

## FANNIE MAE'S SECTION 8 PROGRAM

by Julie A. Gould, Vice President, Fannie Mae

In President Bush's radio address on June 15, 2002, he challenged real estate industry leaders to join with the government, nonprofit organizations and private sector financial institutions in a major nationwide effort to increase minority homeownership.

In response to Bush's challenge, our chairman and CEO, Franklin D. Raines, joined President Bush in Atlanta for White House-sponsored events to promote the Administration's proposal to expand minority homeownership. Raines announced Fannie Mae's new ten-point plan<sup>1</sup> to help advance the Bush administration's homeownership proposal and increase our own commitment to minority homeownership. Point three of our plan states, "Fannie Mae will leverage HUD Section 8 homeownership funding by providing secondary mortgage market financing for first mortgages where Section 8 is a source of repayment."

Fannie Mae's American Dream Commitment™, created in March 2000, is a ten-year, \$2 trillion commitment designed to help shrink the homeownership gaps for our diverse nation by serving 18 million targeted American families. As part of this plan, Fannie Mae is committed to working with public housing agencies (PHAs) to finance homeownership for households participating in the Section 8 Homeownership Program. Through our five regional and 52 partnership offices, we will partner with PHAs, lenders, and community groups to bring the benefits of homeownership to borrowers with Section 8 vouchers, also known as the housing assistance payment (HAP). As part of this initiative, we have placed a high priority on increasing homeownership opportunities for households with disabled family members.

1 [www.fanniemae.com/media/issues/061802.html](http://www.fanniemae.com/media/issues/061802.html)

The secondary market resources and know-how that Fannie Mae brings to the table are critical ingredients in making the Section 8 Homeownership Program a workable means of channeling affordable loans to those who dream of a home of their own. Loans that meet Fannie Mae's underwriting requirements may be sold on the secondary market, giving participating lenders access to additional capital to make more loans in their communities. These loans may also help lenders subject to Community Reinvestment Act (CRA) requirements meet their CRA goals.

### FROM RENTING TO OWNING

The HUD Section 8 Housing Choice voucher program is administered by local public housing agencies and allows low-income families, the elderly and households with disabled family members to rent housing in the private rental market. The tenant is responsible for choosing a rental unit, which must meet an acceptable standard of health and safety. The participating landlord agrees to receive part of the monthly rental payment in the form of a federal housing assistance payment. According to HUD, 1.9 million people currently hold Section 8 vouchers.

Congress first introduced the idea of homeownership for Section 8 rental voucher holders in the early 1990s. In the Quality Housing and Work Responsibility Act of 1998, the earlier legislation was clarified, enabling the homeowner option to finally become a reality for families receiving Section 8 rental assistance. In September 2000, HUD issued a final rule implementing the Section 8 homeownership option. Fannie Mae was the first secondary market agency to accept these loans.

The rule permits PHAs to allow Section 8 voucher holders to use their HAP as a partial mortgage payment for a single-family home, manufactured home, condominium or interest in a cooperative. To be eligible for the Section 8 homeownership option, borrowers must:

- Be first-time homebuyers
- Have a minimum income of \$10,300
- Be employed for at least one year
- Complete a homebuyer education course

The HUD rule does not require PHAs to offer the homeownership option, nor does it provide any additional funding to PHAs for administering the program. And while HUD specified a number of mandatory requirements for local Section 8 programs, they allow PHAs a great deal of discretion to design plans that meet local needs. Experience to date has demonstrated that successful homeownership programs require the collaboration of multiple partners such as lenders, housing counseling services, real estate agencies and nonprofit organizations.

In pursuit of our commitment to this program, Fannie Mae decided not to create a separate Section 8 mortgage

product, but rather to allow Section 8 voucher payments to be used with our existing loan products<sup>2</sup>, including MyCommunityMortgage™ and HomeChoice™. The underwriting guidelines developed specifically for the Section 8 Homeownership Program include three models:

### MODEL 1: DEDUCT HAP FROM PITI (BOX 1)

Under this model, the borrower's HAP is applied directly to the monthly principal, interest, taxes and insurance (PITI) payment on the loan. The housing debt-to-income and total expense-to-income ratios are calculated on the "net housing obligation" of the borrower. This model requires that the HAP be sent directly to the lender and the borrower's underwriting ratios not exceed 28/36, regardless of the mortgage product.

A variation of the PITI deduction option is tailored to the needs of disabled borrowers and allows the use of our HomeChoice™ product, which has a single qualifying ratio of 50 (box 2).

#### Box 1

Working with California Federal Bank (Cal Fed), Fannie Mae's western regional office recently facilitated a Section 8 mortgage loan for a single, working mother. She and her five children had already been living in the home, which was owned by the San Joaquin Housing Authority. The purchase price was \$154,500 with PITI payments being partially offset by the monthly HAP. The PHA placed a silent third mortgage loan on the home and retains equity in the property while the borrower pays the first-lien loan. For the down payment, the borrower received cash assistance from the city of Stockton, California. Use of the PITI deduction underwriting model makes this the most affordable option for the borrower.

<sup>2</sup> MyCommunityMortgage™ is a suite of flexible mortgage options for low- and moderate-income borrowers. HomeChoice™ is a single-family mortgage loan designed to meet the underwriting needs of low- and moderate-income people who have disabilities or have family members with disabilities living with them.

## Box 2

The HomeChoice Coalition<sup>3</sup> serving Long Beach, California, has acquired a number of condominium units to house people with mental disorders who are receiving Section 8 assistance. Through a partnership with the Long Beach Housing Authority, facilitated by Fannie Mae's western regional office, several of the occupants who have Section 8 vouchers are purchasing the condo units using our HomeChoice™ mortgage product.

### MODEL 2: ADD HAP TO INCOME

This underwriting option allows lenders to calculate the borrower's total income as a combination of the tax-exempt HAP and the borrower's income from employment. Underwriting ratios are based on the mortgage product being used. This model works best for lower cost housing.

<sup>3</sup> HomeChoice Coalitions can include representatives of lending institutions, housing finance agencies, homeownership counseling agencies, nonprofit and government agencies serving people with disabilities.

### MODEL 3: TWO-MORTGAGE OPTION (BOX 3)

Here the borrower uses both a purchase-money first mortgage from a Fannie Mae-approved lender and a second mortgage from a nonprofit organization or government agency. The borrower is qualified for the amount of the first mortgage on his or her earned income, and that loan is sold on the secondary market. The principal and interest on the second loan is paid off exclusively with the borrower's HAP. The term of the second mortgage is typically 15 years, the maximum term of the HAP. Because the second mortgage is typically large enough for the first mortgage to have a loan-to-value ratio of less than 80 percent, the borrower does not need to pay for private mortgage insurance.



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### Box 3

With the assistance of Fannie Mae's western regional office and Cal Fed, the San Bernardino Housing Authority recently closed two Section 8 loans using the two-mortgage model: one for a single parent with two children and the other for a four-member immigrant family. A National Realtor Council (NRC) affiliate, Neighborhood Housing Services of the Inland Empire, provided funding for the second mortgage loans from the assets of a \$250,000 second mortgage loan pool. Down payments and closing costs come from individual development accounts and the Family Self-Sufficiency program.

### OVERCOMING AFFORDABILITY BARRIERS

One of the most difficult barriers to homeownership for low-income borrowers is amassing enough savings for down payment and closing costs. Two sources of funds that Fannie Mae accepts for down payment assistance and closing costs are the Family Self-Sufficiency (FSS) program and individual development accounts (IDAs).

FSS programs administered by PHAs promote both employment and savings accumulation by families who receive Section 8 rental vouchers or live in public housing. As these households earn higher incomes, a portion of these earnings can be set aside in an escrow account, which can be used for down payment or closing costs.

IDAs are dedicated savings accounts that enable low-income families to purchase a home, pay for higher education or start a small business. An individual deposits a specific amount of money from earned income each month into an IDA at a financial institution. At the same time, matching funds from public or private sources, which may include the lending institution, are made to a separate, parallel account. The money that accumulates in these accounts may be withdrawn for specific purposes, including making a down payment on a home.

### NARROWING THE GAP

This article illustrates some of the ways that Section 8 is becoming a viable tool for closing the homeownership gap in America. Our Section 8 lenders have had the foresight to understand the importance of this program in ensuring equal housing opportunities in our diverse nation. Fannie Mae is committed to seeing the gates of homeownership open to many more underserved households.

By bringing to bear the resources of the secondary mortgage market, Fannie Mae is helping make the Section 8 Homeownership Program more attractive to lenders and our other partners in the affordable housing market. At the same time, President Bush is adding his authority to the homeownership movement, giving real hope that the American Dream may soon be reachable by more low- and moderate-income families, minorities and people with disabilities.

For additional information, go to [www.efanniemae.com](http://www.efanniemae.com) and enter "Section 8" in the search box to identify the closest Fannie Mae partnership office or contact your customer account manager. *CI*

### ABOUT THE AUTHOR



JULIE A. GOULD is Fannie Mae's vice president for community lending. She develops community reinvestment and community lending products and transactions for expanding homeownership opportunities. Her group designs new partnerships, products and transactions to meet Fannie Mae's American Dream Commitment for people and communities most in need by 2010.

Ms. Gould joined Fannie Mae as assistant director of low- and moderate-income housing in 1988, and became director of low- and moderate-income housing in 1989. She was elected vice president in November 1991. From February through August 1995, she was acting housing impact vice president in the midwestern regional office establishing a new division and three partnership offices. As vice president of community lending from 1991-1996, she designed the company's flagship affordable housing product—the Community Home Buyer's Program, the HomePath initiative to increase the quality of home buyer education nationally, and FannieMaps, a software application to encourage lenders to greenline.

She has co-chaired Fannie Mae's Help the Homeless annual fundraising campaign in the Washington, D.C. metro area for the last five years. She currently serves on the Mercy Housing, Inc. board; the Housing and Development Reporter advisory board; and the Arlington Community Temporary Shelter board in her hometown of Arlington, VA. She is a past board member of Christmas in April and Women in Housing and Finance. Since 1994, she has consulted with the South African Housing Ministry as part of a Fannie Mae project to increase community lending and home-buyer education to lower-income South Africans.

Ms. Gould received an M.A. in city planning from the University of California, Berkeley and a B.A. from Pitzer College in Claremont, California.