



## Recommendations of John Henneberger, co-director to the working group on the Senate IGR Committee Homeownership Charge

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This memorandum is to provide preliminary suggestions related to the committee's charge...

*Study and make recommendations on Texas' housing programs, with particular focus upon:*

- *Significantly improving homeownership rates by evaluating Texas' efforts to address the growing housing need. Efforts should include assessment of the range of tools which may be used to help low-income Texans develop equity through homeownership. Tools should be evaluated in terms of their economic development impact, leverage of federal and private funds, and how they are utilized in other states;*
- *Evaluating the progress of affordable housing programs within the state and developing recommendations to boost the capacity of non-profits to build increased affordable housing developments;*
- *Monitor the expansion of the Housing Trust Fund by the 80th Legislature; review the funds of other states to develop recommendations for a permanent funding source for the Texas Housing Trust Fund;*
- *Promote home-ownership through self-help initiatives such as the Texas Bootstrap Loan Program.*

### **1) Texas Self-Help Homeownership Opportunity Program (TX SHOP)**

The Self-Help Homeownership Opportunity Program (SHOP) is a competitive grant program operated by the US Department of Housing and Urban Development (the) that provides funds to national and regional nonprofits to assist low income families in building their own homes using a "sweat equity" or "self-help" model. Each family who receives assistance through SHOP is required to invest at least 100 hours of work in building its own home or the homes of others, although many families work far more than the required hours. The homes are sold to the homeowners at below market rates. the eligible recipients are generally Habitat for Humanity chapters and other self-help housing organizations.

Funds are restricted to paying for land and infrastructure costs associated with building the homes, including such things as sewer connections, streets, utilities and environmental remediation. The funds must result in one home for each \$15,000 awarded.

Approximately 8 years ago the Texas Legislature created the colonia model subdivision program which has as its goal similar activities to the federal SHOP program. The main difference being that the Texas program was an interest free loan program as opposed to a

grant program like SHOP. The colonia model subdivision program has been slow to get started and has so far (I believe) only made one loan.

The cost of land and infrastructure is a tremendous barrier to making low income homeownership possible. The enactment of a program at the state level based on the federal SHOP program would provide targeted assistance to solve one of the major barriers to homeownership. In recent years the federal SHOP program has suffered as congressional appropriations have fallen to an extremely low level. The FY 2008 Omnibus Appropriations Bill provides only \$26.5 million for the program nationwide.

The Texas Legislature should enact a Texas SHOP program with the following provisions:

1. recipients of the grants would be individual nonprofit organizations or consortia if nonprofit organizations;
2. the grant could be used to provide a grant of up to \$15,000 per home buyer to pay for the cost of land and infrastructure including land purchase, platting costs, water and sewer connections, streets, building permits, fees, utilities and environmental remediation;
3. the program would be funded through a combination of HOME block grant funds received by the state and Texas Housing Trust Fund sat a ratio of three federal grant dollars for each one dollar of state housing trust funds. TDHCA would be authorized to set the annual amount of funds to be appropriated so long as appropriation levels did not fall below a level of \$1 million each biennium; and
4. no less than two thirds of the funds should be expended within non-entitlement jurisdictions.

## **2) Texas Self-Help Housing Academy**

Texas has several of the nation's leading self-help housing nonprofits who have been tremendously successful in producing highly cost-efficient self-help housing. The state has recognized and supported the work of these self-help nonprofits through establishment of the Texas Bootstrap Self-Help Owner-Builder Loan program.

Yet self-help homeownership production programs are only available in a handful of geographic areas, primarily clustered along the Texas-Mexico border and in the cities where a few Habitat for Humanity chapters actively use the program. The opportunities for self-help homeownership should be extended to low income families statewide. In order to do so the state must invest in increasing the competency, knowledge and capacity of nonprofit organizations to sponsor self-help homeownership construction programs.

Self-help housing is a substantially different business than that of the traditional community development corporation (CDC) or private homebuilder. It involves training, supervision and

motivational work that extends beyond that of the traditional CDC. In order to expand the number of nonprofits who are competent to undertake self-help housing these additional skills must somehow be transferred from the existing successful self-help housing groups to organizations in other parts of the state.

The Texas Self-Help Housing Academy would be a biennial two week training and certification program funded by the state. The goal would be to increase the number of successful self-help housing organizations serving all sectors of the state. The academy would provide funding and stipends for trainers and participants. Each training would provide coursework covering all aspects of operating a nonprofit self-help housing organization. Trainers would be drawn from existing successful self-help housing organizations in Texas and around the country as well as building professionals, architects, city planners, financial professionals, et cetera.

The academy would be open to participants on a competitive basis who have not previously successfully operated a self-help housing program. The academy would also be open to any organizations receiving funding through the Texas Bootstrap loan program as a way of improving and renewing the skills and increasing the capacity of existing self-help housing providers.

In conjunction with the training a six month paid internship program would be offered to place and train future self-help providers with experienced mentors.

The academy would be funded through a combination of the state's share of the federal HOME program, utilizing the allowance for nonprofit capacity building, and leveraged with a modest contribution from the Texas Housing Trust Fund. Additionally, sponsorships should be sought from financial institutions and foundations. Minimal funding levels of \$100,000 per biennium would be mandated by the Legislature to support the Texas Self-Help Housing Academy.

Concurrent with the establishment of the Texas Self-Help Housing Academy, TDHCA would establish an Office of Self-Help Housing and be provided with three additional staff assigned to this new office to oversee and support the state's efforts to increase the number of Texas families who can participate in the self-help homeownership programs.

### **3) Texas Homebuyer Education Initiative**

Numerous studies have demonstrated that quality home buyer education is one of the most important factors in a successful outcome for a lower income homebuyer's success. The high rates of foreclosures surrounding subprime loans made to marginally qualified and lower income households can be directly attributable to the lack of financial literacy surrounding the home buying process (as well a lender abuses). Yet, access to home buyer education on the

part of lower income families is severely limited within the state of Texas. There is a problem of insufficient counselors and funding.

This problem can be solved with adequate funding and with a commitment to train and financially support homeownership counselors.

There are two divisions within state government that could provide this training and financial support: TDHCA and the Consumer Credit Commissioner. I think TDHCA is in a better position to keep the focus of the program on low income home buyers so I would advocate that they be tasked with carrying this out.

I'm sure that TDHCA will point out that they are already engaged in a foreclosure prevention program and in limited homebuyer training programs funded by a combination of federal funds and funds from private banks. My experience with the federally funded foreclosure prevention programs has not been positive. And in any case, these programs represent too little education, too late. The damage is already been done. There is a need for a higher quality home buyer education program that can take place before a family begins the process of buying a home.

With the massive constriction of available home financing occasioned by the financial meltdown, consumers are going to be faced with a severely limited choice of mortgage financing in the coming years. Assuming that the federal government finally acts to restrict predatory and subprime lending with all of the attendant problems that they bring about, the tax-exempt mortgage revenue bond programs administered by TDHCA, TSAHC and the local housing finance corporations may soon constitute one of the few remaining mortgage loan programs that lower income people can turn to. If this comes about applicants for these programs will be in a position where they will have to cooperate and agreed to participate in a home buyer education program. The plethora of mortgage financing previously available made it difficult to induce homebuyers to participate in these classes.

The academic evidence around homebuyer education programs suggest that the only effective approach are intensive, involve multiple sessions over the course of more than one week and involve in-person classroom type training. "Quickie" home buyer education programs have been shown to have little effect on the homebuyer's long-term outcome.

I would suggest the following actions by the state:

5. raise funds for low income home buyer education programs through a fee on mortgage brokers;
6. TDHCA should work with national experts to develop an effective, in-depth, state approved curriculum for homebuyer education;

7. successful completion of the state approved curriculum should be a precondition for the receipt of any down payment assistance provided through any state grant or loan program including all mortgage revenue bond programs.

#### **4) Housing Benchmarks Report**

The Texas State Demographer should be tasked to produce an annual report of the projected housing needs, both owner and renter, for the state of Texas. The Texas Housing Benchmarks Report should include information providing a five and ten year projection of housing needs of families at different economic levels so that the State and the private sector can adequately anticipate the type of programs and resources needed to target upcoming housing needs.

The report should focus upon the economic constraints faced by Texas households affording homeownership. Clear differentiation should be made between each income category of the population and the type of economic barriers each economic group faces. In conjunction with this report the Legislature should establish goals for increasing the percentages of Texans who are homeowners and the report should address the economic factors which stand in the way of achieving these goals.

The report should be funded through the research funds currently collected by TDHCA from multifamily home builders.

#### **5) Texas Housing Trust Fund**

The goal of the Texas Housing Trust Fund is to provide a sufficient source of funding to build, rehabilitate and preserve housing for the hundreds of thousands of working poor Texas families who cannot afford a decent, safe, and healthy place to live. With a dedicated source of funding of \$50 million a year, the Texas Housing Trust Fund can expand programs like the Bootstrap Program across the state, and to the Texans who need housing the most: people with disabilities, our seniors, and working poor families with children.

Texas is second only to California in the number of people living in poverty, yet the state falls far behind other states in supporting affordable housing. The current Texas Housing Trust Fund receives only \$5 million per year, while Florida's Housing Trust Fund receives \$300 million annually.

Housing trust funds provide a secure and sensible way to fund affordable housing. The strides that nonprofit and community development corporations have made with today's limited funding is a testament to what can be accomplished with a stronger housing trust fund.

We recommend that the Legislature create a \$10 per page document filing fee on all real estate documents filed with county clerk's. Our rough estimates show that this would yield \$40 million per year for the Texas Housing Trust Fund.

## **6) Texas Homebuyer Tax Credit**

The State should establish a program to finance the construction and sale of homes to lower income homebuyers who would not otherwise be able to afford to buy a home. Spurring the production of homeownership among a population that would otherwise be unable to obtain it will have enormous positive economic benefits to the local economy, will allow for significant asset accumulation on the part of the homebuyer family and will increase the local property tax base as this housing that would not otherwise be built is created.

A Texas Homebuyer Tax Credit would consist of a property tax credit dedicated to helping lower income families be able to purchase a new home or an existing home that has been substantially renovated. The Legislature would determine the amount of tax credits to be awarded each year by TDHCA to homebuilders. These credits would be awarded based on a geographical allocation formula through a competitive process. The tax credits would be in the form of credits on state property taxes to be applied over an eight year period. TDHCA would determine the amount of tax credits to award to a particular homebuilder for a proposed development in order to maximize the amount of housing affordable to low income families and minimize the amount of tax credits expended. The homebuilder could sell these property tax credits and use the proceeds as equity to reduce the cost of the new homes built.

Up to 25% of the tax credits could be passed through to the homebuyer to be used as down payment assistance. At least 75% of the tax credits would have to be invested by the homebuilder and the cost of production of the house. TDHCA would establish maximum sale prices for the homes based on regional market conditions. Homebuilders would be required to provide sworn and audited financial statements to prove that the tax credits efficiently and effectively reduced the actual cost of the housing.

The credit would be available for renovation and resale of existing houses so long as the cost of renovations of the existing structure exceeded 40% of the appraised value of the structure prior to renovations.

Eligible families would earn no more than 60% of the area median family income adjusted for family size. TDHCA would be charged to ensure that the program was managed to affirmatively further fair housing opportunities within areas of high performing public schools and high job opportunities. All homebuyers would be required to successfully complete homebuyer and financial literacy training (see #3 above).