
Housing Finance Authority
of
Pinellas County, Florida

Analysis of New Loan Products
September 21, 2006

HFA of Pinellas Bond Program

- Maximum Income Limit for Family of 1-2 (100% AMI): \$54,400
 - Maximum Income Limit for Family of 3+ (115% AMI): \$63,020
 - Average Purchase Price of a Home in HFA Bond Program: \$144,984
 - Average Purchase Price of a Home in HFA Bond Program in Pinellas County only: \$146,458
 - Median Home Price 1st Qtr 2006: \$207,300
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HFA of Pinellas Bond Program

In the 2006A Program higher loan amounts are more common

- In the \$60,000 to \$100,000 range = 21 loans
 - In the \$100,000 to \$150,000 range = 59 loans
 - In the \$150,000 to \$190,000 range = 42 loans
 - Over \$190,000 range = 8 loans
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HFA of Pinellas Bond Program

Incomes of borrowers have limited purchase power without subsidies:

- \$20,000 = \$50,000 purchase price
 - \$30,000 = \$92,000 purchase price
 - \$40,000 = \$135,000 purchase price
 - \$50,000 = \$169,000 purchase price
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Affordability Analysis

- Using the traditional 30 year mortgage product, the maximum home price that is affordable to a family with the maximum income allowable in the program for a family of 1-2 is approximately \$150,000
 - In the current market, it can be difficult for home buyers to find product in this range. This is evidenced by the statistic that the median home price in the county is over \$200,000.
 - There are two methods of addressing this mismatch:
 - Reduce the borrower's monthly payment by exploring alternate loan products
 - Use subsidy to "buy down" the interest rate on the first mortgage
 - Use larger lower rate 2nds to blend to a lower rate
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Alternate Loan Products

- Fannie Mae has recently introduced various new loan products to enhance affordability for first time homebuyers in their suite of "My Community Mortgage" products
 - These new products will be available in the conventional lending market
 - It is important to note that the eligible interest only products made available by Fannie Mae are fixed rate unlike the highly publicized "Interest Only Adjustable Rate Mortgages". There is only one change in the borrower's payment in either year 5 or 10, as applicable.
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Suitability Concerns

- New Products include the following:
 - 40 year mortgage, Fixed Rate
 - Interest Only Mortgage 5 years IO plus 35 year amortization,
 - Interest Only Mortgage 10 year IO plus 30 year amortization
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Staff Conclusions regarding Suitability

- Housing prices across the State of Florida increased on average 6% per annum for the 10 years preceding 2003 according to the Florida Housing Coalition. To be conservative, staff has analyzed data assuming 3% annual increase in housing prices.
 - In year 5, the projected value of a home that initially sold for \$150,000 would be \$173,891. For interest only and 40 year loan products, a homeowner would have approximately \$25,000-30,000 in equity at the end of year 5.
 - 40 year and interest only products structured with a below market fixed rate provide low to moderate income homebuyers a safer alternative than other risky products available in the conventional market.
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Staff Conclusions

- Interest only and 40 year products will expand the universe of potential buyers from 98-100% of median (associated with 30 year products) to 90-100% of median
 - The products allow the HFA to serve more families with the same resources and limit subsidy requirements (thereby preserving HFA resources and limiting risk)
 - The products facilitate homeownership for families having difficulty finding product within their range of affordability
 - The products promote homeownership and wealth building. Assuming housing prices increase at 3% per annum over the next 15 years, a typical family purchasing a \$150,000 home will accumulate approximately \$100,000 in equity during that period.
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Staff Conclusions

Borrowers continue to build equity with all of the proposed loan products:

- 30-year loans - break even point is 23 months
 - 40-year loans - break even point is 27 months
 - 10/30 loans - break even point is 30 months
 - 5/35 loans - break even point is 26 months
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Alternate Strategy

- The Authority could achieve the same policy objective of expanding the universe of buyers and affordable housing inventory by subsidizing 30 year fully amortizing mortgages.
 - On the sample \$150,000 home, the Authority would need to provide \$24,237 in the form of a purchase assistance 0% non-amortizing second mortgage loan to allow a family earning 90% AMI to afford the monthly housing payments.
 - The cost to subsidize a \$10 million mortgage program would be approximately \$1,665,000.
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