a conclusion inconsistent with that of the Boston Federal Reserve study.

¹ James A. Berkovec, Glenn B. Canner, Stuart A. Gabriel, and Timothy Hannan published a series of articles during the 1990s, cited in the report, that elaborate on the model.

New Evidence on the Relationship Between Race and Mortgage Default: The Importance of Credit History Data describes the rationale for the default model as a test of lender bias, summarizes the major empirical findings of Berkovec et al., and includes a brief discussion of omitted variables. The publication also discusses the data used as the basis for the empirical findings—FHA-insured loans from three application years (1992, 1994, and 1996), together with explanatory variables derived from FHA and other sources. The publication concludes with the empirical findings, emphasizing the contrast between models that control for credit history and those which do not.

New Evidence on the Relationship Between Race and Mortgage Default: The Importance of Credit History Data can be downloaded free of charge at www.huduser.org/publications/hsgfin/crhistory.html and *An Analysis of Mortgage Refinancing, 2001–2003* can be downloaded for free at www.huduser.org/publications/hsgfin/MortgageRefinance03.html. *Multifamily Building Conformance With the Fair Housing Accessibility Guidelines* is available at www.huduser.org/publications/fairhsg/multifamily.html or a printed copy can be obtained for a nominal charge by calling HUD USER at 800.245.2691. ■■

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In the Next Issue of... ^{research} **works**

- A new HUD-sponsored study, *Discrimination Against Persons With Disabilities: Barriers at Every Step*, offers insight into the prevalence of housing discrimination against persons with disabilities. Research focused on the treatment of deaf people who use the TTY system to inquire about advertised rental housing, and on the treatment of persons in wheelchairs who visit rental properties to inquire about available units. We'll discuss results and lessons learned.
- State housing finance agencies (HFAs) address the affordable housing needs of low- and moderate-income people by lending money at low interest rates to first-time homebuyers and funding the development and preservation of affordable rental housing. Congress allocated federal authority to the states to issue tax-exempt private activity bonds and Low-Income Housing Tax Credits to support affordable housing. HFAs administer these and other federal programs on behalf of their state governments. This article provides an inside view of how one HFA, the Virginia Housing Development Authority, makes the most of the resources at hand.
- HUD's Office of University Partnerships sponsors research grants for new scholars whose academic interests are consistent with HUD's goals. This research brings clarity and perspective to future teachers, practitioners, and policymakers. In this article, we'll look at the ongoing research being undertaken by scholars looking for new ways to promote and support homeownership, community development, and equal access to affordable housing that meet the needs of all Americans—including the elderly, low-income families, the homeless, and the disabled.
- In the 1960s, HUD began funding efforts that support housing for persons with disabilities and the elderly. Since then, projects have evolved from large congregate dwellings to smaller, community-based projects. Now HUD has evaluated the social and economic effects of project size, with respect to Section 202 and Section 811 housing for persons with disabilities, in terms of the projects, the people who live there, and the surrounding neighborhoods. This article will discuss the findings and implications for very low-income persons with disabilities.

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