NOVEMBER 08

research works

A bridge linking housing research and practice

volume 5, number 10

Resources Mitigate the Impact of Major Disasters

After Hurricane Ike made landfall on September 13, 2008, winds of 110 miles an hour and a 13.5-foot storm surge wreaked havoc along the upper Texas and southwest Louisiana coasts. This Category 2 hurricane—a large, slow-moving storm nearly the size of the state of Texas—left Gulf Coast homes destroyed, neighborhoods flooded, infrastructure demolished, millions without power, and thousands unable to return to their homes for weeks or months. Following a presidential declaration that this is officially a major disaster area, the resources that HUD provided to assist Ike's victims as they struggle to return to their normal lives illustrate the kinds of assistance we make available in the aftermath of catastrophe.

In cooperation with state and other federal agencies, HUD offers emergency housing and community development assistance to residents of hurricane-damaged areas. Such assistance is particularly helpful to homeowners and low-income renters who have been forced from their homes. This aid includes foreclosure relief for families, which entails a 90-day moratorium on foreclosures of homes whose mortgages are insured by the Federal Housing Administration (FHA). As part of this moratorium, HUD strongly encourages loan servicers to show other kinds of special forbearance—including loan modifications, refinancing, and waivers of late charges—to these mortgage holders.

Credit: FEMA/Jocelyn Augustino

Flooding and demolished infrastructure in the aftermath of Hurricane Ike.

Among the resources offered to those living in federal disaster areas are the Section 203(h) and Section 203(k) loan programs, established by Congress under the National Housing Act. These programs make no direct loans, but provide mortgage insurance that protects lenders against the risk of default on loans. Insured loans may be used to finance the purchase or reconstruction of a single-family home that will be the principal residence of the owner. These loans require no downpayment and offer

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100 percent financing. HUD's Mortgagee Letter 2006-04 announced revisions to the borrower closing cost guidelines. Per this guidance, mortgagees may charge and collect from mortgagors those customary and reasonable costs necessary to close the mortgage. HUD is presently developing updated guidance regarding closing costs that may be paid by borrowers. Although mortgage limits vary with time, place, and factors like the cost of living, they ensure service to low- and moderate-income individuals. Borrowers pay closing costs and prepaid expenses in cash or through premium pricing. The seller may also pay borrower closing costs and prepaid expenses, subject to a six-percent limitation on seller concessions. An upfront insurance premium (which may be financed) is also collected from the borrower at the time of loan closing.

Provisions of Section 203(k) permit and insure financing for both the purchase and repair of disaster-damaged properties, combined into a single mortgage. Damaged residences are eligible regardless of their age. They need only to have been completed and ready for occupancy, thus waiving the usual one-year minimum residency requirement. The type of mortgage determines the percentage of financing. A 203(k) borrower does not have to have owned a home in order to buy and rehabilitate an abandoned property or a damaged one sold "as is."

In disaster conditions, the underwriting guidelines for both Sections 203(h) and 203(k) are relaxed to allow victims of disasters to have a total fixed payment to gross income ratio of 45 percent, without compensating factors. The 45-percent ratio can also be exceeded with appropriate compensating factors. This provision applies to all FHA-insured mortgages, regardless of the insurance program (Mortgagee Letter 2005-33). A borrower's application must be submitted to an FHA-approved lending institution within one year of the President's declaration.

Credit: FEMA/Jocelyn Augustino

Structures in Sabine Pass, Texas, after Hurricane Ike passed through the town.

Credit: FEMA/Jocelyn Augustino

Workers examine the structural soundness of a disaster-damaged property in Galveston, Texas.

HUD also provides residents and businesses in affected areas with other types of assistance. Under disaster conditions, state and local officials are authorized to streamline their CDBG and HOME efforts, giving them the flexibility to retarget millions of dollars for housing and other crucial needs without unnecessary delays. Also available is Section 108 assistance, which offers state and local governments federally guaranteed loans to rehabilitate housing, undertake economic development, and repair public infrastructure.

Natural disasters can strike unexpectedly and with severity. Communities wanting to develop plans to ensure their readiness for a disaster like Hurricane Ike can find more information about HUD programs that help disaster victims at **www.hud.gov/offices/cpd/communitydevelopment/programs/dri/**. A consumer-friendly website that offers guidance for homeowners in declared disaster areas is located at **portal.hud.gov/portal/page?_pageid=33,717202&t_dad=portal&t_schema=PORTAl**.

Further information about the Section 203(h) and Section 203(k) loan programs is available at **www.hud.gov/offices/hsg/sfh/ins/203h-dft.cfm** and **www.hud.gov/offices/hsg/sfh/203k/203k—df.cfm**, respectively. The Federal Emergency Management Agency (FEMA) lists affected counties and cities, and the corresponding declaration dates, at **www.fema.gov/disasters**. Nearby FHA-approved lenders can be located at **www.hud.gov/ll/code/llslcrit.cfm**, or by calling the toll-free FHA Mortgage Hotline, 1.800.483.7342.

Rising Housing Costs 1985–2005: A Closer Look

It's no secret that housing costs climbed steadily between 1985 and 2005, but rising prices affect different people in different ways. A new HUD report, *Trends in Housing Costs: 1985–2005 and the 30-Percent-of-Income Standard*, details changes experienced by three different household groups: homeowners with mortgages, homeowners without mortgages, and renters. *Trends in Housing Costs* also explores the 30-percent-of-income standard in light of these changes. The standard refers to a longstanding housing policy guideline, grounded in the belief that households who must pay more than 30 percent of their income for housing may be forced to forego other necessary goods and services. The research is part of HUD's efforts to optimize use of the American Housing Survey (AHS), a biennial record of the quality, use, and condition of the nation's housing stock.

Overall Trend in Housing Costs

Housing cost components include electricity, gas, fuel oil, other fuels (like wood, coal, kerosene), trash, water and sewage, real estate taxes, property insurance, fees (condominium, homeowner association, mobile home park), and rents, or, in the case of homeowners, mortgage payments, payments on lump-sum home equity loans, land or site rents, and routine maintenance. Researchers found that between 1985 and 2005, these shelter costs rose by 104 percent—faster than those of other consumer items. By comparison, the cost of all other consumer items grew by 74 percent during the same period.

Housing Cost Changes for Different Household Groups

The most substantial components of housing costs for mortgage-holders were principal and interest payments (P+I) and lump-sum home equity loan payments, accounting for about two-thirds of total housing outlay for the period. Utility costs were the second most expensive item, although their share declined from more than 20 percent to approximately 13 percent between 1985 and 2005. Real estate taxes, which rose slightly from 10 to 14 percent during this time, were the third-largest housing outlay for this group. For owners without mortgages, utilities were the most expensive, although their share of housing costs fell from 64 percent in 1985 to 39 percent in 2005. Renters had few housing expenses beyond the sum of rent plus utilities, which accounted for 99 percent of their housing expenditures.

Homeowners with mortgages saw monthly housing costs more than double in noninflation-adjusted dollars, from $670 to $1,521, or 127 percent, as shown in the accompanying table. This represents a 25-percent increase in inflation-adjusted (or constant) dollars. Similarly, the monthly housing costs of homeowners without mortgages rose from $200 to $455, a 128-percent increase, or a constant dollar increase of 25 percent. Housing costs for renters showed a similar pattern, increasing from $424 to $830 over the period, a 95-percent increase, or 8 percent in constant dollars.

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Changes in Housing Costs 1985 – 2005: Key Findings

	Owners with Mortgages	Owners without Mortgages	Renters
Monthly housing costs			
1985	$ 670	$200	$424
2005	$1,521	$455	$830
Percent change	127%	128%	95%
Major components			
Primary component	P+ I on all mortgages	Utilities	Rent, water, trash
Average share	65%	49%	85%
Secondary component	Utilities	Real estate taxes	Utilities
Average share	16%	31%	14%
Percentage of Income			
1985	20%	10%	24%
2005	22%	11%	26%

Source: Table 8, *Trends in Housing Costs: 1985 – 2005 and the 30-Percent-of-Income Standard*, p. 27.

Housing and Economic Recovery Act of 2008 Boosts Energy-Efficient Mortgages

The amount of energy used by the average American household has doubled since 1980 and is expected to continue rising, according to the U.S. Department of Energy's (DOE's) Energy Information Administration. Much of this increase is attributable to the growing number of electrical products and appliances found in our homes. This increased usage coincides with a dramatic rise in the cost of energy. DOE reports that the average American household consumes 10,656 kilowatt-hours (kWh) of electricity per year. An energy-efficient home can lower those bills 10 to 50 percent, depending on the energy improvements performed and prevailing local climatic conditions.

The Housing and Economic Recovery Act of 2008 (HERA), which primarily seeks to address the current mortgage and housing crisis in the United States, also includes measures to encourage greater use of energy-efficient mortgages (EEMs). Although EEMs (also known as green mortgages) have been available since the early 1990s, the Federal Housing Administration (FHA) has typically issued only about 30,000 EEMs annually.

Section 2123 of HERA increases the limits for cost-effective energy-efficiency improvements to nearly 5 percent of the property value; the current cap is $8,000. The section does limit the number of EEMs to 5 percent of the aggregate number of mortgages for 1- to 4-unit family residences insured by HUD during the preceding fiscal year. Section 2902 requires the Secretary of Housing and Urban Development to develop recommendations to eliminate barriers to the use of energy-efficient mortgages, which must be submitted to Congress. These barriers include:

- A lack of reliable and accessible information about EEMs;
- Confusion about underwriting requirements and differences among various EEM programs;
- The complexity and time involved in securing a green mortgage;
- A lack of publicly available research on the default risk of such mortgages; and
- The availability of certified or accredited home energy rating services.

Credit: DOE/NREL/Warren Gretz

Solar panels on this home convert energy from the sun into electricity to heat hot water.

HUD is also tasked with developing an outreach/education campaign to inform consumers, home-builders, residential lenders, and other real estate professionals about EEMS, as well as the availability, benefits, and advantages of improved energy efficiency in housing.

How It Works

EEMs are available to buy a new energy-efficient home, upgrade an existing home, or refinance an existing FHA loan. Borrowers can fold the cost of energy-efficiency upgrades—which could include insulation, high-efficiency appliances and furnaces, replacement windows, solar hot water heaters, and more—into the total mortgage. Highly efficient upgrades will save more money through reduced energy demand than they cost to install. Choosing an energy-efficient mortgage allows homebuyers to spend more on other expenses and less on energy costs.

Eligible properties include new and existing homes with 1 to 4 units. Under Section 203(b) of the National Housing Act, borrowers can finance up to 97 percent of the cost and may fold closing costs and a mortgage insurance premium into the total mortgage. An energy-efficient mortgage eliminates the need for borrowers to get a separate loan for energy improvements when buying a home. The interest on mortgage payments is tax deductible, which can save owners more money than would paying for energy upgrades with a credit card or bank loan.

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Rising Housing Costs 1985–2005: A Closer Look *continued from page 3*

As a percentage of income, monthly housing costs rose slightly for all three groups, increasing from 20 to 22 percent for mortgage holders, from 10 to 11 percent for homeowners without mortgages, and from 24 to 26 percent for renters. In each case, analysts attributed these small increases to rising costs and declining income.

Implications for the Affordability Standard

Despite cost increases, the report notes, housing remains a large part of American consumption and investment, as evidenced by growing homeownership rates and an expanding average home size. What implications might these increases have for the 30-percent housing affordability standard? To answer this question, the authors apply two methodologies: one using AHS data and another using Bureau of Labor Statistics (BLS) data.

The first method assumes that the 30-percent standard used in 1985 was adequate. By comparing levels of nonhousing consumption in 1985 and 2005, researchers discovered that households were able to sustain a higher level of nonhousing consumption in 2005 than they did in 1985—if they spent 30 percent of their income on housing. Researchers also examined households at seven different levels of income, from extremely-low-income to extremely-high-income (in relation to local area median income), and found that all income groups in 2005 would be able to spend 30 percent or more of their income on housing if they consumed the same level of nonhousing goods and services as they did in 1985. The same is true when looking at income groups within the categories of renters, owners with mortgages, and owners without mortgages. The pattern also holds for elderly households, households with or without children, and most households of different races and ethnicities.

The second method of analysis used BLS data that priced bundles of goods and services, representing lower, intermediate, and higher levels of consumption for a family of four, to approximate nonhousing consumption levels. Investigators estimated that low-level expenditures on nonhousing, taxes, and other items would total $27,013 in 2005 dollars. Moderate- and higher-income households, in general, were able to afford this expenditure level while spending 30 percent of their income for housing. Although the 30-percent standard appeared to work effectively for moderate- and higher-income households, it did not appear adequate for those below the moderate-income level.

Although results of the two tests lead to similar conclusions, researchers caution that these assessments are tentative because of imperfect data, such as possible underestimated shelter costs, inadequate adjustments for inflation, and a shift of household expenditure choices relative to nonhousing costs. *Trends in Housing Costs: 1985–2005 and the 30-Percent-of-Income Standard* is available at **www.huduser.org/publications/affhsg/trends_hsg_cost.html**, where it can be downloaded at no cost.

HUD's Office of Policy Development and Research, in conjunction with the Department's Healthy Homes Initiative, recently released *Rehabbing Flooded Houses: A Guide for Builders and Contractors*. The guide emphasizes safe rehabilitation practices, such as identifying common health hazards in flooded homes, determining a home's structural soundness, and preventing or minimizing damage from future flooding. Presented in two languages (English and Spanish), the guidebook includes information on how to determine required repairs, an explanation of the different types of flood resistance, and tables that list flood-resistant building components, flooring materials, wall and ceiling materials, and government-sponsored information resources. This manual is available as a free download from HUD USER at **www.huduser.org/publications/destech/Rehab_Flood_Houses.html**.

Credit: FEMA/Marvin Nauman

Flooded homes such as this one can be rehabbed safely for future use.

Riding For Affordable Housing

It's the morning of July 26, 2008—the first day without a long bicycle ride after more than two months spent "pedaling to end poverty housing."[1] The participants completed this cross-country trip for Bike & Build, a nonprofit organization based in Philadelphia that raises money and awareness for affordable housing. The ride began with cyclists dipping their back tires in the Atlantic Ocean at Virginia Beach, Virginia. Over the next 72 days, Bike & Build cyclists traversed 3,822 miles—over mountains and through valleys, in heat and in rain—stopping along the way to help construct affordable homes in 10 communities.[2]

Following the wheel-dip ceremony on May 15, the 30 cyclists on the Central U.S. route rode from Virginia Beach to Suffolk, Virginia. The day featured a 50-mile ride, a bit shorter than the average of 70 miles the cyclists traveled daily. This ride took the group to its first build stop, an area severely damaged by recent tornadoes. The riders separated into three teams; the first inventoried tools and supplies, the second cleared yard debris, and the third helped reconstruct a deck, clear debris, and mend fences.

By May 21, the group was in Lynchburg, Virginia, where a few of the cyclists gave a presentation on affordable housing in preparation for the next day's build. On their second day in Lynchburg, participants helped install ceilings and drywall in a Habitat for Humanity home. A week later, they spent the night in Portsmouth, Ohio, where the cyclists offered a clinic on bicycle safety for the children of their hosts, a local church congregation. Two days later, the group removed scaffolding, insulated walls, and repaired concrete in a garage in Cincinnati.

Credit: Central U.S. Photo Gallery/www.bikeandbuild.org

Bike and Build cyclists travel cross-country to end poverty housing.

Despite strong headwinds, injuries, thunderstorms, and long days (a particularly memorable one featured a 100-mile ride), the cyclists made it to their next three building stops, in St. Louis and Kansas City, Missouri and Manhattan, Kansas. There, the Bike & Build riders helped repair homes damaged by tornadoes, repainted an elderly woman's home, and entertained their hosts in Manhattan with a costume contest. The group then rode further west. Along the way, the Bike & Build riders spent a night in Clay Center, Kansas, where a librarian arranged for an impromptu interview with the local newspaper, one of many given along the way to increase awareness of the nation's need for affordable housing.

After conquering Wyoming's Teton Pass, the group stopped in Idaho Falls, Idaho. Here, cyclists installed siding, insulation, and roofing on a home and built a porch. On July 15, the group worked on a project for the Habitat for Humanity chapter in Boise, Idaho, helping to demolish two homes that will be replaced by eight affordable duplexes and a park. At their final building stop in Portland, Oregon, some cyclists painted a home's interior while others constructed and installed indoor walls in a second house. Two days later, on July 25, the group's road-worn front

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1. Bike & Build, Inc., "Mission and Principles," **www.bikeandbuild.org/cms/content/view/37/53/**.

2. From journals kept by cyclists who participated in the 2008 Central U.S. route, **www.bikeandbuild.org/cms/component/option.com_wrapper/Itemid,61/**.

Credit: Central U.S. Photo Gallery/www.bikeandbuild.org

Bike and Build participants help to install siding and insulation.

Housing and Economic Recovery Act of 2008 Boosts Energy-Efficient Mortgages *continued from page 4*

Home Energy Rating Systems (HERS)

The first step toward getting an EEM is securing a home energy rating. This rating, performed by a home energy rating systems (HERS) or energy consultant, will determine the cost of energy improvements and estimate the energy savings that will result from those upgrades. A portion of the cost of the energy rating can be folded into the mortgage cost as well. The inspector evaluates a home's energy efficiency by examining factors such as insulation, appliances, air infiltration, windows, local climate, and utility rates. This evaluation is documented in a written report that includes:

- An overall energy rating score of the house in its current condition;
- Suggested cost-effective energy upgrades;
- Estimates of the costs, annual savings, and useful life of any upgrades;
- An improved energy rating score after installation of the recommended upgrades; and
- An estimated total annual energy cost for the home before and after upgrades.

The total improvement cost must be less than the total present value of energy that's expected to be saved over the life of the energy upgrade. Energy improvements/upgrades are installed after closing. The lender places money in an escrow account that releases funds to the borrower after an inspector verifies that the improvements have been made and will achieve the projected energy savings.

The cost of eligible energy-efficient upgrades is added to the mortgage total, which can exceed the loan mortgage amount by the sum of the energy upgrade costs. The maximum amount for a single-family unit depends on its location. FHA mortgage limits, adjusted annually for any U.S. county, can be found at **https://entp.hud.gov/idapp/html/hicostlook.cfm**.

More information about HUD's energy-efficient mortgage program can be found at **www.hud.gov/offices/hsg/sfh/eem/eem_prog.cfm**. The full text of the Housing and Economic Recovery Act of 2008 can be downloaded at **http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=110_cong_bills&docid=f:h3221enr.txt.pdf**.

Riding For Affordable Housing *continued from page 6*

tires splashed in the Pacific Ocean at Cannon Beach, Oregon, concluding their long journey.

Bike & Build has sponsored these cross-country trips since 2003, when two routes were offered. The program has added a new route in each subsequent year. For 2008, the Central U.S. route was just one of seven routes used by Bike & Build participants to cross the United States and parts of Canada in support of affordable housing.

Since the organization began its cycling trips, Bike & Build has raised and donated $1.14 million to the development of affordable housing. Most of these funds come from the minimum of $4,000 each participant is required to raise before the trip. These funds are distributed in three ways: via donations en route, through a competitive grant program, and in prearranged annual contributions.

The donations distributed en route are the organization's way of thanking the churches, synagogues, and community centers that host the cyclists, providing meals, shelter, and showers. The recipients then designate an affordable housing organization to receive these funds. Competitive annual grants of up to $10,000 are awarded to affordable housing projects predominantly designed and/or built by young adults (aged 18–25), many of whom are college students working in conjunction with community-based affordable housing organizations. The prearranged grants go to organizations that provide support vans for use on the trips.

Bicycling across the country for affordable housing not only raises awareness of a national problem, but also provides lasting solutions through participation in local affordable housing builds. Additional information on these efforts, as well as Bike & Build's mission and goals, cycling trips (including trip journals and photographs), basic financial information for 2006 and 2007, and a list of grant winners, is available at **www.bikeandbuild.org**.

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In the Next Issue of... research *works*

- This past summer, HUD released *The Third Annual Homeless Assessment Report to Congress*. The third in a series requested by the legislative branch, this report is the first to include data based on a complete year of reporting from communities around the nation. Research*Works* will discuss the findings, the significance of a full year of data, and what researchers and practitioners can expect from future assessments of homelessness in the U.S.
- PD&R recently posted links to two research reports that investigate the impact of preserving and developing housing with easy access to public transportation. Research*Works* will discuss the outcomes and their potential impacts on the future of affordable housing. In addition, the highlights of a report recently issued by the Federal Transit Administration and HUD will explore our joint recommendations for promoting affordable housing opportunities near transit.
- Smaller industrial cities were once major players in the U.S. economy, supplying the world with clothing, machinery, and material goods. These older industrial cities in the Northeast and Midwest face many challenges today: economic distress, high poverty levels, movement of jobs and population away from the cities to the suburbs and overseas, troubled real estate markets, and limited economic and educational opportunities for residents. Research*Works* will review a 2008 study by PolicyLink on the strategies these cities are developing to promote renewal and rehabilitation.
- HUD's Office of University Partnerships recently announced the winners of the 2008 Early Doctoral Student Research Grant (EDSRG) and the Doctoral Dissertation Research Grant (DDRG) programs. Research*Works* examines the benefits of these programs for students who are on the road to becoming our nation's future housing professionals, researchers, and teachers. This article explains eligibility criteria, requirements, and application details, and gives examples of the research that's supported by these grants.

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