

Article: Post-Housing Crisis – How do we move forward?

*Ever wanted to learn about home-ownership, but haven't taken the leap. Now you can attend a **FREE Homebuyer Education Class** right here in Salida, and get one-on-one financial counseling so that you can make an educated assessment of what it will take to become an owner. Join us on **Sat. April 23rd from 9am to 1pm** in the Touber Building / City Council Chambers. Counseling available on Friday, April 22nd.*

Housing has always been a significant part of our economy, and a leading indicator for post-recession recovery. Yet this latest crisis seems to be persistent as fallen home prices are not rebounding, and new construction isn't happening. Many lingering questions, and much finger-pointing remain.

The new world of housing is much more scrutinizing of borrowers. Gone are the days of “stated-income” loans, and taking risks on potential buyers who really aren't ready to own. This is making it much more challenging for buyers, especially first-time homebuyers, to get into the market and start developing family assets.

The fact that home-ownership has been the primary wealth creation tool for most families is unchanged. Home-ownership provides two things that families need: a stable place to live with the security of tenure, and an investment that can appreciate over time providing families with leverage to build their asset wealth, and move further away from poverty. It is still the American Dream.

What is changed is the process required to get a mortgage loan. Many folks say that coming up with the 20% downpayment, closing costs, and proving sufficient income are insurmountable barriers, especially for low-income families. What many locals don't realize is that the USDA Rural Development Direct Loan Program is designed specifically for counties like Chaffee, where an under-developed rural economy and high housing prices make it nearly impossible for low-income households to consider ownership.

The USDA-RD 502 Direct Loan Program targets households that earn less than 80% of the Area Median Income, based on household size. For example; family of four that earns less than \$45,100 per year in total income (before taxes) qualifies, or a single individual that earns less than \$31,550 qualifies. These loans provide downpayment and closing costs, all wrapped up in the loan. Loan terms can be for 33 or 38 years (as opposed to the traditional 30 years), currently at 4.5% interest. But the key benefit is that qualifying households will only pay about 1/4 of their monthly income towards the loan payments.

So if a family makes only \$21,000/year, they will pay \$519/month for mortgage payments on a \$175,000 USDA-RD loan, with no cash for downpayment or closing cost. In contrast, using a traditional mortgage from a local bank, a homebuyer would need to have saved \$35,000 in cash for downpayment up front, plus closing costs of \$3,000 to \$5,000, and then the actual mortgage payment on a \$175,000 home would be \$680/month.

The critical question being asked is “How do we prevent the foreclosure crisis from happening again?” For starters, banks are now required to closely scrutinize homebuyers to determine their long-term ability to make regular payments. Homebuyer Education classes are now required up front by many lender, as they give buyers honest information about what it really means to be a home owner. This, coupled with one-on-one financial counseling by a dis-interested third party, makes sure that buyers are making sound decisions and that they can live up to their commitments.

The Chaffee Housing Trust (CHT) was created as a local resource to help low-income buyers navigate this complex process, and provide options to families to get into homes they can afford. Nationally, homes sold through programs like the CHT are eight times less likely to go into foreclosure. This is a direct result of the education, counseling, and long-term stewardship that the CHT provides, with provisions to step in and prevent foreclosure long before it is too late.

If you think you may someday want to own a home, start now by getting the information you need. Contact the Chaffee Housing Trust and we can connect you to resources including classes, counseling, workshops, online financial education, videos, and facilitate the loan application process with the USDA.