INNOVATIONS IN COMMUNITY DEVELOPMENT

Innovations in Community Development is a series of descriptions of effective community revitalization programs, many of which were developed by Enterprise in partnership with nonprofit organizations, financial institutions, local governments and corporations. Enterprise is a national nonprofit dedicated to improving affordable housing and life opportunities for low-income families and communities. You can find these and other resources to support local revitalization efforts online at www.enterprisefoundation.org/resources.

DALLAS MORTGAGE ASSISTANCE PROGRAM: REMOVING BARRIERS TO HOMEOWNERSHIP

Enterprise Dallas works with the city to create more home buyers among low- and moderate-income families.

Summary

Even when a low-income family can afford a monthly mortgage payment, the upfront burden of the down payment and closing costs often keep the dream of homeownership out of their reach. Since 1992, Enterprise has been working with the city of Dallas and local partners to overcome this barrier and help low- and moderate-income residents become first-time home buyers. Through an innovative Mortgage Assistance Program, which Enterprise administers for the city, the Foundation has more than 5,000 first-time homebuyers in Dallas.

The Dallas Mortgage Assistance Program offers qualifying residents up to $10,000 in down payment and closing cost assistance. The assistance is provided through a subsidy that is structured as a second mortgage on the property. By covering closing costs and the down payment, it reduces the cost of the home to the homebuyer. The second mortgage is interest free and only needs to be repaid if the property is sold or transferred within 8 years. If the property being purchased needs repairs, the home buyer may also qualify for up to $1,500 in repair funds.

Over the past decade, efforts to increase homeownership among low-income families have shifted focus from providing lower interest rates (no longer necessary in today’s climate of very low interest rates) to providing down payment assistance. As Enterprise does with the Mortgage Assistance Program, nonprofit organizations and private banks across the country are using government funds to offer down payment assistance. What sets this program apart, however, is its efficiency and focus on providing home-buyer education in addition to financial assistance – a focus that pays off in a low foreclosure rate.

This program is part of Enterprise’s initiative to increase minority homeownership. While homeownership rates in America are at an all-time high, minority homeownership rates continue to lag dramatically, remaining below 50 percent. Too few minorities benefit from the household security and wealth building that homeownership provides, and too few minority neighborhoods benefit from the stabilizing force homeownership has on communities.
Enterprise works to address this disparity, offering an array of financial products and support services to help low-income families qualify for, purchase and maintain their own homes.

The Mortgage Assistance Program is Dallas’ most successful housing program. Enterprise works with an extensive network of lenders, realtors, inspectors, home-buying counseling agencies and title companies to ensure the program’s success. In the early 1990s, the city had difficulty getting the necessary funds in time to close on the homes. Home buyers had to wait between five and 14 days to secure a check, and as a result, lenders and realtors were reluctant to use the program. To address this obstacle, Enterprise established a line of credit so it could wire transfer funds to the title companies where the closings take place. Now, home buyers can close on their homes immediately.

The Mortgage Assistance Program also ensures that participants have the knowledge and skills they need to be successful homeowners. Anyone who purchases a home through this program is required to participate in free home-buyer education classes, which are provided by almost one dozen home-buyer education agencies that work in partnership with Enterprise Dallas. Thanks to efficient organization and a sharp focus on home-buyer education, the default rate for the Dallas Mortgage Assistance Program is less than 2 percent.

**Community Need**

Dallas is a city of vitality, diversity and potential within one of the nation’s fastest-growing regions: the Dallas-Fort-Worth Metroplex. It boasts a Sunbelt climate, an influx of young families and a rich multicultural population. But while north Dallas and the surrounding areas have boomed, south and west Dallas have suffered from neglect. More than 60 percent of the city’s housing stock consists of apartments and houses valued at $50,000 or less. Much of this housing is uninhabitable and concentrated in unsafe southern sector neighborhoods.

In 1990 the city recognized the need to address housing issues and engaged Enterprise and a consortium of private lenders to create more affordable housing opportunities within the city limits. According to that year’s Census, the homeownership rate in Dallas was 54 percent. Since Enterprise began coordinating the Mortgage Assistance Program, the homeownership rate in Dallas has risen. According to Census Bureau data, in 2004 Dallas’ homeownership rate stood at 63 percent, up almost 10 percent from 1990 and close to the national average of 69.1 percent. However, the homeownership rate for minorities in Dallas remains low.

Through the Mortgage Assistance Program, Enterprise works to increase both the overall homeownership rate in Dallas and the rate for minorities specifically. By the end of 2005-2006 program year, 550 additional families will have purchased their home through this program, bringing its cumulative total to 5,750. In fiscal year 2003-2004, 97 percent of the first-time home buyers in the program were minorities.
Program Description and Implementation

In 1991, the city of Dallas asked Enterprise to administer the Mortgage Assistance Program. Enterprise Dallas signed a memorandum of understanding with all participating lenders, home-buyer education agencies, home inspectors and title companies. Under this memorandum, Enterprise oversees and coordinates the day-to-day operations of the Mortgage Assistance Program, from closing cost and down payment subsidies to homebuyer education.

The program is funded with CDBG, HOME and American Dream Downpayment Initiative funds. Through its FHA and Fannie Mae approval and certification, Enterprise subordinates a soft second lien to FHA and Fannie Mae mortgage products that are eventually sold on the secondary market. The subsidy provided to home buyers is tiered and provides the most financial assistance to families with the lowest incomes. All program participants must attend free home-buyer education classes provided by members of the Home-Buyer Education Collaborative. These agencies pay for the classes through fees collected from participating lenders.

Program Types

There are three different components of the Mortgage Assistance Program (MAP) for which home buyers may apply. For each program, the funds may be used for down payment and closing cost assistance. In all cases, need is determined by total household income of all adults over the age of 18 and the amount of savings after closing. The income qualifications are adjusted for family size.

MAP I: Down Payment and Closing Cost Assistance
- Limited to first-time home buyers earning 80 percent or less of the Dallas area’s median income
- Second lien may be up to $5,000.

MAP II: Principal Reduction Program
- Limited to first-time home buyers earning 60 percent or less of the area’s median income
- Second lien may be up to $10,000 for homebuyers earning 60 percent or less of area’s median income.

Neighborhood Investment Program
- Program targeted in four designated census tracts within the city.
- Up to $12,000 in funds are available to eligible home buyers earning 80 percent of the area’s median income.
- Purchaser does not need to be a first-time home buyer, but must occupy the property.
Borrower Eligibility

Enterprise processes and underwrites all of the loans to determine borrower and property eligibility. A first-time home buyer is someone who does not currently own a home and has not owned a home within the past three years. Exceptions to the first-time home-buyer requirement include buyers using Neighborhood Investment Program funds, single parents, displaced homemakers, those whose principal residence is not affixed to a permanent foundation (such as mobile homes), and those whose residence is in such poor condition that it would cost more to repair it than to build a new structure.

Additional eligibility criteria include:

- Continuous and satisfactory employment history during the past six months
- U.S. citizenship, permanent residency or possession of a current work authorization visa
- Completion of a homeownership education course from an approved counseling agency
- Qualification for a conventional, FHA or portfolio mortgage loan from a participating lender
- Intention to occupy the property as primary residence
- Financial contribution toward the house purchase that does not exceed $5,000

Mortgage Terms

The amount of the second-lien loan is based on need, and carries a zero-percent interest rate for the entire term of the loan. The borrower may not pay discount points. The borrower must agree that the property shall be subject to an eight-year affordability restriction that requires the property to be owner-occupied during that time. Down-payment assistance, principal reduction debt and funds received through the Housing Quality Standards Repair Fund are forgiven after the five years. If the borrower sells, leases, transfers or otherwise disposes of the property before the eight-year recapture period is up, however, the second-lien loan balance must be paid in full.

Property Requirements

All homes purchased through the Mortgage Assistance Program must:

- Be owner-occupied, single family detached structures, condominium units, townhouses or one-to-four unit developments
- Be located within Dallas city limits
- Appraise for at least 100 percent of the sales price
- Be occupied by owner, borrower or vacated by tenant for at least 60 days prior to execution of sales contract
- Meet HUD’s Housing Quality Standards and Dallas’ Minimum Housing Standards Codes, including lead-based paint regulations, at time of closing
- Have a Texas Real Estate Commission-licensed inspection as well as a Housing Quality Standards inspection
In addition, the borrower must acknowledge receipt of two publications concerning lead in the home (Notification: Watch Out for Lead-Based Paint Poisoning and Protect Your Family from Lead in Your Home). The lender must prepare an Environmental Review Report. Finally, HUD homes are not eligible for funding through the Mortgage Assistance Program, nor are FHA 203K loans.

**Property Inspections**

All properties receiving funds must meet the property conditions set forth in the Dallas Housing Department’s Minimum Housing Quality Standards Inspection Manual. This manual encompasses HUD minimum housing quality standards and the city of Dallas’ Minimum Urban Rehabilitation Standards. Each property must undergo initial and final inspections. These inspections must be performed by the same Housing Quality Standards inspector using the forms and procedures described in the manual.

- **Initial Inspection:** The initial inspection is coordinated by the buyer, seller or realtor. An inspector chosen by the buyer from the approved list completes the Housing Quality Standards and Texas Real Estate Commission inspections. If sub-standard conditions exist, the Housing Quality Standards inspection will include a list of repairs that must be completed prior to submitting the loan package for review.

- **Final Inspection:** When all repairs have been completed, the buyer, seller or realtor coordinates the final inspection. The inspector must certify that all repairs are complete and the property meets minimum standards. For existing properties, a copy of the final inspection must be submitted to Enterprise with the complete loan package. For new construction, the final inspection does not have to be submitted with the loan package, but must be submitted before Enterprise funds the transaction.

- **Audit Inspection:** Enterprise, or an appointed representative, must audit 20 percent of each inspector’s work in order to ensure that each certified inspector is performing as required. Properties are chosen randomly, and any items found to be substandard at the time of the audit must meet minimum standards prior to closing. Enterprise makes every effort to avoid delaying closings.

- **Inspection Fees:** The buyer negotiates the fees for the initial and final Housing Quality Standards inspection and state-licensed inspection directly with the inspector. Neither Enterprise nor the city of Dallas controls the amount or method of payment. While there is no fee for an audit inspection, Enterprise reserves the right to charge the market rate for any formal Housing Quality Standards inspection performed.

- **Termite Inspection:** It is the responsibility of the lender to obtain a termite inspection for all pre-existing properties.
Housing Quality Standards Repair Program

The Housing Quality Standards Repair Program was designed to help first-time home buyers offset some of the costs associated with required repairs. Under this program, qualifying home buyers may receive up to $1,500. In order to qualify for the funds, the borrower and the property must meet all Mortgage Assistance Program and Housing Quality Standards requirements prior to loan closing. Funding for the repair program is available only in conjunction with a Mortgage Assistance Program second-lien loan. There is a five-year recapture provision forgiven at 1/5 per year.

Borrowers may only receive funds for Housing Quality Standards-required repairs identified on the second page of the inspection report. Therefore, with the exception of built-in ovens or cook tops deemed necessary by the Housing Quality Standards inspector, funds may not be used to purchase appliances. The total reimbursable amount for oven and cook top together may not exceed $500. All repairs must begin after the initial inspection and must be completed prior to the final inspection.

The process for Housing Quality Standards inspections is as follows:

- The certified inspector checks the required repairs to ensure that they have been completed in a quality and professional manner.
- The inspector reviews the repair documentation to verify that the cost of the repairs is reasonable and that the repairs meet program guidelines.
- During the final inspection the home buyer must present documentation of repairs (e.g., invoices for materials, construction contracts).
- All repair documentation is attached to the final inspection report and the Repair Disbursement Form and the lender sends these documents to Enterprise in the complete loan submission package.
- Enterprise reviews the documentation and, if appropriate, approves the request for disbursement.
- The Housing Quality Standards funds are dispersed at closing.

Loan Processing and Closing

The Mortgage Assistance Program loan process works as follows:

- The borrower completes an application for a mortgage loan with an approved lender who originates, processes and underwrites the loan.
- The Mortgage Assistance Program loan officer registers the loan online (for tracking purposes) using an assigned user name and password. All registrations expire 30 days from the date of loan registration for existing properties, and 120 days from the date of loan registration for new construction.
- Enterprise assigns the loan a number.
- Upon underwriting approval, the lender submits the complete loan package to Enterprise.
- Once Enterprise approves the loan, we send a Notification of Loan Approval to the lender.
- A closing date is scheduled.
• Closing documents are forwarded to an approved title company.
• The title company faxes all closing documents to Enterprise.
• Enterprise provides authorization (via a special funding authorization number) to close and fund the loan.
  (Enterprise, as agent for the city of Dallas, is reflected on the title commitment as the second mortgagee, and is reflected on the hazard insurance as an additional insured.)

**Organization and Service Area**

Enterprise has worked in Dallas since 1983 and has had offices there since 1988, building public-private partnerships and collaborations to leverage investments, creating community development corporations and providing decent, affordable housing for Dallas area residents. Programs over that time have included community safety, homeownership, housing development and workforce development.

The Dallas office serves low- and moderate-income residents within Dallas city limits. During fiscal year 2003-2004, the average annual income for participants in the Mortgage Assistance Program was $32,159. The majority (82 percent) of new home buyers during that period were families with four or fewer members. Twenty-four percent of program participants were African American, 72 percent were Hispanic and 4 percent were Caucasian. These statistics are representative of the population that Enterprise Dallas serves through all of our programs.

**Partners**

Enterprise’s success with the Mortgage Assistance Program is made possible with the help of our local partners:

• City of Dallas
• Home-buyer education collaborative agencies, which provide home-buyer education to all program participants
• Mortgage bankers and mortgage brokers, who originate, process and underwrite mortgages
• Realtors, who sell homes to first-time home-buyer clients
• Builders, who construct affordable homes for clients
• Community-based housing development organizations, which construct affordable housing in targeted neighborhoods
• Housing quality standards inspectors, who inspect properties for compliance
• Title officers, who close and fund the loans

**Financing**

Funding for the program begins with Enterprise providing a $1.5 million line of credit, which is used to finance each approved loan. On a continuing basis Enterprise prepares and submits a reimbursement package for the city of Dallas. The city then reimburses Enterprise for the CDBG and HOME funds advanced. Additional funding is generated through lender fees.
**Project Status and Accomplishments**

As of this writing, the Dallas Mortgage Assistance Program is fully operational and closes approximately 40 loans per month.

<table>
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<th>Time Period</th>
<th>Loans Closed</th>
<th>Public Funds Leveraged</th>
<th>Private Funds Leveraged</th>
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All figures as of June 2005

The Mortgage Assistance Program encourages homeownership in Dallas by making it easier for low- and moderate-income families to afford down payment and closing costs, which are often the greatest stumbling blocks in buying a home. Along with homeownership comes family stability, financial and otherwise. Because homeownership is a family’s primary means of wealth creation, it is safe to presume that families served through the program are building wealth and living more stable and secure lives than they might otherwise have been. And more stable families help create more stable neighborhoods.

**Sustainability Features**

The following are essential components of a sustainable mortgage assistance program.

**Table Funding**

Loans need to be processed, underwritten, approved and closed as quickly as possible. Prompt loan closing cannot take place unless the funds are available for disbursement at the closing table, hence the description “table funded.” Enterprise’s line of credit makes it possible to table fund all loans that close through this program, thus speeding up the process.

**Homeowner Education**

An essential element to the program’s success is the homeowner education that all applicants receive prior to loan closing. This helps dramatically reduce the number of foreclosures. Consequently, this program boasts the lowest foreclosure rate of any housing program in the city.
Rehabilitation Standards
Ensuring that homes purchased are rehabilitated in accordance with federal and state standards assures both the buyer and lien holder that the property has been rehabilitated with durable materials that will hold up well over time. Home buyers do not have to worry about being burdened with expensive or unanticipated repairs, and lien holders can be confident in the improved value of the home.

Key Lessons
Enterprise’s senior program director in Dallas has identified three key lessons for organizations considering such a program.

Know the mortgage lending business.
The mortgage lending business is intricate and time-sensitive. Working within this field usually involves large amounts of money and requires a vast amount of paperwork. Therefore, a nonprofit organization should not enter into it lightly. It is essential to know the business well. If mortgage lending is beyond the scope and mission of a community-based organization, partner with an organization that does know it well to help ensure success.

Establish and maintain relationships.
An essential part of the mortgage lending business is the formation of relationships with other real estate-related professionals. Lenders, realtors, homeownership counseling agencies, home inspectors, title and closing officers and city officials all play a vital role in the success of any mortgage lending program, and particularly with one that involves public funds. Therefore, plan to work with a variety of other entities to help create first-time home buyers.

Establish the ability to table fund loans.
The ability to table fund these loans is key to efficiently running the program. With Enterprise’s line of credit, loans are able to close within five business days, as opposed to the 15 to 30 days it took prior to Enterprise Dallas’ involvement.

Future Plans
Enterprise Dallas plans to continue administering the Mortgage Assistance Program for the city of Dallas. It expects to close on approximately 550 loans per year.

Enterprise Dallas
• Since 1988, Enterprise has worked with community-based nonprofits groups to maximize their impact on Dallas neighborhoods. In the past 15 years, Enterprise has invested more than $65 million to provide housing in Dallas that helps stabilize families and transform communities.
• We helped the residents of the Ideal Neighborhood create the T.R. Hoover Community Development Corporation in 1997 and worked with them to build and sell over 35 new homes and to transform their neighborhood, block-by-block.
• We created the Dallas Community Development Partnership in 2002 to bring critical resources to seven community groups engaged in the production of affordable housing.
• By providing consulting services to community–based nonprofits, we have contributed to a 40 percent increase in the city’s housing production over three years.

Enterprise Dallas plans to invest more than $30 million to build or renovate 2,200 affordable homes in the next three years.

Contact Information

For more information on the Dallas MAP program, visit the website www.dallasmap.org or contact:

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