

**NeighborWorks®**  
**HomeOwnership Center of Worcester**  
**H.I.P. Loans**

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## Abstract

The NeighborWorks<sup>®</sup> HomeOwnership Center of Worcester developed a “pilot” Home Improvement Program (HIP) by providing home repair loans and post purchase counseling for residents of the neighborhoods of Worcester, Massachusetts. In this program, homeowners will invest in the improvement of their home. Working with Oak Hill CDC as the lead in a collaborative effort called the NeighborWorks<sup>®</sup> HomeOwnership Center of Worcester (NWHOCW), the program will empower 5 families to improve their home by providing loans for home repair. The NWHOCW has a productive network of affordable housing programs that will work with HIP participants in the Full Cycle Lending<sup>®</sup> process from Financial Fitness and Homebuyer Education classes, to flexible mortgage products and post purchase information for home ownership retention. Graduates of the pre and post purchase workshops who meet specific income guidelines maybe eligible for greater savings.

The NWHOCW will utilize funds from the Worcester Community Housing Resources (WCHR) Community Loan Fund and the Oak Hill Community Development Corporation (OHCDC) Loan Fund for a Home Improvement Lending Programs. The core purpose is to improve the housing stock in the communities of Worcester, particularly homes newly purchased by first time homebuyers, as well as those owned by homeowners living in certain areas for a long time.

The success of the program will be determined by:

- (a) 40% of the “pilot participants” “close” on a home improvement loan by 3/11/05
- (b) 100% of the grant money is available as measured by budget reports
- (c) All 5 participants will know the potential equity increase of their homes, with assessed improvements, as measured by the HIP work assessment document.

## **Executive Summary**

The NeighborWorks® HomeOwnership Center of Worcester (NWHOCW) has assisted 121 families purchase homes in the past 12 months. All of these families received homebuyer education as part of the Full Cycle Lending® process. The ratio for buying a home (121 families) and taking the pre-purchase homebuyer education class (437 families) through NWHOCW is 1:4. The national ratio for the NeighborWorks® HomeOwnership Campaign that produced 88,066 buyers over the past 12 years is 1:10 (Dylla, 2000). Most of these new homeowners could improve their new investment with a new roof or cost saving electrical work upon purchase. Some could be at risk of unscrupulous lenders waiting to entice them to make home improvements at above market rates. The average sale price of a single-family home in Worcester has increased from \$154,000 to \$231,000 from the fourth quarter of 2000 to the present (NWHOC, 2004). This is just the kind of appreciation unscrupulous lenders would want to take advantage of.

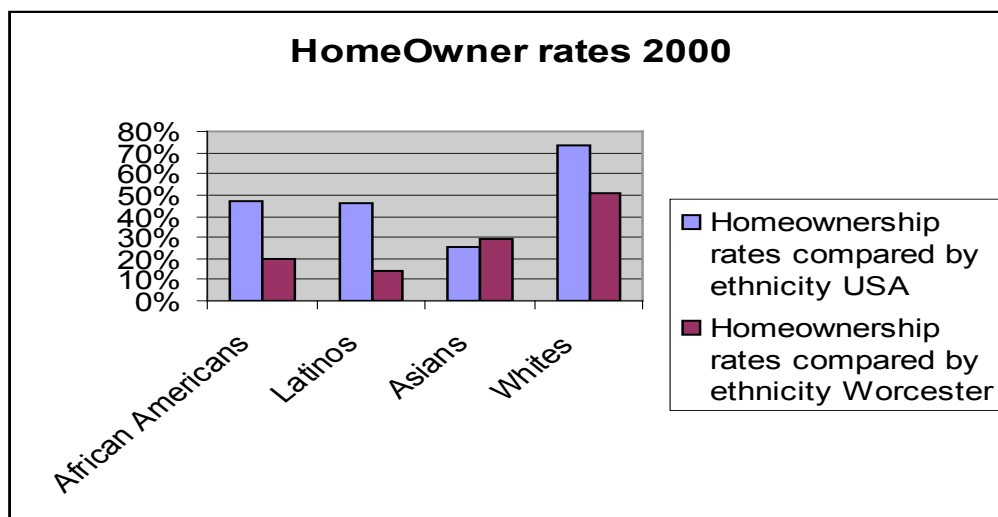
“Once the core business of most NeighborWorks® organizations, the volume of housing rehabilitation services has been declining in the network over the past decade. The reasons for this decline are not fully understood but include the high labor costs involved and the growing risks of providing these consumer services. At the same time, it is clear that housing rehabilitation services are a critical component of homeownership and neighborhood preservation activities.” (Dylla, 2004)

NWHOCW created many new homeowners in Worcester with impeccable efficiency. Preserving the asset base through home improvement in Worcester neighborhoods is part of the collaborating NWHOCW organization’s mission. The Home Improvement Program Loan (HIP) is intended to address this.

## Community Needs Assessment

The approach of focusing on post purchase to sustain the success ratio of first time homebuyer graduates of making good post purchase decisions has proven successful for most programs nationwide. One of the major challenges for post purchase programs is retention. The reasons why these programs have difficulty retaining participants run the gamut from quality of education, new buyers fatigue from being assisted by others and unclear goals of post purchase programs, to a lack of incentives. I will focus on the issue of avoiding predatory lending as a clear, compelling reason for participants to utilize the HIP. The median income for Worcester is \$42,988.00. Of the 67,028 households, 39.9% make less than \$34,999 (US Census Bureau, 2000).

Graph 1  
HomeOwner Rates 2000



Demographically the minority population increased from 12.5% to 21.6%, from 1990 to 2002. The income levels for non Hispanic Blacks increased from 27% middle and 19% affluent, to 48% middle and 28% affluent. Although the upward shift of income among non

Hispanic Blacks correlates to the 4% increase in homeownership for this group over the same period, it should be greater in proportion.

“In the absence of data categorizing loan denials by reasons for denials, it is difficult to project loan demand. Demand for a loan product with relaxed terms, however, appear significant. The fact that 68% of the housing stock is more than 40 years old implies a need for rehabilitation. Then too, HMDA data indicates that the 10 most active lenders denied 250 applications requesting over \$14 million for home improvement loans in the target areas [of Worcester].” (Schaaf, 2002 p.)

Community Needs Assessments conducted in Worcester by RKG of Durham, N.H. in 2002 suggested that Worcester should abandon its affordable housing strategies, eliminate the triple-decker housing stock, and transform the landscape to accommodate the upscale buyer. Using outdated federal data and external resources, RKG did not provide a comprehensive study to include stakeholder interviews. Comparing urban communities to suburban communities is an “apple to oranges” practice that needs to be scrutinized more often. “On the RKG study, there were a couple of testy exchanges between RKG officials and housing advocates. Most of the discussion on that report was geared toward a review of the housing data culled mainly from federal census information” (Kush, 2002, p.1). An unintended consequence of the study was that it provided evidence of the community support for its non profit developers and neighborhood “change agents,” and their contributions to Worcester.

What RKG failed to see was the historical economic impact of use of multi-family homes (1-4 family unit buildings) as a tool for owners to use their home as source of revenue with rental income. This process of becoming a landlord to mitigate income deficiencies has been a sustainable force in many northeast urban communities. Additionally, the character of a neighborhood is enhanced by well maintained older housing stock and has increased the value rather than detract from it.

Table 1  
Worcester Population by Household Income and Race

	All groups	Non Hispanic White	Non Hispanic Black	Hispanic	Asian
<b>TOTAL HOUSEHOLDS</b>					
1990	63,879	55,757	2,248	4,524	1,187
%		87.3	3.5	7.1	1.9
2000	67,028	51,258	3,981	7,932	2,605
%		76.4	5.9	11.8	3.9
<b>POOR</b>					
1990	25,522	20,627	1,191	3,034	553
%		37.0	53.0	67.1	46.6
2000	28,639	19,871	918	5,118	1,048
%		38.8	23.1	64.5	40.2
<b>MIDDLE INCOME</b>					
1990	20,255	18,121	611	1,132	335
%		32.5	27.2	25.0	28.2
2000	20,895	16,498	1,940	1,817	848
%		32.2	48.7	22.9	32.6
<b>AFFLUENT</b>					
1990	18,101	17,009	446	358	299
%		30.5	19.9	7.9	25.2
2000	17,495	14,889	1,123	997	709
%		29.0	28.2	12.6	27.

Table 2  
Percentage of Owner Occupied Households by Race

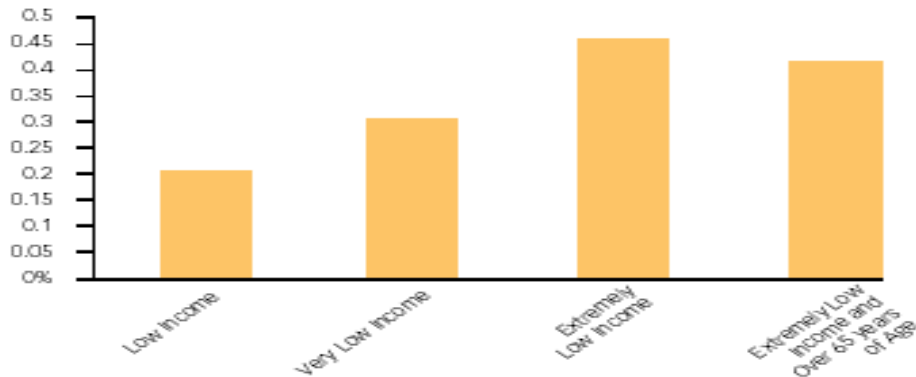
	Total Households	White Households	Black Households	Hispanic Households	Asian Households
<b>1990 Total</b>	<b>63,879</b>	<b>55,757</b>	<b>2,248</b>	<b>4,524</b>	<b>1,187</b>
# Owners	27,652	26,588	368	356	303
% Owners	43.3	47.7	16.4	7.9	25.5
# Renters	36,227	29,169	1,880	4,168	884
% Renters	56.7	52.3	83.6	92.1	74.5
<b>2000 Total</b>	<b>67,028</b>	<b>51,258</b>	<b>4,089</b>	<b>7,932</b>	<b>2,621</b>
# Owners	29,054	26,022	826	1,148	766
% Owners	43.3	50.8	20.2	14.5	29.2
# Renters	37,974	25,236	3,263	6,784	1,855
% Renters	56.7	49.2	79.8	85.5	70.8



Graph 2  
Homeowners Unable to Finance Home Repairs

## Many Lower Income Homeowners Unable to Finance Home Repairs and Improvements

*Share of homeowners with spending more than 50% of income on recurring housing costs*



Note: Low Income is defined as less than equal to 80% of the area median income. Very Low Income is defined as less than or equal to 50% of the area median income. Extremely Low income is defined as less than equal to 30% of the area median income.  
Source: JCHS tabulations of the 1999 AHS.

### The Problem

The City of Worcester has embarked upon revitalization strategies to increase homeownership over the next year by developing partnerships with three exemplary non profit organizations and the City of Worcester's Executive Office of Neighborhood Services. The percentage of homeownership has remained the same from 1990 to 2000 at 43.3%. Currently, financial systems exist that provide goods and services for the poor at a substantially higher cost than the same goods and services enjoyed by higher income residents in Worcester, Massachusetts. Without the appropriate skills to save and the disposable income to invest, lower income residents of Worcester, Massachusetts will continue to participate in a bifurcated

financial system and miss out on asset building opportunities that are limited in communities like Worcester.

Directly impacted by the bifurcated financial system are lower income residents who are without access to traditional banking services to preserve the quality of their homes. The lack of comprehensive post purchase programs and affordable lending products for new homeowners with houses in need of repairs continues to contribute to the difficulty for the working poor to build assets and become more financially stable. Contributing factors to this need for these programs and products are low personal savings left after purchase, low initial equity from the choice of mortgage product, and a higher percentage of repairs needed on properties in the affordability range.

Many first-time homebuyer mortgage products have successfully increased access to financing with 3%, 1% and 0% downpayment requirements. The demand for housing has caused many properties to sell while in need of repairs, meaning that often the new homeowners are besieged with new opportunities to incur debt. When new homeowners are shopping for home improvement loans, traditional lenders are concerned about the existing debt burden and property value. They will decline applications because the combined loan to value (CLTV) ratio doesn't meet underwriting guidelines. Labeled "un-bankable," the new buyer is happy to do business with lenders and contractors that charge more for services at higher rates because of the risk perceived by the traditional lender.

Arguably, some of the high rate loans could still have qualified for lower rates because of the increasing values in the market. Thus some affordable mortgage products restrict the use of a home improvement loan subordinating to third position because a second mortgage was used. The second mortgage is necessary to lower the loan to value of the first mortgage to avoid

Private Mortgage Insurance or promote affordability and thus save hundreds of dollars on the monthly payments.

Preserving the asset base of Worcester neighborhoods is part of the NeighborWorks® HomeOwnership Center of Worcester's mission. The NeighborWorks® HomeOwnership Center of Worcester HIP program was created to assist low income residents to invest in homeownership and preserve the asset building opportunities that have been limited in communities like Worcester. Specifically, the goals to facilitate and encourage resident empowerment and self-sufficiency and to improve living conditions are consistent with implementing HIP loans in census tracts 7314, 7315, 7319, 7322.03, 7323 – 7326.

In Worcester, Massachusetts, as well as most of the United States of America, one of most important assets that most people will have in their lifetime is their home.

“The significant difference between net worth and net financial assets is the inclusion or exclusion of home equity. Because net worth indicates wealth that may be bequeathed at death to the next generation and net financial assets indicate resources available today; it also indicates that for average Americans, housing wealth continues to be the largest reservoir of assets.” (Shapiro, 2004 p.43).

The demand for such a program far exceeds the limited resources of the collaborative non profits of the NWHOCW. It has taken two years to assemble the capital and processes for the pilot to impact certain neighborhoods as well as bring relief to the needs of low equity homeowners with homes in need of repairs. The product, with relatively low market share and low growth potential, is affectionately termed in marketing as a “dog,” or niche product. “Niche products positioned appropriately in the market place can have reliable revenue streams” (Nugent, 2005)

Table 3  
Stakeholders

Stakeholder	Benefit (+) / Cost (-) Of Project	Role	Potential Strategies for Obtaining Support or Reducing Obstacles
Lending Partners	New product could be a new competitor or compliment to existing products	Agree to collaborate	Consider including new lenders on CLC to make them a vested partner and remind of CRA.
Board members	Increase value to neighborhood, support new buyers	Keep NWHOCW focused on mission	Capture and share success stories in “real people” terms with cases and not just numbers.
Jim Cruickshank, Executive Director, OHCDC Worcester	(+) New program, more exposure for OHCDC. (-) Exposure has double edge if process interrupts collaborative flow.	Support and supervise program with other mgmt, team members. Pay 2 FTE	Keep processes transparent and costs reasonable.
Irene Nosel HOCM	More tools to assist community	Manage NWHOCW Team operations	Keep staff from being spread too thin.
Peter Fellenz, Executive Director, WCHR	(+) NR brings national funds and resources.	A support & supervise organization with other mgmt team members. Pay 1.5 FTE	Keep the process simple.
Scott Hayman, Director of Housing & Neighborhood Development, City of Worcester	(+) Increase tax base for city (-) Missing IDA project.	A support & supervise organization with other mgmt team members. Pay 1 FTE	Make sure new product does not compete with other products offered by lender partners.
Grace Carmark Executive Director, CMHA	(+) We needed more scale to show a real impact.	A support & supervise organization with other mgmt team members. Pay 1 FTE	Keep staff from being spread to thin
George Montgomery, Consultant	(+) Ability to develop and utilize a replicable model for avoiding predatory lending (-) I will always be an outsider which is difficult for this project	Coordinator, SNHU student	N/A
Mass Housing Partnership	(+) Popular first time home buyer mortgage program now has a product that will be subordinate to it.	Administrator of MA Soft Second Mortgage Loan program. Pay 1 FTE	Continue to provide post purchase classes.

### **Project goal(s) in CED terms**

The NeighborWorks® HomeOwnership Center of Worcester developed a “pilot” Home Improvement Program (HIP) by providing home repair loans and post purchase counseling for residents of the neighborhoods of Worcester, Massachusetts. In this program, homeowners will invest in the improvement of their home. Working with Oak Hill CDC as lead in the collaborative effort called the NeighborWorks® HomeOwnership Center of Worcester (NWHOCW), 5 homeowners were assisted to increase the equity and preserve their place of residence through home repair. The NWHOCW has a productive network of affordable housing programs that will work with HIP participants in the “Full Cycle Lending®” process from Financial Fitness, and Homebuyer Education classes, to flexible mortgage products and post purchase information for home ownership retention. Graduates of the post purchase workshops who meet specific income guidelines may be eligible for greater savings.

### *Project Goal*

The goals of this pilot program are to empower 5 families in Worcester to increase their home equity by providing loans for home repair.

### *Objectives*

The objectives are to develop a loan product for 5 first time homeowners and/or long-term homeowners, and to pilot a program for this product that will enable these homeowners to preserve their assets with home improvements.

### *Inputs*

- Acquire 100% of capital needed for lending program by 12/04
- Select homeowners for a home improvement loan
- Assess the added value

*Activities*

- A. Secure approval of the Oak Hill CDC and Worcester Community Housing Resources to appropriate funding for pilot with application to NR for preservation grant for sustainability of program. March, 2005.
- B. Identify families that completed homebuyer education or post purchase courses over the past year and own a home. February 2004.
- C. Develop marketing plan for new product.
- D. Develop service to prepare “work write-ups” for new homeowners.
- E. Assess equity of property before & after loans.

*Outcomes*

- A. Preserve or increase assets for homeowners in Worcester.
- B. Provide alternative to predatory home improvement products.
- C. Educate HIP homeowners and provide with tools to continue asset building.

*Measurable Indicators*

- A. Funds are approved for this use.
- B. 40% of the “pilot” participants “close” on a home improvement loan by 3/11/05.
- C. All 5 participants will know the potential equity increase of their homes, with assessed improvements, as measured by the HIP work assessment document. 3/31/05.

## Design

### *Review of the Literature*

The issue of equity brings to attention the importance of post purchase counseling to help new homeowners to weigh the option of home improvements through home equity loans.

“As home equity declines and debt burdens rise, there is cause for alarm about the ability of families to continue along this path. Declining interest rates made “cash out refinancing” an attractive alternative from maintaining non-mortgage debt and bridging the gap between wages and expenses. Nearly a quarter of all families who cashed out equity during the refinancing process to pay off credit card debt and finance current living expenses were left with higher monthly payments and longer loan periods. Even though homeownership has reached record levels, home equity has fallen since the early 1970s. Despite a booming real estate market that has increased home prices over the last five years by 45 percent across the U.S., between 1973 and 2004, homeowner’s equity actually fell—from 68.3 percent to 55 percent through the second quarter in 2004 (Figure 4). In other words, Americans own less of their homes today than they did in the 1970s and early 1980s.” (Silva, 2005)

Home equity loans are a valuable option to invest in the improvement of their home.

“About one fifth of the nation’s nearly 25 million low income homeowners have a tough time accessing credit for home repairs and improvements, because they spend over half their income on other housing cost. An even larger share may have problems accessing credit on favorable terms, because they have too little equity or their credit score is sub-par.” (Belsky 2002, p.4)

The problem of putting off some repairs until enough money is saved is that the cost of the repair increases as the deterioration increases, such as with a roof. The question is, at what cost does making repairs or improvements become a bad decision? Homeowners often trust the professionals, such as contractors and lenders that are out for their own self interest at the expense of the homeowner. Abusive practices in the home improvement market are another form of predatory lending.

“... it is by exploiting this inability to pay that the predatory lender is able to generate a claim on the borrower’s home equity. Nevertheless, there are practices that we might consider to be predatory even if the consumer were able to pay. One might argue that any loan where the lender achieves a return well in excess

of what is required to compensate for risk and earn a reasonable profit is a predatory loan, or at the least a very unfair loan. Whether or not the consumer manages to pay the exorbitant rates, the lender is assured of a profit – either through the loan payments or through foreclosure” (Hangen, 1999 p.1).

Responsible lending is one thing, but older housing stock also needs to be repaired in order to maintain the increase in value. The high demand for homes has caused the trend of more homebuyers purchasing homes that are already in need of repairs.

“Between 1989 and 1999, owners aged 55 and older sold almost nine million homes to younger buyers. More than 40 percent were built before 1950, and another 35 percent were built between 1950 and 1969 (*American Housing Surveys*). Homes in both these age categories are prime candidates for home improvements.” (Collins, 2002 p.4)

The scope of reference implied to rehabilitation lending is remarkable. Searching for comparable projects created the need to better define the type of rehabilitation mandated by the communities of Worcester. Rehabilitation can include large scale construction to refurbish an abandoned building with a strong foundation worth saving instead of demolishing it. There are organizations and resources already existing to handle large scale projects to reconstruct abandoned properties. Rehabilitations also include basic home improvements to fix the plumbing, roof or electrical systems. In Massachusetts, funding mechanisms are in place to address the issue of lead paint in older homes throughout the state.

“Another issue to consider when establishing your rehab model is the level of rehab you will undertake. Time and care must be taken to determine which level of construction – moderate rehab [< \$15,000], substantial rehab [\$15k - \$40k], gut rehab [> \$40k], or a mix of models-should be employed. It is a decision with major cost and risk considerations. The wrong place can be too expensive.” (Freddie Mac, 1999)

### *Program*

The NeighborWorks® HomeOwnership Center of Worcester (NHOCW) utilizes funds from the Worcester Community Housing Resources (WCHR) Community Loan Fund and the



Oak Hill Community Development Corporation (OHCDC) Loan Fund in the form of Home Improvement Lending Programs; with a core purpose of improving the housing stock in Worcester communities: most specifically homes newly purchased by first time homebuyers, as well as those homeowners living in certain areas for a long time. The mission of the project is to establish a viable, economically self sustaining pilot program to meet the goal of increasing and preserving equity through home improvement for 5 homeowners.

First Time Homeowners and residents of census tracts 7314, 7315, 7319, 7322.03, 7323, 7326 that comprise the service lending areas for collaborative team of the NWHOCW are the market for this niche product. Graduates of the pre purchase classes are offered the opportunity of additional post purchase courses that feature home maintenance training. The post purchase counselor will offer a service to review the condition of homes focusing on five areas covering the interior and exterior of the home.

- Roofing, windows and doors
- Plumbing, heating & electrical systems
- Repair porches, decks, steps & siding
- Wall repairs, floor covering & painting
- Kitchen and Bath remodeling

The assessment or “work write up” will identify the needs and priorities of participating homes. The work write up report cost is \$150.00; graduates of the pre or post purchase classes can receive a \$50 discount or rebate depending on when either class was taken. The counselor will review the menu of the services and grants available to the homeowner based on the guidelines of the various programs.

The menu of lending options for homeowners at the NWHOCW is the following:

- NeighborWorks® Home Improvement Program Loan
- Get the Lead Out – A product of the state housing finance agency (Masshousing) for de-leading
- Worcester Home Improvement Program – WHIP is a product of the City of Worcester for emergency code violations of homeowners without financial capacity to fix them
- Home Modification Loan Program (HMLP/MRC) – grants and loans for physically disabled homeowners
- Elder Care (Senior Connection & Home Repair) - loans for repairs of < \$1,000 for homeowners 62 years and older
- Rental Rehabilitation & Management Services Program (WHA) - recently defunct product that was incompatible with the market needs

If the NeighborWorks® HIP is the best option then it is referred to the loan officer for initial intake. Residents that are not recent graduates will go through the following process:

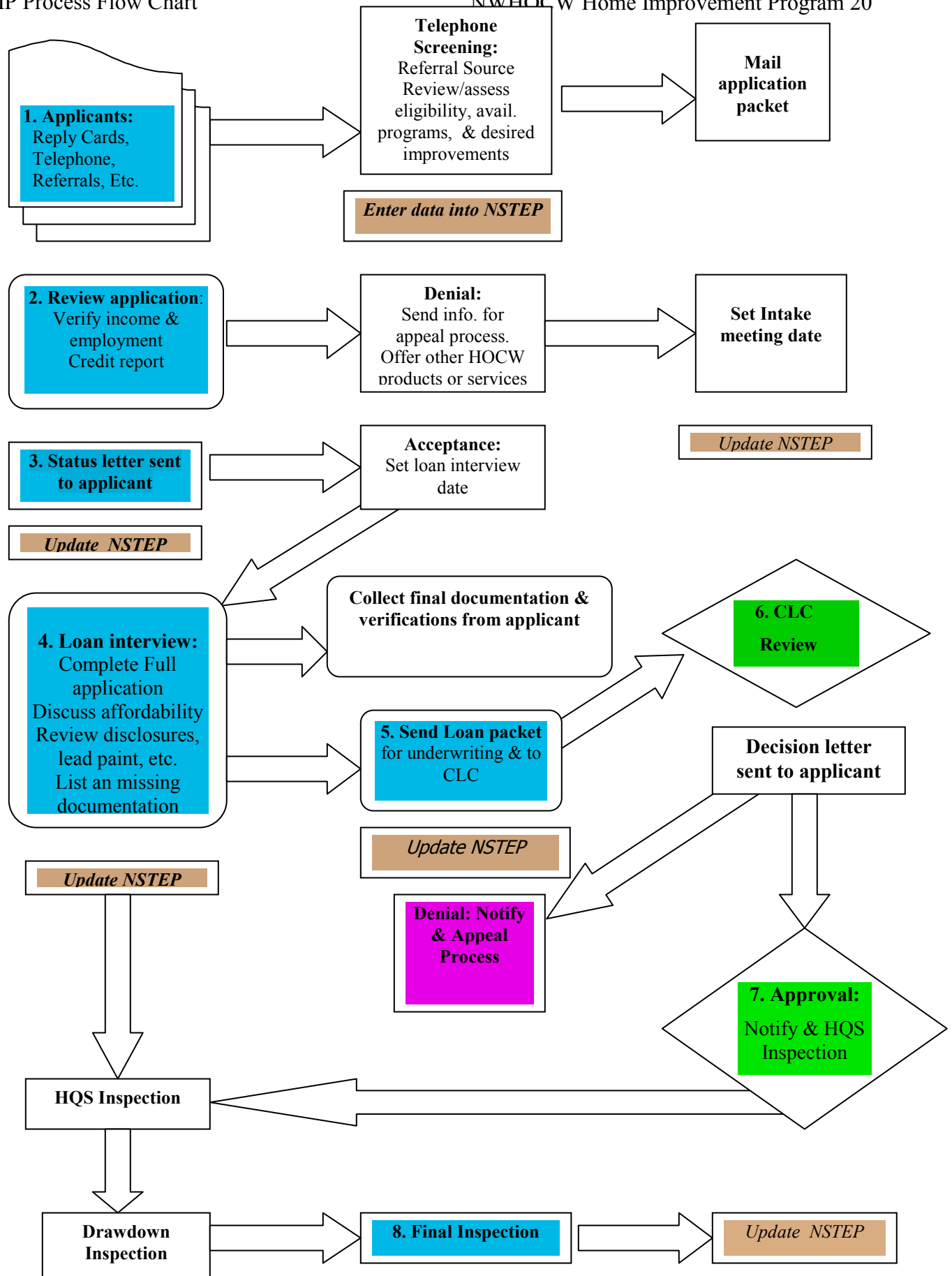
1. Potential applicants come from reply cards, telephone inquiries, referrals from lenders and realtors® and internal referrals from a post purchase counselor. The intake step determines eligibility for lending services. Data is entered into the data tracking system NSTEP (NeighborWorks® System To Enhance Performance). Eligible homeowners are mailed an application and when they call back an initial meeting is set up. Data is entered into NSTEP.
2. The application is processed verifying data according to CLC approved policies. The loan officer ascertains enough information to start the underwriting process and makes a lending decision to accept with contingencies or deny with information deficiencies

listed. Denied applicants may appeal decision which is then which reviewed by CLC. The CLC decision is final at this step. Data is entered into NSTEP.

3. Status letter is sent declaring need for more information or asking for a loan interview date. Sometimes a call is placed to expedite process. Data is entered into NSTEP.
4. The in person interview allows the loan officer to get questions answered and document issues that could prohibit a successful decision by the loan committee. The product selection is also confirmed based on ratios and verified income status.
5. The loan package is prepared for CLC meeting. A fact sheet summarizing contents of loan package is copied and distributed with name and street number deleted for loan committee members.
6. The loan committee decides to accept or reject the loan. Often a decision by the CLC is made to lower the requested amount, or lengthen or shorten the terms as a counter offer to make the loan successful. The homeowner is notified and can appeal the decision of denial, or counter offer with new information. The CLC makes a final decision at this point. Data is entered into NSTEP.
7. The approval triggers the preparation to close the loan with construction contingencies to meet Housing Quality Standards (HQS).
8. The monies are disbursed in phases agreed upon by the contractor and homeowner. The HQS requires at least three phases. The series of inspections assure the homeowner is satisfied with the work before payment is made to the contractor. Data is entered into NSTEP.

Chart 1  
HIP Process Flow Chart

NW/HOCW Home Improvement Program 20



### *Participants*

The 5 participants are homeowners selected from graduates of the pre and post purchase courses. Referrals from lenders and realtors<sup>®</sup> of people living in the designated service areas are welcomed. The majority of the funding (67%) does not have income restrictions. One third of the monies are for MSA incomes of 80% or less. The key to success of a niche product is the deep understanding of the market. The expectation is that many applicants will qualify for the de-leading program grants and loans, and then, as repeat customers, utilize the NeighborWorks<sup>®</sup> HIP for additional home improvement loans. Many participants will use low down payment and affordable mortgage products that require sensitivity to the loan position to be subordinated and the total amount of debt being assumed by the homeowner.

### *Community role*

The oversight of NHOCW Home Improvement Lending Programs is by a Collaborative Loan Committee (CLC) comprised by standing members of the OHCDC and WCHR Loan Committees. The responsibilities of the CLC include:

- Assess and analyze loan requests that NeighborWorks<sup>®</sup> HomeOwnership Center of Worcester staff bring to the CLC
- Make recommendations to the appropriate body (see loan procedures) regarding the advisability of making loans to potential borrowers, including setting forth specific loan conditions
- Work with the executive directors and staff in the development of risk management policies, including loan underwriting standards
- Review and assess NeighborWorks<sup>®</sup> HomeOwnership Center of Worcester staff reports concerning the Oak Hill CDC and WCHR, Inc. loan portfolio

This has been a community driven process. The concept of a special product for new homebuyers still in need of the close relationship provided by the NWHOCW and home repair needs originated out of the Oak Hill community in 2002. At that time OHCDC realized it was short on staff capacity to meet the perceived demand. WCHR, Inc, another established community based organization with a track record in community based lending and experienced staff was an able partner to OHCDC. The City of Worcester also contributed an experienced staff person. Both employees housed in the NWHOCW are nationally certified through NeighborWorks® in Mortgage Lending.

In 2002, WCHR hired a consultant firm Community Investment Associates to assess the viability of the home improvement loan product. The assessment identified the need for a home improvement product different from the existing menu of options available. An assessment of what was needed to be fixed as a priority was also identified as a need. Changes in program design, intent, were discussed and clarified through the CLC of both organizations and the City of Worcester. The CLC was charged with suggesting programmatic ideas to the staff and board of directors to review quarterly the progress reports of the loan portfolio. Part of the evaluation process will also be charged to this committee. The CLC will review the first home buyer through this program and record their stories of circumstances and challenges.

#### *Host organization*

Oak Hill CDC (OHCDC) incorporated in 1985 and became a NeighborWorks® Network Organization (NWO) in 1995, serving the Oak Hill, Union Hill and Upsala Street neighborhoods of Worcester, MA. NeighborWorks® is a nationwide, resident lead system of people from all walks of life who are working together to strengthen communities and improve the lives of families. The NeighborWorks® Network was founded by a national non profit, Neighborhood Reinvestment Corporation (NR) in 1978. NR is recognized as a leading intermediary in the

community development field valued for its flexible operational and capital funding, National Training Institutes and technical assistance provided to its chartered independent 501(c)3 non profit members by local NR management consultants. Since April 11, 2005 NR has been officially recognized by the name NeighborWorks® America. Oak Hill is a NeighborWorks® Organization (NWO) chartered member. The goals of Oak Hill CDC are to:

- Reduce neighborhood blight
- Stimulate public and private investment
- Facilitate and encourage resident empowerment and self-sufficiency
- Improve living conditions
- Promote a safe and healthy neighborhood, and
- Encourage associations among neighbors and increase community pride.

78.5% of the Board of Directors of OHCDC is residents of that community. Community organizing efforts remain an integral part of the other activities, which include real estate development of rental properties and homeownership, and economic development such as job training programs and promotion of homeownership by the procurement of mortgage-ready buyers through its NeighborWorks® HomeOwnership Center.

The OHCDC service area of Oak Hill, Union Hill and Upsala Street neighborhoods include census tracts 7322.03, 7323, 7324, 7327 and parts of 7328 (Bryan Peloquin, 2003). This accounts for about 10% resident population (RKG 2002:9).

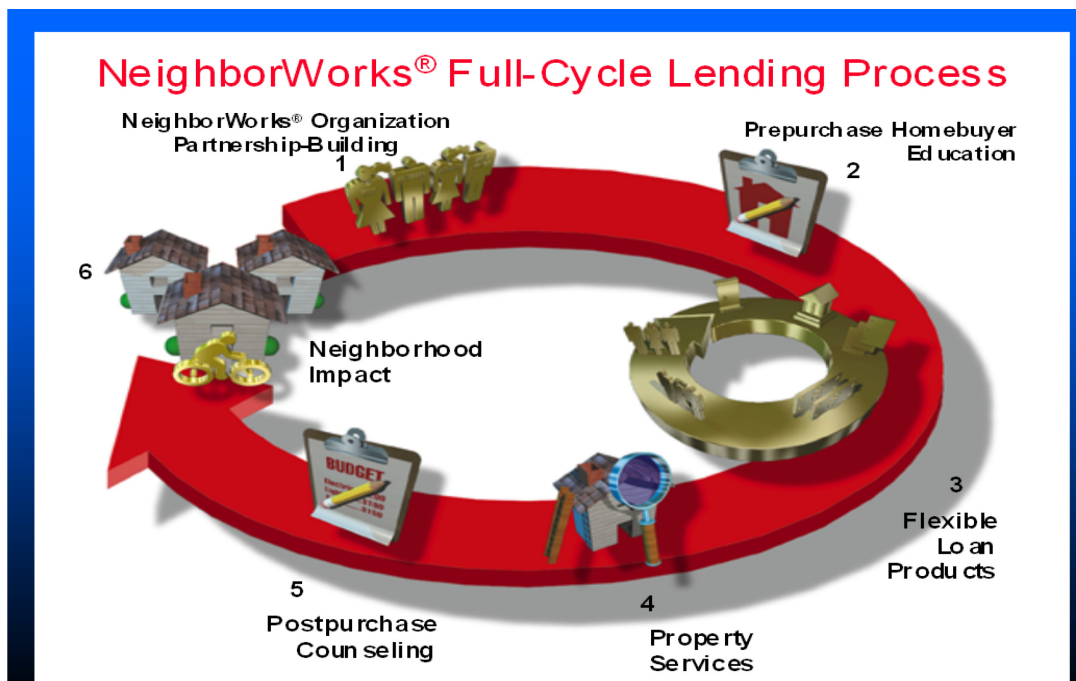
Oak Hill CDC is the managing NWO and lead collaborator with Neighborhood Reinvestment in the NeighborWorks® HomeOwnership Center of Worcester. The collaboration consists of three other community based organizations (non-NWOs), Central Massachusetts

Housing Alliance, Worcester Community Housing Resources, Eastside CDC and the City of Worcester Executive Office of Neighborhood Services and Oak Hill CDC.

The Oak Hill CDC & NWHOCW has a productive network of affordable housing programs that will work with HIP participants in the “Full Cycle Lending<sup>®</sup>” process from Financial Fitness, and Homebuyer Education classes, to Flexible mortgage options and Post purchase information for home ownership retention (see chart below).

Graph 3

NeighborWorks<sup>®</sup> Full-Cycle Lending Process





The NWHOCW collaborative management team is a rare combination of a network member (Oak Hill) and non network members sharing staff and resources in a formal relationship to manage the NeighborWorks® HomeOwnership Center model for procuring mortgage ready buyers and sustaining homeownership using the Full Cycle Lending process (above). Recognized as a success by the New England of NeighborWorks® America, the four independent non profit organizations and the City of Worcester have doubled the collective production levels from calendar year 2002 to 2003. The 2004 production shows a 16% increase.

Chart 2

NeighborWorks® HomeOwnership Center Management Team

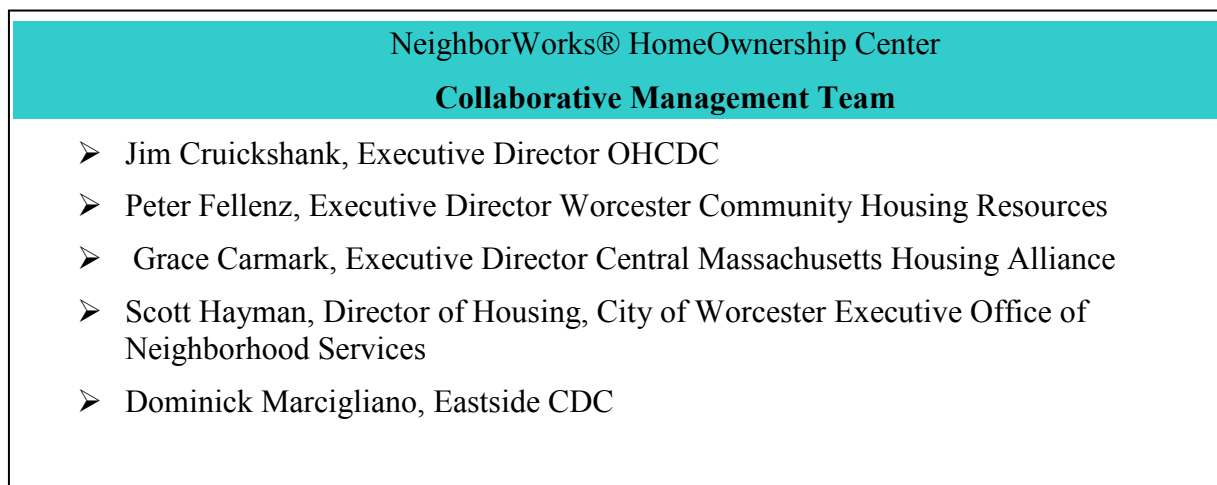
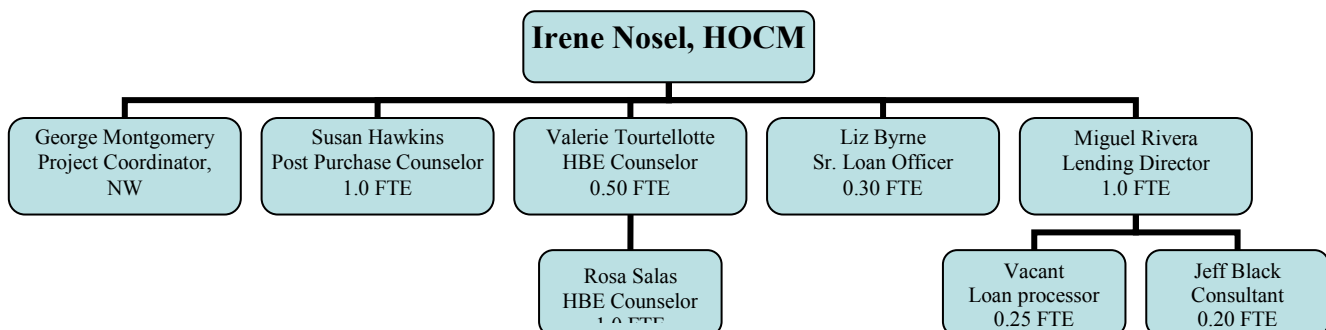


Chart 3

NeighborWorks® HomeOwnership Center Staff



## **HIP Staffing Pattern**

**George Montgomery**, Project coordinator, facilitates project activities from conception through conclusion. Mr. Montgomery is a faculty member of the NeighborWorks® Training institute (NTI) for Homeownership Courses. He is also certified in rehab management and mortgage lending courses through the NTI. Project Coordinator reports to the HomeOwnership Center Manager (HOCM).

**Irene Nosel**, HOCM manages the operations of NWHOCW. Ms. Nosel certified by NTI in lending and homeownership courses also. Schedule to attend post purchase certification training 8/05.

**Miguel Rivera**, Director of lending originates processes and presents package for loan underwriting to CLC. Mr. Rivera is certified by NTI in lending.

**Liz Byrne**, Senior loan officer and member of NWHOC staff with limited involvement in HIP other than referrals of elderly homebuyers that may fit the HIP loan better than products specifically for the elderly. Ms. Byrne is certified by NTI in lending.

**Susan Hawkins**, Post purchase counselor/ monitoring agent, facilitates post purchase home maintenance classes with industry professionals. Conducts the counseling sessions with homeowners and performs “work write ups” for HIPs. Ms. Hawkins is scheduled to take NTI post purchase certification course 4/05.

**Valerie Tourtellotte**, Homebuyer education counselor, facilitates first time homebuyer classes and NSTEP administrator. Ms. Tourtellotte is certified by NTI in Homebuyer Education, and Post Purchase.

**Rosa Salas**, Homebuyer education counselor facilitates first time homebuyer classes in Spanish. Ms. Salas is scheduled to take NTI Homebuyer Education certification course 4/05.

Currently, WCHR has hired Jeff Black, a consultant for 10 hours a week to assist in the design of the Marketing brochure. Staff job descriptions are attached as an Appendix IV.

## **Method**

The HIP has three components: post purchase counseling, property assessment for needed repairs, and loan processing, underwriting or referral.

### *Post Purchase counseling*

The NWHOCW has planned to create a post purchase training to compliment the lending services offered. The post purchase counseling consists of two functions, individual and group. The group sessions cover home maintenance issues ranging from painting the exterior to assessing water damage in critical areas. Practitioners in the residential construction industry volunteer to train homeowners on what to look for and how to do basic repairs. The series of topics will be delivered in two four hour sessions, six times a year. It is projected that 120 homeowners will graduate annually. In the interim between group sessions, individual meetings are scheduled with the post purchase counselor to address concerns considered too personal for group settings such as new debt issues and prioritizing repair needs. The counselor will refer foreclosure “intervention” issues to other organizations with the capacity to deal with such matters.

One of the materials for the group session is a manual to help homeowners develop maintenance schedules based on the life of the different components and systems of their property. The post purchase counselor will encourage homeowners to bring their manual and inspection report to the individual session to use as a base line tool to identify repair needs and help them formulate a plan. The post purchase counselor will offer a service to review the

condition of the home and estimate the cost to repair it, focusing on five areas covering the interior and exterior for a fee. The areas are:

- Roofing, windows, and doors
- Plumbing, heating & electrical systems
- Repair porches, decks, steps & siding
- Wall repairs, floor covering & painting
- Kitchen and Bath remodeling

*Property assessment for needed repairs*

The assessment or “work write up” will identify the needs and priorities of participating homes. The work write up report cost is \$150.00 and graduates of the pre or post purchase classes can receive a \$50 discount or rebate depending on when the either class was taken. The counselor will review the menu of the services and grants available to the homeowner based on the guidelines of the various programs. Upon completion of the “work write” the homeowner may choose to take this document and do some repairs themselves, refinance for cash to do repairs or take out a loan for home repairs.

*Loan processing, underwriting or referral*

The lending function is an integral part of the HIP. The initial screening process will identify appropriate applicants and insure they meet minimum eligibility criteria for The Home Improvement Loan. Those who are not eligible to participate will be referred back to the post purchase counselors for other programs or services that may be available at the NWHOCW or elsewhere.

The two activities at this point are intake and application processes. The intake is not an application in that a lending decision is not the outcome of information gathering. Rather, it is a tool for matching homeowners to the potential resources available. The intake may be taken by telephone to provide initial information and assessment of potential applicants and track how they heard of the program. Homeowners graduating from pre or post purchase classes will have intake information already in the customer tracking system NSTEP. A preliminary meeting and evaluation may still be necessary by the loan officer to identify the customers most likely to fit the eligibility criteria of the Home Improvement Program loan. The full application process then begins, to gather complete information on the applicant. The NWHOCW offers a menu of lending options. The HIP will finance loan amounts from \$2,500 to \$50,000, categorized as moderate rehabilitations for borrowers in need of these services.

### **Products & outputs**

The three outputs are the following:

- HIP loan product will be developed and ready for making loans for eligible homeowners in the amounts from \$2,500 - \$50,000 at flexible interest rates with terms up to 15 years to repay.
- Two homeowners will close on the HIP and begin renovations on their home.
- Five home equity assessments will be completed for selected homeowners.

Table 4  
Program Implementation

<b>Task</b>	<b>Time frame</b>	<b>Responsible person</b>
Develop loan policies and procedures	1/14/05	Miguel Rivera with concurrence from CLC
Receive approval from combined loan committees for \$400,000 from WCHR and \$200,000 from Oak Hill CDC pledging lending capital for HIP loans	1/15/05	George Montgomery
Design loan application process to be approved by CLC	2/1/05	George Montgomery with concurrence of Irene Nosel, Miguel Rivera, and CLC
Develop NSTEP compatible HIP intake form	2/4/05	Jeff Black will complete intake form with concurrence of Miguel Rivera and CLC
Develop marketing plan for HIP	2/11/05	George Montgomery with concurrence of Miguel Rivera, Jeff Black and CLC. Miguel Rivera and Jeff Black will complete marketing brochure.
Train staff on HIP loan features.	2/10/05	George Montgomery and Miguel Rivera
Train staff on post purchase counseling process.	12/6/04, 4/18/05	Jim Cruickshank approves training slots for NeighborWorks® America National Training Institutes. Irene Nosel develops training schedule for NWHOC staff.
Select five homeowners from graduates of pre or past purchase course	2/18/05	George Montgomery with concurrence of Irene Nosel

### Inputs

- Developed loan product ready for making loans
- 2 homeowners close on home improvement loans underwritten by the NWHOCW.
- 5 equity assessments completed for selected homeowners

## Budget

The program budget includes operating and capital projections. To date, the FY'05 operating of \$9,500 and capital \$600,000 has been committed specifically to this activity.

Table 5  
Program Budget Summary

PROGRAM BUDGET SUMMARY				
Organization		NWHOCW		
Program		Home Improvement Loan		
PROGRAM REVENUE				
Funding Source for Program	Description of Funding Source	FY 05		FY 06
WCHR Loan capital	RLF Capital	\$ 400,000.00		\$ 100,000.00
OHCDC Loan Capital	RLF Capital	\$ 200,000.00		\$ 100,000.00
Mass Housing Partnership	State intermediary.	\$ 9,500.00		\$ 11,000.00
NeighborWorks® America	National initiative	\$ 50,000.00		\$ 50,000.00
Work write-up fees 50@\$100	75 @ \$100	\$ 7,500.00		\$ 7,500.00
Loan fees	1%+ pkg fee	\$ 21,000.00		\$ 79,000.00
Total Revenue		\$ 688,000.00		\$ 347,500.00
PROGRAM EXPENSE				
Program Costs	Description	FY 04		FY 05
Personnel/employees	4 staff - 2FTEs.	\$ 61,412.50		\$ 70,623.95
Materials/supplies	120 participants	\$ 6,800.00		\$ 8,000.00
Other Direct Program Costs		\$ 12,250.00		\$ 14,087.50
Marketing & evaluation study	Some in-kind	\$ 7,500.00		\$ 7,500.00
Total Program Expense		\$ 87,962.50		\$ 100,211.45
Net Excess (Deficit)		\$ 600,037.50		\$ 247,288.55

**Project Implementation Report**

The loan policies and procedures were completed two weeks off schedule. The goal was to have the policies of OHCDC and WCHR mirror each other. The coordination of schedule for the CLC took longer than expected. The next step was to get confirmation of the funds. The goal was to raise \$200k in capital. A condition was set by OHCDC of preserving affordability by making the fund eligible for <80% of the MSA income. The fund goal was exceeded by 300% with the contribution of \$400k from WCHR. The approval started a series of dates being off schedule from the plan. The additional funds took two weeks longer. An unintended yet positive consequence that occurred with the design phase of implementation was the high level of participation from the CLC members and staff in the features that came out of the policies and procedures a month earlier. The highly collaborative dynamic produced multiple perspectives that created a better product, but took longer. All five critical activities ended up off schedule by three weeks. A consultant, Jeff Blake, was added to the group in February 2005 which helped expedite matters. The post purchase counselor was not hired in December when the idea to switch projects came up, so Valerie Tourtellotte the homebuyer counselor attended the five day training on post purchase program materials offered by NeighborWorks<sup>®</sup> America in December 2004 in New Orleans. Susan Hawkins who was hired in January, 2005 will take the training in April 2005.



Table 6  
Implementation Task Schedule

<b>Task</b>	<b>Anticipated completion date</b>	<b>Actual completion date</b>
Design loan application process to be approved by CLC	2/1/05	2/21/05
Develop NSTEP compatible HIP intake form	2/4/05	2/21/05
Train staff on HIP loan features	2/10/05	3/4/05
Develop marketing plan for HIP	2/11/05	3/4/05
Train staff on post purchase counseling process	4/18/05	4/18/05
Select 5 homeowners from graduates of pre or post purchase course	2/18/05	3/7/05
Close two loans. Note: Two loans closed but not using the HIP product.	3/11/05	3/18/05

## Monitoring

### *Management Information System*

The NWHOCW also has a client tracking system called NeighborWorks® System to Enhance Performance (NSTEP), installed 12/04. NSTEP is a customized soft ware product developed by NeighborWorks® America to track the client from intake to post purchase. Based on Microsoft Access data base it has the capabilities to schedule appointments, counseling sessions, and classes. The eligibilities of all the NWHOCW mortgage products are entered into NSTEP it calculates the income, debt and credit balances to ascertain which mortgage product(s) is most appropriate for the homeowner. The rehab component is tracked here also. NSTEP offers a state of the art process for maximum efficiency.

Table 7  
Monitoring Summary

Goal	Objective	Monitor Process	Time Planned	Time actual
Create pilot program	Raise capital for RLF	CLC signed document of approval on file.	10 business days	20 business days
	Develop lending guidelines	Bi weekly project planning committee meetings to review	10 business days	16 business days
	Developed loan application process	Monthly progress report	5 business days	10 business days
	Customized work write up forms	Use housing Developer Pro software	2 business days	2 business days
	Developed rehab parameters	Bi weekly project planning committee meetings to review	10 business days	10 business days
	Train team on Hip features	Train during staff meeting(s) review work log in NSTEP	1/2 business days	On going
	Market program	Market plan checklist	10 business days	15 business days
	Counsel homeowners	NSTEP work log and internal referral form	On going	On going
	Originate loans	Customer pipeline report, monthly performance report	10 <sup>th</sup> day Monthly	10 <sup>th</sup> day Monthly
	Underwrite loans	CLC minutes, Customer pipeline report	15 <sup>th</sup> day Monthly	15 <sup>th</sup> day Monthly
	Close loans	NSTEP loan closed report	Weekly, On going	Weekly, On going

## Evaluation

Ascertaining if the NeighborWorks® HIP “pilot” loans and Full Cycle Lending® process are an appropriate solution to combat predatory home improvement lending for new and long time home owners in certain census tracts of Worcester, MA, required summative and formative evaluation. The challenge is to make conclusions with such a small sample size, yet meets the time constraints of the MSCED project. What is the appropriate size? This is an issue of scale

that could be calculated. The scope of this evaluation will be limited to the assessment of the added value of the NeighborWorks® HIP “pilot” loans and Full Cycle Lending® process on targeted homeowners.

### *Performance Indicators*

The conceptual frame work will identify the benefits on three levels: individual, community and for the City of Worcester.

#### 1. Individual

- Increase equity of asset
- Confidence in safety of home

#### 2. Community

- Better neighborhood
- Increased awareness of predatory lending

#### 3. City of Worcester

- Decrease in code violations
- More taxes from increased property values
- More construction jobs

The 120 day window for review did not allow for the time needed to fully conclude the intended impacts these indicators would suggest. The program is constructed to continue past this time frame and it is expected that results can be directly connected to the activities of this program. Within the specified time frame three indicators are focused on to ascertain success: increase equity of asset, increased awareness of predatory lending, and reduced violations.

Survey instruments are used at intake into the program. Our rehab manager will keep records of their individual progress and challenges and barriers for ongoing assessment. NSTEP

tracking software is used to collect data. The program budget will include an allocation of 1% for surveys, analysis, and program evaluation report. We anticipate that the final evaluation will take approximately one month. The purpose of evaluation is to measure the effect of our HIP loans to sustain and increase there asset building goals successfully by April 2005.

Table 8  
Evaluation Summary

Goal	Outcome	Measurements
5 families in Worcester are empowered to increase their home equity by providing loans for home repair.	New Homebuyers with limited equity can improve their homes with reasonable terms	Flexible underwriting terms on NSTEP fact sheet.
	Home improvement loans are a viable economic alternative to refinancing in short term	Ratio of closed loans verses enrollees to program  City of Worcester property assessment form
	Low income homeowners can identify predatory loans and say no.	Post purchase counselor exit survey.

Going forward, the post purchase survey will be given to assess the satisfaction of the program. City records will be checked for code violations. Pictures are taken before and after construction to ascertain visually if work improves neighborhood. The indicators are:

- Payment made on time to show affordability
- Reduced complaints of predatory activity related to home improvement in target areas
- High satisfaction rating on surveys
- Repeat customers
- Increase in referrals
- Reduced violations
- Increase in equity

Assess participant progress at multiple stages in program: intake, construction and completion of program. Time will allow for focus groups to meet and data to be compiled.

## **Sustainability**

### *Sustainability Elements*

The fee or service model for “work write ups” and loans closed has added leverage to capital request. The HIP program has support of lenders and bipartisan politicians. The current decrease in public funding will impact all affordable housing sectors. The Hip loan program has economically via components to be resilient in the tough environment for governmental funding. The resident led Board of Directors will remind the politicians that increasing equity for preserving the equity of the neighborhood of Worcester make good political sense. The program is a model that can be replicated.

### *Sustainability Plan*

The HIP will continue to market the successful impacts already exhibited by the program. As member of the NeighborWorks® Network, OHCDC can authorize a sale of up to 50% of the loan portfolio to Neighborhood Housing Services of America (NHS) the secondary market of the network. The loan fund can be capitalized 2.5 times.

The current success has already produce activities that increase the feasibility of continuing the program. In April, discussions with a key stakeholder Scott Hayman will take place using a copy of the of the HIP PowerPoint summation of this thesis to be presented to the City of Worcester for FY06 budget discussion to expand program.

### *Institutional Plan*

The first of institutionalizing the program has begun with the decision to expand it from “pilot” an established part of the menu of services offered by the NWHOCW.

“If the ideal is high enough it is never quite attained. If the striving is sufficiently intense, it never runs to completion: at best, it yields success after success indefinitely. That should be our mission against poverty in working America.” (David K. Shipler pg 299: 2004)

## **Results**

### *Accomplishments*

- Raised 300% of projected capital for pilot program.
- Received 6 homebuyers for program. Five homeowners are graduates of the pre purchase classes offered through the NWHOCW.
- Counseled 6 homebuyers to educate them to know how to avoid predatory lending. Four homeowners changed the mortgage product they initially planned to use.
- Two loans closed as result of the outreach started by program but not as HIP loans the menu of options (de-leading and special emergency) was better for the homeowner.
- To date \$21,000 in capital is loaned out, \$ 87,000 is pending a decision.
- The average income of the homeowners in the pilot is \$43,000 for an average household of 3.
- Completed 4 assessments with an average equity increase of 0.318%.
- Four loans to close by 4/30/05

The project started out and an Individual Development Account for low to moderate income homebuyers. Although the idea is embraced by all the stakeholders the matched savings did not happen. It is still a viable concept to be approached in the future.

Conversely, the HIP has received high community participation, customer enthusiasm staff support and political pledges for sustainability. Switching projects brought about the issue of timing. The sequences of events necessary to bring such a project to fruition had steps interdependent upon each other.

- Rescheduling of meetings would throw the approval dates off triggering other next steps to be pushed back.
- The time constraints prohibited the implementation of the first component of post purchase classes impeded the opportunity to educate a larger number of homeowners collectively. It became necessary to increase the amount of time some the staff spent with one on one session with conveying general information.
- The goal of a \$200k for lending capital was tripled. The first \$200,000 came with an income condition to maintain affordability for homeowners under the MSA income of <80%.
- The other \$400 provided a great compliment to extend the opportunity for some 1-3 family owners to utilize the program where the rental income prohibited some <80% homeowners to participate.
- One homeowner of a repair loan not within the HIP parameters had a first mortgage of 7.5 and a second for 8.75 on a 4family for 390k. The NWHOCW provided a 5.5%, \$5,000 loan for roof repairs that would have prohibited the renters from moving in. It

would have been great to have a resource to refinance the homeowner out of the high interest situation.

*Recommendations*

- It was not intuitive to believe the number of collaboration and multiple decision makers would work out. The success of the project is, in part, attributed to some of the diverse perspectives offered from the CLC. Let some issues work itself out through the process.
- Allow more time for implementation. The 120 day window should be extended to 180. More time for highly collaborative projects.
- Consider a refinancing component for high interest 1<sup>st</sup> mortgages to allow for more repairs with an education requirement.
- Determine how to celebrate partners earlier in the process to galvanize more support.
- Allow for enough time to include contractors in product discussions to ascertain more cost savings of repairs.
- Not enough can be said about the power of participation from staff and community on a project with a lot of support.