

AFI Project Homeownership: Effective Practices

Purchasing a first home is a powerful and profound experience for individuals and families, but may also be challenging. Here are some strategies to ensure that AFI Project participants succeed in saving and purchasing a home within the project time period.

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Important Program Considerations

AFI Program Policies

AFI Projects help participants to save earned income in their individual development accounts to purchase their first home. For AFI, a first-time homebuyer is a participant who (or whose spouse) has not held an ownership interest in a residence within 36 months of when they purchase their home with their IDA. Savers can use their AFI IDA resources to acquire, construct, or reconstruct a residence to move-in condition.

AFI Projects may use up to \$2,000 in Federal grant funds to support eligible individuals who are saving in an IDA. They may use up to \$4,000 for individuals from a single household to purchase a home.

AFI Projects must allocate at least as much nonfederal match funds to support the individuals' IDA savings. Given the high cost of housing stock, AFI Project agencies are encouraged to leverage Federal grant funds with additional private, community, and government sources and assistance programs.

AFI Projects allow participants to use their IDA savings – including the portion funded with Federal grant to acquire, construct, and reconstruct home a first home. The participant may use his or her IDA savings for reasonable costs related to the home purchase such as settlement, financing, inspection, title fees, and other closing costs. The IDA savings are to be paid from the IDA directly to the persons to whom the amounts are due (e.g., to the seller, the home inspection company, the title company, or mortgage broker.)

For more information on AFI Program requirements, please refer to the Assets for Independence Act on the AFI Web site, <http://www.acf.hhs.gov/assetbuilding>.

Design Your Program to Address Local Needs and Opportunities

As you develop your strategy for helping participants not only save for a first home but also make their purchases, consider the following key strategies. They will come in handy.

- Take some time to assess housing costs in your community. Explore the minimum income that will be needed. Think about the total funds project participants will need to purchase a home, including closing costs and related items. Consider those needs in comparison to the savings capacity of your target population and the timeframe of your AFI Project. Use the program design form found in the *AFI Project Builder* to calculate the costs and the needs.

- Based on the calculations, develop a realistic match rate. The following chart shows some likely savings patterns, required closing costs, and required match rates for example participants in a hypothetical community.

Example AFI Project Scenarios for Home Purchase:

A	B	C	D	E
Likely savings rates for participants	Estimated amount needed to purchase a home in community	Total match funds needed for participant to purchase home	Required match rate for participant to accrue enough matching funds	Time participant will need to save and complete purchase
\$25 per month = \$900 in three years	\$5000	\$4,100	\$5 to \$1	Three years saving plus one year to purchase
\$200 per month = \$2400 in one year	\$5000	\$2600	\$1 to \$1 or \$2 to \$1	One year savings plus one year to purchase

- Know the minimum income levels for mortgage approvals to access local housing stock so you can knowledgeably counsel clients and manage their expectations.
- Early in the process, work with community housing and lending partners to identify criteria for mortgages in your community. If possible, establish special criteria for mortgages for AFI Project participants.
- If your target market includes undocumented immigrants, ensure that you have lending partners that will approve mortgages with ITIN or other immigrant ID formats.
- Most financial institutions do not sell mortgages to minors, so your organization should limit homeownership AFI IDAs for savers who are old enough to obtain a mortgage.

Steps in the Process

Recruit and Enroll Participants

Screen participants with an initial interview to assess whether their budget, savings capacity, debt, credit history, and the target timeframe are supportive of a home purchase. If not, encourage the applicant to save for a different asset, such as education.

AFI Projects facing a short time period can ask participants for a mortgage pre-approval or credit report as condition for enrollment.

Run Credit Checks and Pursue Relevant Credit Counseling

As early as possible, get information about your AFI Project participant's credit history. If a new participant has no credit history, help him or her establish traditional and nontraditional credit. If a participant has poor credit, a multi-year IDA program can offer time to improve credit. Help the participant get free reports by working closely with a financial institution or through State housing finance programs. Assist participants in accessing consumer and credit counseling agencies that can help them improve their credit rating and deal with debt.

Keep tabs on participants' credit and help them be mortgage-ready when the time comes to purchase their first home.

Help Participants Start Saving for a Home

Take time to actively encourage and support AFI Project participants in reaching their savings goals.

First, monitor their monthly deposits. Second, provide regular case management that motivates savers and helps ensure they will reach their goals.

Case management may also yield discussions regarding difficulties participants are facing and lead to brainstorming about how to get back on track.

Facilitate Participants Attending Financial Literacy Training

Financial education and training can be a big boost to first-time homebuyers who will need to understand how their finances will affect their ability to acquire and maintain a mortgage.

Creating family budgets, tracking income and expenses, paying down monthly debt, and assessing debt ratios are crucial for qualifying for a mortgage and for managing asset ownership for the long term. Mortgage lenders generally want total monthly debt (including the mortgage payment) to be about one-third monthly income. If savers have debt, including monthly credit card or car payments, they will find it difficult to get a mortgage. Remind participants not to incur new debt while saving for a home and to carefully consider any employment or residence changes since lenders also look at income, job and home stability.

Facilitate Participants Attending First-time Homebuyer Training

If your organization is not a certified housing counseling agency, partner with a one that is. Housing counseling agencies offer free comprehensive training, counseling and certification to low-income families. They also help participants get access to discounted mortgage rates and down payment or closing cost assistance. Housing counseling agencies are generally aware of affordable housing options in your market and the myriad of down payment assistance, closing cost assistance, and other Federal, State, and community programs that can be leveraged.

Strong homebuyer training includes sessions focused on issues such as the pros and cons of homeownership; the home buying process (finding the right house, working with a Real Estate Agent, home inspection); and financing a home (shopping for mortgages, application process, loan qualification, closing costs, down payment requirements and options, reserve requirements.)

Develop Asset Plans with Participants

A homebuyer asset plan helps AFI Project participants define their home buying process. It helps participants outline feasible timelines for home purchase within the project timeframe. An asset plan helps make sure the participants have considered variables such as neighborhood, transportation, household size, schools, value appreciation, proximity to work, and so forth.

An asset plan can also include a timeline for saving, working with banks for pre-approval, getting first-time homebuyer training, house shopping, and so forth.

Help Participants Increase Saving for Home and Make EITC Deposits

Continually update participants' asset plans. Encourage participants to save faster, if appropriate. Facilitate participants getting assistance with filing their taxes and encourage them to deposit all or

part of their EITC and tax refunds in their IDAs.

Help Participants Qualify for Financing

Introduce your AFI Project participants to banks that are ethical and helpful with low-income clients.

Alert participants about predatory lending scams. Review participants' mortgage details to ensure the loan they want to purchase encourages equity building and is not predatory.

Encourage Participants as they Shop for a Home

It is not a secret: it can take many of us, including AFI Project participants, a long time to find the right home at the right price.

Provide participants with names of realtors who are familiar with affordable housing options and affordable housing developers. Be sure to refer participants to names of realtors who are familiar with the participant's particular cultural framework, including ones who speak their language if they are not English speakers

Ensure Participants Submit Documentation to Receive Matching Funds for Closing

Establish an IDA disbursement process ahead of time and provide participants with a checklist of required documentation, guidance on when to schedule an appointment with you, and a time line for how long it may take to receive the match checks so that they can appropriately schedule closings.

Typical support documentation includes: home purchase asset plan, copy of purchase contract (includes the price of the home and the name and address of the title company), loan application, mortgage approval letter (which includes homeowner's insurance), first time buyer verification, estimated buyer's closing statement, relevant bills and documents (attorney, home inspector, gift letters, etc.).

Ask the participant to provide copies of the settlement charges upon closing.

Follow-up: Assist Participant Graduates in Finding Homeownership Support

AFI Projects may provide on-going support for individuals and families who have completed their asset purchases in order to assist them with the new set of financial challenges related to home ownership. If your agency does not do this, connect participants with other support groups or resources that do.

Celebrate!