

**AFFORDABLE HOUSING
OPPORTUNITIES
THROUGH**

HOUSING INITIATIVES

THE AFFORDABILITY GAP

- **1991 MEDIAN INCOME : \$32,700.**
- **1991 AVERAGE HOME PRICE : \$175,000**

FINANCIAL RESOURCES NEEDED TO BUY A \$175,000 HOME

● 20% Downpayment: \$35,000.

● Monthly Payments:

Prin. & Int. @ 9% : \$1,126

Hazard Insurance: 161

RE Taxes: 20

Total Mo. Pmt: \$ 1,307

● Minimum Required Annual Income: \$56,016

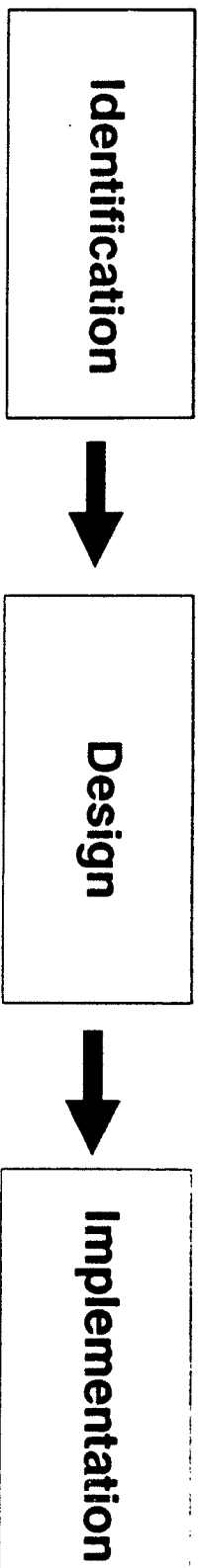
BRIDGING THE GAP

- **Financial Assistance Programs**
- **Affordable Housing Development**
- **Housing Information/Public Awareness**

GOALS OF A FINANCIAL ASSISTANCE PROGRAM

- **Maximize Resources**
- **Recycle Funds**
- **Maximize Number Assisted**
- **Minimize Burdens**
- **Bridge the Gap**

DEVELOPING BILL NO. 95



IDENTIFICATION

- **COMMUNITY HOUSING GOALS**
- **NEEDS OF CONSTITUENT GROUPS**
- **CONSTRAINTS**
 - Market
 - Lenders, FNMA/FHLMC
 - Legal and Regulatory
- **RESOURCES**
 - Governmental
 - Private Sector

PROGRAM DESIGN

- **Financial Structure**
 - Assistance Levels
 - Funding Levels
 - Returns on Assistance

- **Programmatic Structure**
 - Eligibility
 - Priority
 - Termination

- **Organizational Structure**

IMPLEMENTATION

- **Enactment of Bill No. 95**
- **Legal Documentation**
- **Lender Participation**
- **Lending Community Relationships**
- **Resource Center Set-up**
- **Marketing**
- **Monitoring**

BILL NO. 95 ASSISTANCE TECHNIQUES

- **Economic Incentives**
- **Development Exactions**
- **Monthly Mortgage Assistance**
- **Downpayment Assistance**
- **Mortgage Guarantees**
- **Mortgage Insurance Reductions**
- **Financial Structure**

**THE COMMUNITY AFFORDABLE HOUSING ACTION TRUST
CAHAT**

The CAHAT program contained in sections 1 and 2 of Bill 95 is a housing finance assistance program which targets a segment of the community whose incomes are too high to qualify for Federal assistance program such as the Farmer's Home Administration's direct loan program, yet too low to qualify for conventional financing with commercial mortgage lenders. The program as developed, utilizes the soft second mortgage approach to affordable housing. This approach involves a conventional first mortgage originated by a commercial lending institution and an interest free second mortgage funded by the Government of Guam. From the Government's point of view, this program makes a lot of sense since it requires a much smaller funding requirement than that required if the government funded the entire mortgage itself.

The combination of these two mortgage products results in a number of advantages to the customer including a lower down payment and lower monthly payments. The advantages to the lender are a maximum loan-to-value ratio of 70% and fulfillment of their CRA requirements. The program contains all of the provisions of similar programs utilized nationwide as part of FNMA/FHLMC affordable housing programs.

The program is targeted to first time home owners which for purposes of this act are defined as families or individuals who have not had ownership interest in a residential dwelling for a period of three years or more. The target income group are those with incomes of 100% to 200% of the HUD established median income for Guam. The current HUD established median income is \$32,700. Thus the income limit based on the current median income is \$65,400.

There are two programs in sections 1 and 2 of bill 95 that utilize the CAHAT funds to make interest free loans. One program is a financial institution participation program in which commercial lenders originate the first mortgage. In the other program, GHC originates the first mortgage. We expect that the Legislature will discuss the CAHAT legislation during its March Session.

Commercial Lender Soft Second Limits:

Interest Free Loan Schedule I.

(100% up to 140% of Median)

<u>INDEX RATE</u>	<u>MAXIMUM INTEREST FREE LOAN</u>
Over 12.00%	35.00% of Maximum Price Factor
10.00% to 11.99%	32.00% of Maximum Price Factor
Less than 10.00%	30.00% of Maximum Price Factor

Interest Free Loan Schedule II.

(140% up to 170% of Median)

<u>INDEX RATE</u>	<u>MAXIMUM INTEREST FREE LOAN</u>
Over 12.00%	32.00% of Maximum Price Factor
10.00% to 11.99%	30.00% of Maximum Price Factor
Less than 10.00%	28.00% of Maximum Price Factor

Interest Free Loan Schedule III.

(170% up to 200% of Median)

<u>INDEX RATE</u>	<u>MAXIMUM INTEREST FREE LOAN</u>
Over 12.00%	30.00% of Maximum Price Factor
10.00% to 11.99%	28.00% of Maximum Price Factor
Less than 10.00%	25.00% of Maximum Price Factor

The Index Rate used is the applicable FHLMC/FNMA rate at the time the home is purchased. The maximum price factor is the lower of the appraised value or selling price of a home purchased or constructed under this Act.

WHAT IS CAHAT

The Community Affordable Housing Action Trust (CAHAT) is a second mortgage loan fund that will be used primarily to provide down payment relief to first time home buyers. The program utilizes an affordable housing technique known as a soft second mortgage where the home buyer finances the home through a combination of a traditional first mortgage, a CAHAT funded interest free second mortgage, and a down payment from the home buyer (approximately 5% of the selling price). Without the CAHAT second mortgage, the home buyer will usually have to make a minimum down payment of 20% which will prevent most middle income families from ever being able to afford a home.

The CAHAT legislation will be used in conjunction with private commercial institution lending programs as well as the Guam Housing Corporation regular lending program.

THE COMMERCIAL LENDING PROGRAM

Maximum Soft Second Mortgage:	\$40,000.00
Soft Second Loan to Value Index:	Freddie Mac required Yield.
Present Freddie Mac Req. Yield:	Less than 10%
Maximum Loan to Value ratio on the Soft Second mortgage:	
Freddie Mac Rate:	
Less than 10%:	25% to 30%
10% to 11.99%:	28% to 32%
Over 12%:	30% to 35%
Income Index:	HUD Median Income for Guam
Current HUD Median Income:	\$32,700
Qualifying levels (Maximum Soft Second):	
100% to 140% of Median:	30% Loan to Value:
140% to 170% of Median:	28% Loan to Value:
170% to 200% of Median:	25% Loan to Value:

Example:

Assumptions:

Home Buyer's Income:	\$57,000
Home Price:	\$150,000
Bank Lending Rate:	9.0%
Term of Mortgage:	30 years

Using the CAHAT program:

Maximum CAHAT Loan:	\$37,500	(25% of the Value)
Bank First Mortgage:	\$105,000	
Down payment Required:	\$7,500	

Monthly Payment:

First Mortgage:	\$ 844.85
Soft Second Payment:	104.17
Real Estate Taxes:	25.00
Property Insurance:	<u>137.63</u>
Total Monthly Payment:	\$1,111.65

Net Effective Financing Rate: 7.01%

Without using the CAHAT program:

Bank First Mortgage:	\$120,000
Down payment Required:	\$30,000

Monthly Payment:

First Mortgage:	\$ 965.55
Real Estate Taxes:	25.00
Property Insurance:	<u>137.63</u>
Total Monthly Payment:	\$1,128.18

Net Effective Financing Rate: 9.00%

**THE GUAM HOUSING MORTGAGE INSURANCE CORPORATION
PROGRAM SUMMARY**

What is the GHMIC?: The Guam Housing Mortgage Insurance Corporation (GHMIC) will be a subsidiary of the Guam Housing Corporation whose sole purpose is to insure real estate mortgage loans against losses occurring as a result of customer defaults and subsequent foreclosure. The GHMIC will be created to fulfill a need in the mortgage lending industry on Guam that was created by a lack of Private Mortgage Insurer's willing to do business on Guam through legislation introduced by Sen. Frank Santos, Chairman of the Committee on Housing Community Development, Federal and Foreign Affairs. GHIC had discovered that most Private mortgage insurers are unwilling to do business on Guam because they feel that there will be an insufficient amount of business to make coming out here worth their while.

What is Mortgage Insurance?: Unlike hazard insurance, which covers the property that was purchased from the proceeds of the mortgage against perils such as fire, typhoon and earthquake, mortgage insurance protects the lender from the potential default in payments of the borrower. Should a lender need to sell an insured borrower's home through foreclosure and not be able to sell it at a price sufficient enough to pay off the amount due, the lender will then file a claim with the GHMIC for the shortfall for the lower of the amount of the shortfall or the amount of the policy.

Who Needs Mortgage Insurance?: Nationwide, borrowers are usually required to make a 20% down payment on home and the lender will finance the remaining 80% of the purchase price. Those with out the necessary cash, land or other assets that can be used as a down payment must either wait until they have save enough money for the down payment or go without a home. Mortgage insurance is for those potential home owners who do not have enough assets for a down payment to purchase a home. In exchange for a reduced down payment, the borrower will pay a one time up front premium and a monthly premium with their loan payment for their mortgage insurance. Customers will also be able to obtain coverage on a single premium basis.

What Benefits Do the Borrower's Receive?: Insured borrowers will be required to make only a five percent (5%) down payment as opposed to the a twenty percent (20%) normally required by most lenders. Of the 5% down payment required, 2% may come be made in the form of family gift or an unsecured loan. The remaining 3% must come from the borrower's own resources.

How Does One Qualify For the Program?: Since the purpose for mortgage insurance is to provide those who do not have sufficient assets for a 20 % down payment to purchase a home, a perspective home owner qualifies for mortgage insurance on that basis. The greater the assets a borrower has for use towards a down payment, the lower the amount of mortgage insurance coverage they will be required to purchase. Those home buyers who have 20% or more of the value of the home in assets that may be used towards the down payment do not need mortgage insurance to purchase a home.

The borrower's monthly loan payment including the portion paid for hazard insurance, real property taxes, and mortgage insurance must not exceed 33% of their gross monthly income. The borrower's total debts with maturities exceeding 10 months including their mortgage payment must not exceed 38% of their monthly income. All buyers that meet these qualifications must also successfully complete a Home Buyer's Education course prior to approval of the loan.

All applicants for the GHMIC program must be legal residents of Guam who are first time home owners. A first time home owner is defined for purposes of this program as a borrower who has not had any ownership interest in a residential dwelling for the three year period immediately preceding the date of application. Those applicants who have had ownership interest in a residence within the three year period preceding the date of application but such interest was terminated by a decree of divorce or operation of law will also qualify as first time home owners.

How Will the Financial Integrity of the Fund Be Maintained?: The legislation proposes a \$1,000,000 appropriation to capitalize the GHMIC. These funds will be used to capitalize each policy at a minimum 1:10 capital to risk ratio; the industry standard is 1:25. The GHMIC will also utilize industry standards to determine the appropriate amount of reserves that will be required from premiums paid by the borrowers. The legislation also requires that the GHMIC undergo periodic fiscal audits and actuarial certification to ensure that financial integrity is being maintained.

Implementation of the Program: The Governor has negotiated with the commercial lenders engaged in mortgage lending to originate an average of \$2.5 million each in mortgages to be insured by the GHMIC. In this initial commitment secured by the Governor, the GHMIC will insure \$12 to \$15 million in new loans to first time home owners in its first year of operations. By its third year of operations, the GHMIC hopes to receive a favorable rating by Standard & Poors so that it will be able to insure conventional mortgages sold on the secondary mortgage market on a regular basis.

Longterm Operations: The GHMIC will continue to remain in operation until such time that a private mortgage insurer who is acceptable to the secondary mortgage market begins operations on Guam.

AFFORDABLE HOUSING FINANCIAL ASSISTANCE PROGRAMS

<u>Name of Program</u>	<u>Income Assistance Range</u>	<u>Repayment Assistance</u>	<u>Down Payment Assistance</u>
FmHA Direct Loan Program:	Below 80% of Median	Yes	Yes
FmHA Loan Guar. Program:	Below 100% of Median	No	Yes
CAHAT GHC Program:	80% to 120% of Median	Yes	Yes
CAHAT Bank Program:	100% to 200% of Median	Yes	Yes
GHMIC Program:	Up to 260% of Median	No	Yes
FHA Insurance Program:	No Limit	Negative (High Points)	Yes
Conventional Mortgages:	No Limit	No	No

PROGRAM COMAPRISON

	MARKET MORTGAGE @ 9%	GHMIC INSURED MORTGAGE @ 9%	MARKET MORTGAGE @ 9% AND INTEREST FREE SOFT SECOND	MARKET MORTGAGE @ 9% 3/2 OPT AND INTEREST FREE SOFT SECOND
HOME PRICE:	\$140,000	\$140,000	\$140,000	\$140,000
1ST MORTGAGE:	\$112,000	\$133,000	\$98,000	\$98,000
SOFT 2ND MORTGAGE:	----	----	35,000	35,000
DOWN PAYMENT:	28,000	7,000	7,000	4,200
3/2 OPTION:	----	----	----	2,800
MONTHLY PAYMENTS:				

1ST MORTGAGE:	\$901.18	\$1,070.15	\$788.53	\$788.53
SOFT 2ND MORTGAGE:	----	----	97.22	97.22
HAZARD INSURANCE:	117.83	117.83	117.83	117.83
REAL ESTATE TAXES:	20.00	20.00	20.00	20.00
M.I. PREMIUMS:	----	40.00	----	----
	-----	-----	-----	-----
TOTAL MONTHLY PMT:	\$1,039.01	\$1,247.98	\$1,023.58	\$1,023.58
ANNUAL INCOME REQUIRED:	\$44,529	\$53,485	\$43,868	\$43,868

FIRST YEAR
SOURCES OF FUNDS

I.	CAHAT Legislation Appropriations - Soft 2nd Mortgages	\$4,500,000
II.	Government Insured Mortgage Initiative	\$1,000,000
III.	Foreclosures Protection Fund	\$500,000
IV.	6% Loan Program	\$10,000,000
	Total Amount	<u>\$16,000,000</u>

ANTICIPATED
CAHAT PROCEEDS USAGE

Total of Funding Soft 2nd Mortgages:		\$4,500,000		
Projected Bank Program Amount:		\$2,250,000		
Loan Amounts:	\$120,000	\$125,000		\$133,000
	<u>Conservative Soft Second</u>	<u>Average Soft Second</u>		<u>High Soft Second</u>
Soft 2nd Amount:	\$30,000	\$35,000		\$40,000
Total Number of Loans:	75	64		56
Soft Second Participation %:	25%	28%		30%
Total Value of Homes Financed:	\$9,000,000	\$8,000,000		\$7,448,000
GHC Program Amount:		\$2,250,000		
Loan Amounts:	\$91,000	\$98,000		\$104,000
	<u>Conservative Soft Second</u>	<u>Average Soft Second</u>		<u>High Soft Second</u>
Soft Second Amount:	\$40,000	\$45,000		\$50,000
Total Number of Loans:	56	50		45
Soft Second Participation %:	44%	40%		48%
Total Value of Homes Financed:	\$5,096,000	\$4,900,000		\$4,680,000

GOVERNMENT INSURED
MORTGAGE INITIATIVE

Commercial Lender's Commitment: \$14,000,000

	<u>Conservative Loan Amount</u>	<u>Average Loan Amount</u>	<u>High Loan Amount</u>
Loan Amount:	\$100,000	\$120,000	\$150,000
Total Number of Loans:	140	117	93

Six Percent Loan Program: \$10,000,000

	<u>Conservative Loan Amount</u>	<u>Average Loan Amount</u>	<u>High Loan Amount</u>
Loan Amount:	\$90,000	\$120,000	\$130,000
Total Number of Loans:	111	83	76

LOAN AVAILABILITY
SUMMARY

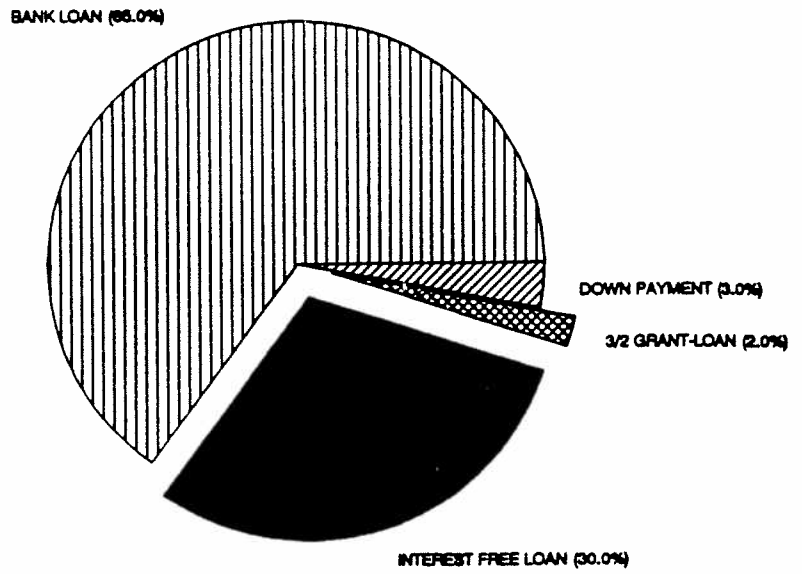
Number of Loans:	<u>Conservative</u>	<u>Average</u>	<u>High</u>
Bank CAHAT Program:	75	64	56
GHC CAHAT Program:	56	50	45
Government Insured Mortgage Initiative:	140	117	93
Six Percent Loan Program:	111	83	76
Total Number of New Loans:	<u>382</u>	<u>314</u>	<u>270</u>
Value or New Loans:	<u>Conservative</u>	<u>Average</u>	<u>High</u>
Bank CAHAT Program:	\$9,000,000	\$8,000,000	\$7,448,000
GHC CAHAT Program:	5,096,000	4,900,000	4,680,000
Government Insured Mortgage Initiative:	14,000,000	14,000,000	14,000,000
Six Percent Loan Program:	10,000,000	10,000,000	10,000,000
Total Value or Homes Financed:	<u>\$38,096,000</u>	<u>\$36,900,000</u>	<u>\$36,128,000</u>

COMMUNITY AFFORDABLE HOUSING ACTION TRUST (CAHAT)

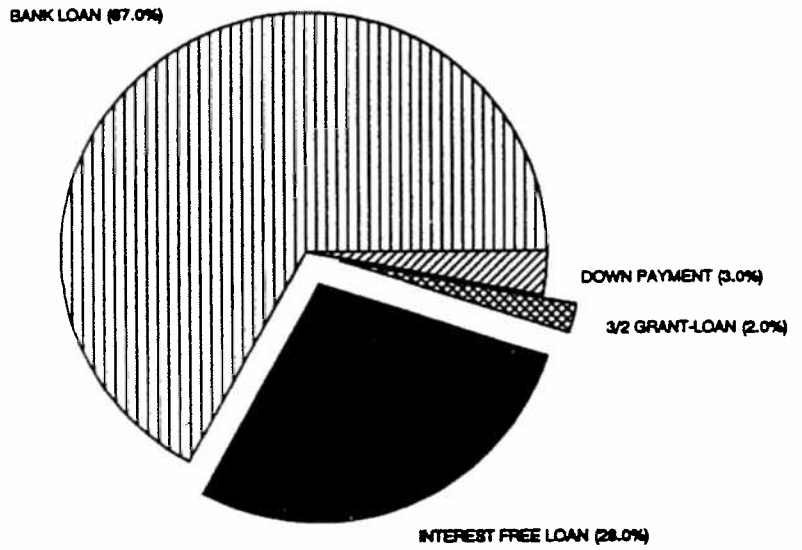
INTEREST FREE LOAN PROGRAM

WITH 3/2 OPTION

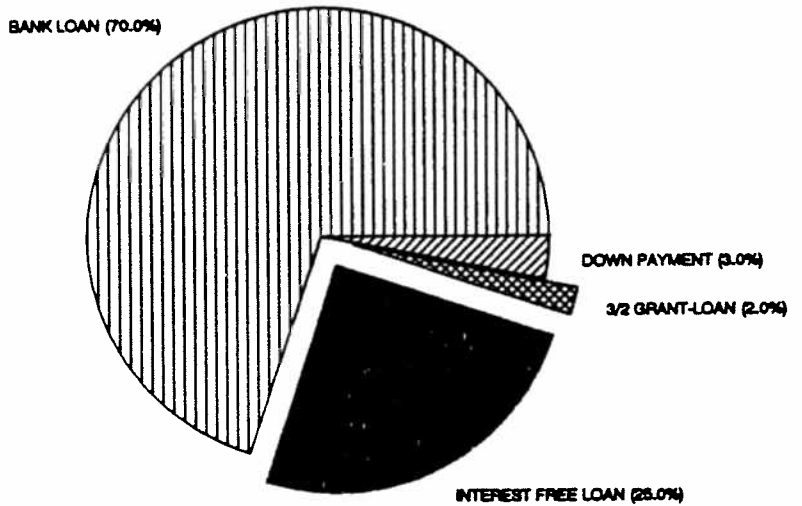
SCHEDULE I



SCHEDULE II



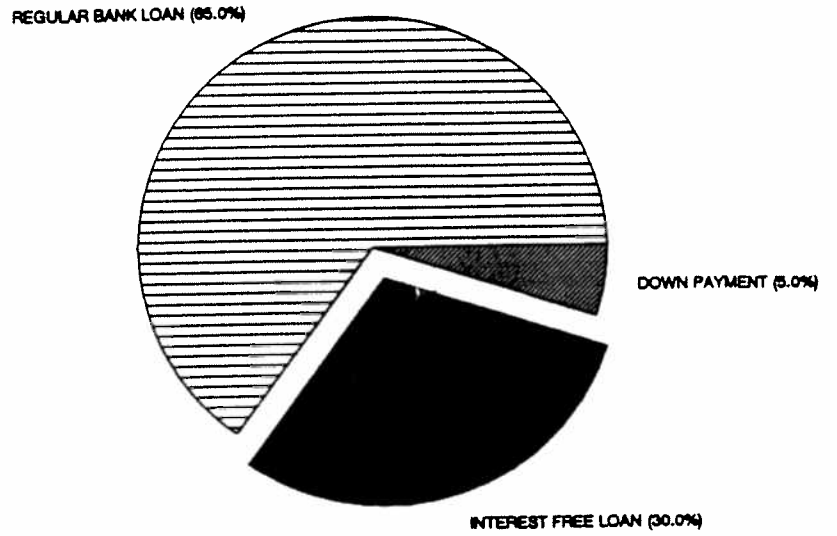
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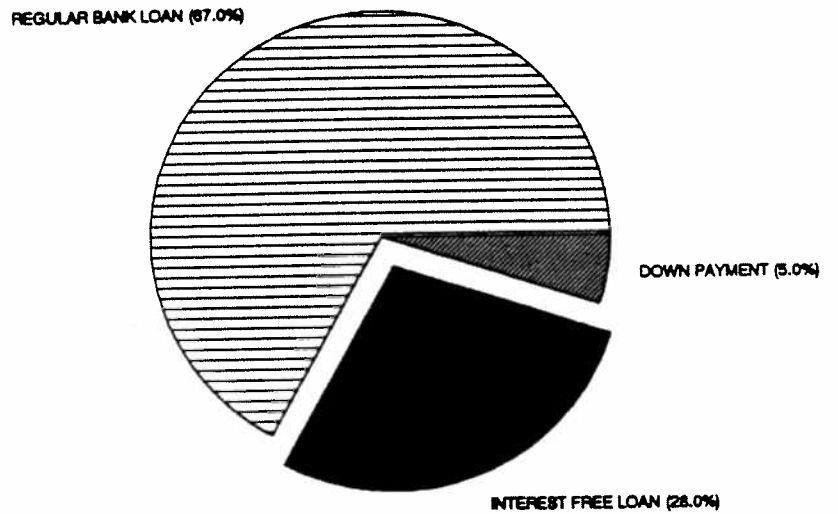
COMMUNITY AFFORDABLE HOUSING ACTION TRUST (CAHAT)

INTEREST FREE LOAN PROGRAM

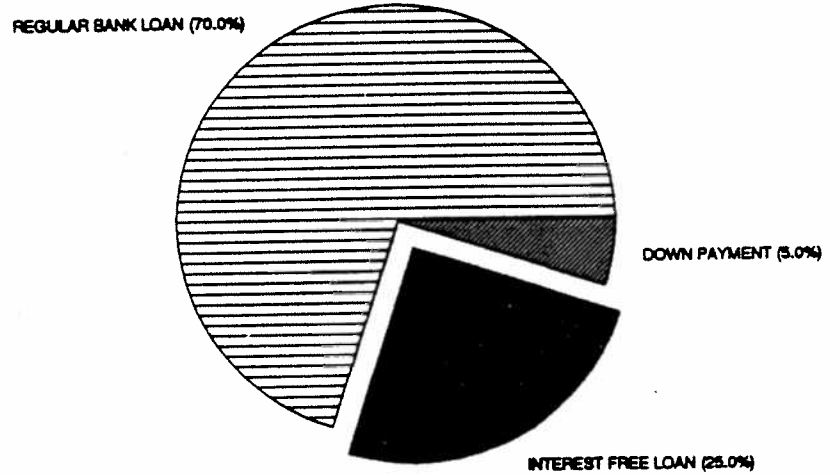
SCHEDULE I



SCHEDULE II



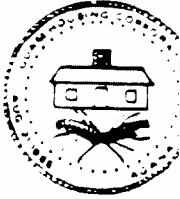
SCHEDULE III





Guam Housing Corporation

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TESTIMONY ON BILL 95 BEFORE THE COMMITTEE ON HOUSING, COMMUNITY DEVELOPMENT, FEDERAL AND FOREIGN AFFAIRS

THE HONORABLE FRANCISCO R. SANTOS, CHAIRMAN

Submitted by:
Peter J. Leon Guerrero
President, Guam Housing Corporation
February 25, 1991

Honorable Chairman and Committee Members, I am Peter J. Leon Guerrero, President of Guam Housing Corporation. I am honored to appear before you today in support of Bill No. 95.

As this is our first appearance before this Committee of the Twenty-First Guam Legislature we are especially pleased that we were invited to testify on such substantive legislation - one that we believe, if passed, will prove to be a major catalyst for housing affordability on Guam.

We are all aware of the critical need for housing that our people can afford, most especially our prospective first-time homebuyers. We believe that a comprehensive approach to the problem of housing affordability must address such elements as alternatives to high cost construction methods, availability of land upon which to build, economic incentives for private housing development, government sponsored housing development and the important issue of housing finance which includes down payment requirements. Bill No. 95 addresses many of these issues both directly and indirectly with emphasis on home financing.

As such, we welcome the introduction of this important measure, we commend it's sponsors and we fully support it's enactment.



The three major provisions of Bill No. 95 are:

1. Creation of the Community Affordable Housing Action Trust (CAHAT).
2. Revision of the Guam Housing Corporation Subsidy Program
3. Creation of the Guam Housing Corporation Mortgage Insurance Program

Housing affordability being relative to market conditions and the prospective home buyer's financial situation, we agree that the levels of government assistance provided for in this bill take into account the income levels of homebuyers and would subsidize interest payments accordingly. The programs provided therein appear to have been written with the realization that many within the lower-middle and middle income brackets also can not afford to buy a home.

All too often, Mr. Chairman, we are confronted by those of our people who hold good paying jobs, are productive members of our community and who feel that the American Dream has passed them by. These are the ones whose incomes exceed the limits imposed on existing government assistance programs but on the other hand do not earn enough to buy homes at today's market prices nor can they save enough for the required down payment because of the high cost of living. CAHAT and the GHC Mortgage Insurance Program will surely help many of these people to realize the dream of homeownership.

Mr. Chairman, we have reviewed the provisions of Bill No. 95 quite carefully and we have discussed it at length with all the active mortgage lenders on the island. We have found that the CAHAT Program would make optimum use of government funds by providing interest subsidies on loans extended by commercial lenders rather than making direct mortgage loans. CAHAT also provides for much needed partnership between the public and private sectors to address Guam's housing problems.

The mortgage lenders on the island support the CAHAT Program and would participate using their adjustable rate mortgage loans. Participation in their fixed rate program would be contingent upon the marketability of such loans on the secondary mortgage market. This is being discussed now with secondary market investors.

Regarding Article 2 of this bill, the revisions contained will enable us to add yet another level of assistance to our people. This assistance program would fall between the Farmers Home Administration loan program and CAHAT. While the GHC Subsidy Program and CAHAT appear similar they would cater to different income groups. This is a program that GHC fully supports. We believe that it will be quite workable in the form provided for in this bill. The attachment to this testimony expounds on our position on this program.

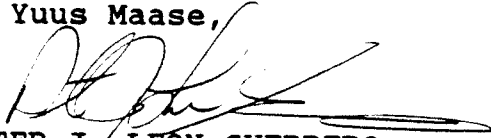
Bill No. 95 also authorizes the creation of a Mortgage Insurance Program. The implementation of this program would allow for lower down payments thus enabling more people to secure a mortgage loan with a commercial lender. We agree that the need exists for such a program due to the unavailability of private mortgage insurance on Guam and the limited availability and low loan limits associated with FHA insured mortgages.

For mortgage loans other than FHA insured loans, a borrower would be required a 20% down-payment. This is a major hurdle for first-time homebuyers at this would equate to \$30,000 for a \$150,000 home. Mortgage insurance would induce a financial institution to lend up to a 95% loan-to-value ratio allowing for a lower down-payment by the borrower. Again, the attachment further illustrates the specifics of the program.

Mr. Chairman, the need positive action on behalf of our residents who yearn for a home of their own grows daily. Hundreds of our people are looking to it's government to provide relief from the high cost of housing. The opportunity to respond is presented in Bill No. 95. We believe that Bill No. 95 and other housing initiatives must take center stage in the legislative hall. We urge Bill No. 95's endorsement by this Committee and it's passage by the Legislature.

Since this bill is quite lengthy we are constrained from addressing all of its many elements and beg the Chair's indulgence to end our written testimony and respond to questions and concerns you may wish voice.

Si Yuus Maase,



PETER J. LEON GUERRERO