

Strategies for Homeownership

Purchasing a first home is a powerful and profound experience for individuals and families. It's a very big step for many, and it is often quite challenging. Here are some strategies to ensure that AFI Project participants succeed in saving and purchasing a home within the project time period.

AFI Program Considerations

AFI Projects help participants save earned income in their IDAs to purchase first homes. For AFI, first-time homebuyers are participants who have not held an ownership interest in a residence within 36 months of when they purchase their homes with their IDA.

AFI Projects allow participants to use their IDA savings—including matching funds—to acquire, construct, and rebuild a first home. Participants may use their IDA savings for reasonable expenses related to the home purchase, such as settlement costs, financing, inspection, title fees, and other closing costs. The IDA savings and the matching funds from the Project Reserve Account are to be paid 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.)

An AFI Project may allocate up to \$2,000 in AFI grant funds in the Project Reserve Account to match an individual's IDA savings and no more than \$4,000 in AFI grant funds to match savings in IDAs owned by multiple members of one household. AFI Projects must allocate nonfederal funds at least equal to Federal funds to match the participants' IDA savings at the rate given in the Savings Plan Agreement.

Given the high cost of housing stock in many locations, AFI Projects are encouraged to leverage their Federal and nonfederal funds with additional private, community, and government sources and home-buyer assistance programs. Remember, however, that these sources are not counted as part of the nonfederal cash contribution to the overall project.

PROGRAM DESIGN: ADDRESSING LOCAL NEEDS AND OPPORTUNITIES

As you develop your strategy for helping participants save for first homes and make their purchases, consider the following key strategies. They will come in handy.

Before establishing your match rate and maximum savings amount, take time to assess housing costs in your community. Explore the minimum income that will be needed to purchase a home. Think about the total funds project participants will need to purchase a home, including closing costs and related items. Consider those needs in comparison with the savings capacity of your target population and the time frame of your AFI Project. Don't forget the costs of maintaining the home after purchase, such as taxes, insurance, and major repairs.

Going by the calculations, offer a realistic match rate. The following table shows some likely savings patterns, required closing costs, and required match rates for participants in a hypothetical community.

SAMPLE AFI PROJECT SCENARIOS FOR HOME PURCHASE

Estimated Amount Needed at Closing to Purchase a Home in Community	Likely Savings Rates for Participants	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
\$5,000	\$25 per month = \$900 in three years	\$4,100	\$5 to \$1	Three years saving plus one year to purchase
\$5,000	\$200 per month = \$2,400 in one year	\$2,600	\$1 to \$1 or \$2 to \$1	One year savings plus one year to purchase

1. If the likely savings rates combined with the match your AFI Project can offer will not be sufficient to enable your target population to make home purchases, seek out other sources of home-buyer assistance and develop partnerships with those agencies. Your participants will need their help.
2. Early in the process, work with community housing and lending partners to identify criteria for mortgages in your community, including credit ratings. If possible, establish special rules or procedures that local lenders will use for mortgages for AFI Project participants.
3. Most financial institutions do not sell mortgages to minors, so your organization should limit homeownership AFI IDAs for savers old enough to obtain a mortgage within your project period. Know the minimum income levels for mortgage approvals to access local housing stock so you can effectively counsel clients and manage their expectations.

Steps in the Process

1. RECRUIT AND ENROLL PARTICIPANTS

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

AFI Projects nearing the final years of their Project Periods could, for example, ask participants for a mortgage preapproval or credit report as condition for enrollment; or they could require a threshold credit score for enrollment with homeownership as the goal.

2. 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 multiyear IDA program can offer time to improve credit. Help the participant obtain free reports by working closely with a financial institution or through State housing finance programs. Federal law now permits anyone to receive one credit report annually at no charge. Assist participants in accessing consumer and credit-counseling agencies that can help them improve their credit rating and deal with debt.

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

3. HELP PARTICIPANTS START SAVING FOR A HOME

Encourage and support 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. Recognize achievement of small benchmarks for savings or credit repair along the way.

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

4. HELP PARTICIPANTS ATTEND FINANCIAL EDUCATION

Financial education can be a big boost to first-time homebuyers who 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 calculating income-to-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 no more than about one-third of monthly income. If savers have disproportionate 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 consider carefully any employment or residence changes since lenders also look at income, job, and home stability.

5. ENABLE PARTICIPANTS TO ATTEND FIRST-TIME HOMEBUYER TRAINING

If your organization is not a certified housing counseling agency, partner with one that is. Housing counseling agencies offer free comprehensive training, counseling, and certification to low-income families. They also help participants access 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 addressing issues such as the pros and cons of homeownership; the home-buying process (finding the right house, working with a real estate agent, and home inspection); and financing a home (shopping for mortgages, the application process, loan qualification, closing costs, down payment requirements and options, and reserve requirements).

6. DEVELOP ASSET PLANS WITH PARTICIPANTS

A homebuyer asset plan helps AFI Project participants define their home-buying process. It helps participants outline feasible time lines for home purchase within the project time frame. An asset plan helps make sure the participants have considered variables such as neighborhood, transportation, household size, schools, value appreciation, and proximity to work. An asset plan can also include a time line for saving, working with banks for mortgage preapproval, getting first-time homebuyer training, house shopping, and so forth.

Asset plans also provide ways for the participant and project staff to recognize and celebrate attainment of important milestones on the way to purchase. Thus, they also offer significant retention benefits for AFI Projects.

7. HELP PARTICIPANTS INCREASE THEIR SAVING AND DEPOSIT EITC FUNDS

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 Earned Income Tax Credit and tax refunds in their IDAs, or to use their refunds to pay down debt.

8. HELP PARTICIPANTS QUALIFY FOR FINANCING

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

Be sure the financial education and homebuyer training have prepared participants to recognize and avoid lending scams. Review participants' proposed mortgage packages to ensure the loans they want to purchase encourage equity building and are not predatory.

9. ENCOURAGE PARTICIPANTS AS THEY SHOP FOR A HOME

It is no secret: it can take many of us, including AFI Project participants, several months or longer 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 realtors who are familiar with individual participants' cultural frameworks, including ones who speak their languages.

10. ENSURE THAT PARTICIPANTS SUBMIT DOCUMENTATION TO RECEIVE MATCHING FUNDS FOR CLOSING

Establish the 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 home purchase closings.

Typical support documentation includes the following:

- Home purchase asset plan
- Copy of the purchase contract (includes the price of the home and the name and address of the title company)
- Loan application, mortgage approval letter (which includes homeowners 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 (the HUD-1 settlement statement) upon closing.

**11. FOLLOW-UP: ASSIST GRADUATES
IN FINDING HOMEOWNERSHIP SUPPORT**

AFI Projects may provide ongoing 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 homeownership. If your agency does not do this, connect participants with other support groups or resources that do.

12. CELEBRATE!