



June 27, 2022

Sent via Electronic Mail

The Honorable Glen Youngkin, Governor  
The Honorable Jay Leftwich, Chair, House Committee on General Laws  
The Honorable George Barker, Chair, Senate Committee on General Laws and Technology  
The Honorable Danny Marshall, Chair, Virginia Housing Study Commission

**RE: HB2072 Recommendations Regarding the Establishment of a Virginia “Good Neighbor Next Door” Program**

Dear Gentlemen:

Please find attached “HB2072 Recommendations Regarding the Establishment of a Virginia “Good Neighbor Next Door” Program” pursuant to HB2072 (Convirs-Fowler), from Special Session 1, 2021. This bill required Virginia Housing to report on recommendations:

*“[For] the creation of a Virginia Good Neighbor Next Door Program to provide financial incentives for law-enforcement officers, firefighters, emergency medical services personnel, and teachers to purchase homes within designated revitalization areas in the localities in which they are employed.”*

As the report outlines, several key programs to address Virginia’s housing needs were enacted in the past, including the U.S. Department of Housing and Urban Development’s (HUD) Good Neighbor Next Door Program and the Federal Home Loan Bank of Atlanta’s Community Heroes Program. Presently, the HELPER Act (H.R.3172 & S.2981) is pending, which would:

*“[Create] a special FHA insurance program targeted to police and corrections officers, firefighters, paramedics and EMTs, and pre-K-12 teachers that would eliminate down payment requirements and offer 100% financing for one-time home purchases.”*

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It is our determination that the extremely limited inventory for first-time homebuyers in the Virginia market precludes implementation of a Commonwealth program similar to HUD's Good Neighbor Next Door Program and the HELPER Act, if passed by Congress, would provide much greater benefits for this targeted population.

I would be happy to answer any questions you may have and/or provide further information by way of follow-up.

Sincerely,

A handwritten signature in cursive script that reads "Susan F. Dewey". The signature is written in black ink and is positioned below the word "Sincerely,".

Susan F. Dewey  
Chief Executive Officer

cc: The Honorable Caren Merrick, Secretary of Commerce and Trade  
The Honorable Kelly Convirs-Fowler

# **HB2072 Recommendations Regarding the Establishment of a Virginia “Good Neighbor Next Door” Program (Chapter 415, 2020)**

**Published:** 2022

**Author:** Virginia Housing Development Authority

**Enabling Authority:** Chapter 415, Special Session I, 2021

## **Executive Summary:**

House Bill 2072 (Convirs-Fowler) directed the Virginia Housing Development Authority (herein referred to by its new name of “Virginia Housing”) to report on recommendations for the creation of a Virginia Good Neighbor Next Door Program. Following is the language of the bill as approved.

Be it enacted by the General Assembly of Virginia:

1. § 1. That the Virginia Housing Development Authority shall report to the Governor, the Chairmen of the House Committee on General Laws and the Senate Committee on General Laws and Technology, and the Virginia Housing Commission no later than July 1, 2022, on recommendations, including any legislative recommendations, for the creation of a Virginia Good Neighbor Next Door Program to provide financial incentives for law-enforcement officers, firefighters, emergency medical services personnel, and teachers to purchase homes within designated revitalization areas in the localities in which they are employed. Such program shall be similar to the Good Neighbor Next Door Program administered by the U.S. Department of Housing and Urban Development.

## **BACKGROUND**

### **Need for Program Assistance**

Since the 1990s, many communities across the country with high local home prices have been concerned that the cost of a home purchase inhibits their ability to retain and recruit critical public employees providing core local services, especially police, first-responders, and teachers. Local competition for these workers has been growing more intense, and workers in these public service professions frequently choose to live and work in communities with lower housing costs in order to afford to buy a home. Even when high housing cost communities are able to retain these employees, workers often chose to live in lower cost locations requiring significant commutes, which can increase their absenteeism and limit their ability to be available on-call. This has sparked local interest in the provision of home purchase assistance specifically directed to police, first-responders, and teachers. In Virginia, this need has consistently been raised most frequently in Northern Virginia and Hampton Roads, but has been felt in other areas as well.

### **Alternative Program Models**

Over the past three decades, a number of local, state, and federal programs across the country have been developed to address this need. They have offered a variety of types of home purchase assistance provided through differing program models. Some programs have been short-term, while others, such as HUD’s Good Neighbor Next Door (GNND) program referenced in HB 2072 have been ongoing. These programs fall into three broad categories:

### **1. Preference in Existing Local Homeownership Programs for Public Service Workers**

Many localities across the country with high housing costs administer programs providing home purchase assistance to their residents. Some of these have chosen to establish an eligibility preference for certain groups of public employees such as police, first-responders, and teachers. However, establishing a preference for one group of public workers may be seen as favoritism by other local government employees. This has lessened the willingness to use this model.

### **2. Home Purchase Assistance Linked to Neighborhood Revitalization**

To assuage concerns about favoritism to certain categories of public workers, some programs couple the benefits provided to eligible police, first-responders, and/or teachers with an agreement to purchase a home in a transitioning neighborhood either designated for, or in need of, revitalization. HUD has found that having local public service workers reside in transitioning neighborhoods can help provide stability and, in the case of police officers, enhance safety. However, transitioning neighborhoods may be considered less desirable than other residential choices, and the available homes may require greater repair or improvements. Therefore, programs linked to revitalization areas typically must provide more deeply subsidized assistance in order to entice public service worker participation. Linkage of assistance to revitalization areas has most commonly occurred through the sale of foreclosed properties (REOs) that can be sold at a steep discount. However, the success of such programs is highly dependent on the number and physical condition of available REO properties. Following the onset of the foreclosure crisis in 2009, such programs experienced some success. However, today REO inventories are extremely limited, so few homes are available for program use.

### **3. Stand-Alone Programs Serving Public Service Workers That Are Not Geographically Targeted**

During the housing market recovery of the past decade, as for-sale inventories have steadily shrunk, attention has shifted away from programs focused on revitalization areas and REO properties to program models that are not geographically targeted. These programs offer shallower subsidies, generally focusing on the provision of down payment and closing cost assistance, and the reduction or elimination of mortgage insurance costs. The primary challenge for these programs is achieving sufficient funding levels to make a significant impact on need. The more broadly available the program is, the more difficult it may become to balance program demand with available resources.

## **Recent Examples of Programs Serving Virginia**

A number of different programs have been offered in Virginia. In addition, a new national program currently pending in Congress would serve Virginia residents.

### **1. HUD's Good Neighbor Next Door (GNND) Program**

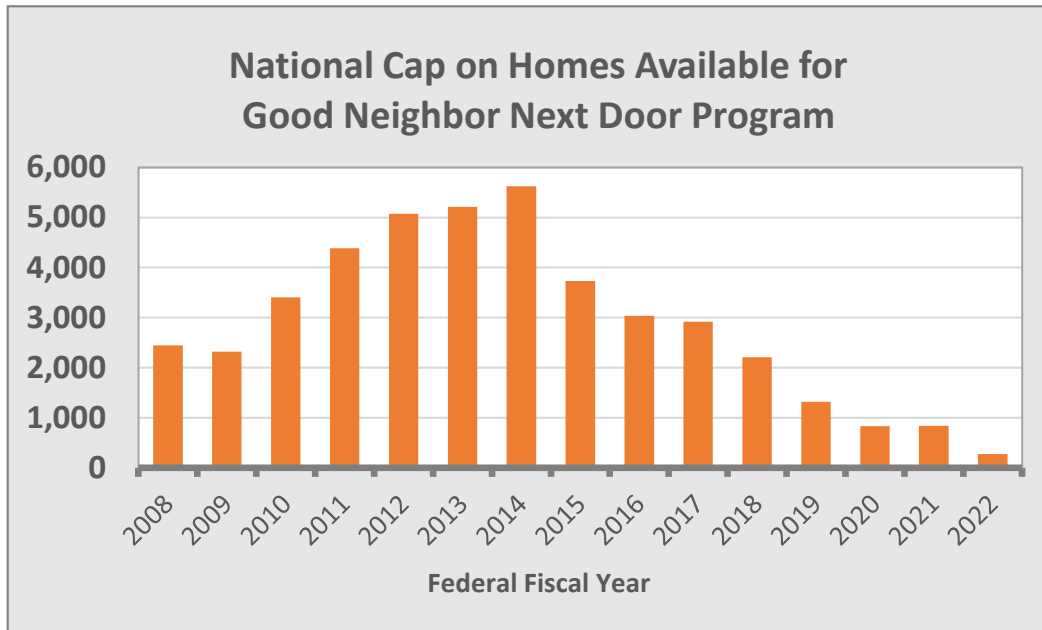
In the late 1990's HUD responded to local desire to provide home purchase assistance to police officers by testing the sale of FHA foreclosed homes in revitalization areas at deeply discounted prices. In July 1999, HUD formalized that initiative as the Officer Next Door (OND) program. In late 1999, due to the success of OND, HUD launched a companion Teacher Next Door (TND) program. Both OND and TND

allowed a small portion of FHA's inventory of foreclosed homes in federally designated revitalization areas to be sold at 50% discounts. The OND and TND programs were not restricted to urban localities, and HUD's revitalization areas covered a large number of neighborhoods. In 2006, the OND and TND programs were combined and replaced by a new Good Neighbor Next Door (GNND) program that closely mirrored their structure and added firefighters and emergency medical technicians as eligible participants. The GNND program is ongoing.

GNND participants must arrange their own home purchase financing. The discounted price available through GNND can be combined with other home purchase assistance. GNND buyers seeking an FHA-insured mortgage are eligible for a minimum down payment of \$100 instead of the standard 3.5 percent of the adjusted value of the property and can include closing costs and prepaid expenses in the FHA-insured mortgage.

The GNND program has no income limits and is not restricted to first-time buyers. GNND homebuyers are required to sign a second mortgage and note for the discount on the purchase price of the home. No interest or payments are required as long as the borrower remains in the home for a total of 36 months. After three years, HUD's second mortgage is released provided that the participant has completed and returned the required annual certifications, is not currently under investigation by the Office of Inspector General, and complies with all GNND regulations.

The primary limitation of the GNND program is the very small number of homes available for purchase. HUD designates GNND revitalization areas based on neighborhood household income, homeownership rate, and FHA-insured mortgage foreclosure activity. This limits the inventory of homes eligible for sale through the program. In addition, in order to contain program costs, the number of homes that can be sold to GNND buyers in any federal fiscal year is capped at 5 percent of the homes taken into FHA's REO inventory during the previous fiscal year. The cap applies on a national basis, but HUD reserves the right to geographically apportion it to address regional or local differences in the number of homes sold through the GNND program.



Annual cap amounts are calculated based on FHA's REO inventory as reported in the 2021 Annual Report to Congress Regarding the Financial Status of the FHA Mutual Mortgage Insurance Fund, Table D-20.

In the early years of the program, the number of available homes was relatively modest but sufficient to support a small number of GNND purchases in Virginia, mainly in Hampton Roads. The availability of homes rose significantly as a result of the national foreclosure crisis, peaking in 2014, but has declined steadily since. By 2019, the ongoing decline in foreclosure levels had reduced the number of available homes to a very low level. Since 2020, COVID foreclosure restrictions have largely eliminated the inventory of available homes. During 2022, weekly property listings have only shown a small handful of states with available homes. Frequently, Virginia has no listings; when homes in Virginia are listed, it is rarely more than one or two statewide.

Eligible GNND purchasers identify available homes using FHA's online foreclosed homes disposition site at <https://www.hudhomestore.gov/Home/GNND.aspx>. Homes are listed for just seven days, requiring interested buyers to regularly check the site and be prepared to very quickly to place a bid on an available property. In cases of multiple bids, the selection is made by random lottery. This makes finding a home extremely time consuming for potential program participants and substantially reduces the likelihood of both finding a home and making a successful bid. This has discouraged potential participants and undermined the ability of the program to make a significant impact on need.

## 2. FHLBank Atlanta's Community Heroes Program (CHP)

In recent years, the limited number of REO properties along with a steep decline in the overall inventory of for-sale homes, has turned attention away from geographically targeted purchase programs focused on specific properties and instead toward the provision of assistance that can be applied to any purchased home. An example is the Community Heroes Program (CHP) offered by the Federal Home Loan Bank of Atlanta (FHLBank Atlanta) in 2019. CHP provided funds for down payment and closing assistance grants to law enforcement officers, first-responders, and teachers through a partnership

between state and local program administrators and FHLBank Atlanta member banks. Grant funds were competitively allocated to local governments and housing finance agencies, which worked with FHLBank Atlanta member banks to originate the grants in conjunction with mortgage loans.

Virginia Housing participated in CHP and provided \$630,000 of its REACH Virginia funds for a 3-to-1 match of FHLBank Atlanta's \$210,000 contribution. This created an \$840,000 Community Heroes grant program in Virginia that provided Virginia Housing funded mortgage loans together with down payment and closing cost grants of \$8,000 each to 105 eligible public service workers. Homebuyers were required to contribute at least 1% of the sales price toward the purchase of the home, occupy the home as a primary residence, and complete Virginia Housing's homebuyer education course. Loans and grants were offered through Virginia Housing-approved lenders that were also FHLBank Atlanta members.

Income limits for the Community Heroes program were set at between 80% of area median income (AMI) and the lesser of 120% AMI or Virginia Housing's standard income limit. These limits enabled public service workers to receive down payment and closing cost grants whose income was above the eligibility threshold for FHLBank Atlanta's and Virginia Housing's regular down payment and closing cost assistance grant programs. FHLB Atlanta's regular grant programs are restricted to borrowers with income below 80% of AMI, and Virginia Housing's regular grant programs are limited to borrowers with income below 80% of Virginia Housing's standard income limits.

The Community Heroes program had several drawbacks. First, the financial commitment from FHLBank Atlanta was relatively small, which limited the program's impact and the ability to conduct a widespread marketing/awareness campaign. Second, some participating lenders did not like the process required to request the FHLBank Atlanta portion of the down payment assistance grant. Finally, only FHLBank Atlanta member banks could participate. Following the initial round of grant awards in 2019, the FHLBank Atlanta chose not to continue this program.

### **3. The HELPER Act - H.R.3172 & S.2981**

Originally introduced in the House by Rep. John Rutherford (R-FL), and since followed by a companion bill from Senators Marco Rubio (R-FL), and Jon Ossoff (D-GA), this legislation would provide a means for HUD to assist home public service workers with home purchase without having to rely solely on the discounted sale of FHA foreclosed homes through the GNND program. The legislation would create a special FHA insurance program targeted to police and corrections officers, firefighters, paramedics and EMTs, and pre-K-12 teachers that would eliminate down payment requirements and offer 100% financing for one-time home purchases.

The new program would also eliminate monthly mortgage insurance premium requirements. Under the normal FHA program, most homebuyers who cannot afford a 20% down payment must pay a monthly insurance premium in addition to an upfront fee. As an example, a \$200,000 home would normally require a monthly premium of \$140. Under the HELPER Act, the additional monthly premium is eliminated. In place of monthly premiums, a one-time upfront premium of 3.6% would be charged. Upfront premiums can be financed as part of the mortgage loan thereby making them more affordable. Regular FHA price limits would apply, and seller assistance would be limited to 6%.

FHA loans made through the HELPER Act program would not be geographically restricted and could be used in combination with other local, state, and federal assistance including discounted homes purchased through the GNND program.

The HELPER program would enable critical public service workers to obtain the benefits of FHA flexible underwriting standards with no down payment requirement and no monthly insurance premiums. If enacted by Congress, Virginia Housing would offer this loan product as likely would other FHA lenders.

## **RECOMMENDATIONS**

The HUD Good Neighbor Next Door Program, which HB2072 directs to be used as a model for a Virginia program, is currently not functioning well due to the extremely limited inventory of foreclosed homes available for sale. Following its program model in Virginia would require identification of an alternative means of providing homes for purchase in revitalization areas at substantially reduced cost. Local government neighborhood revitalization programs and non-profit housing developers are seeking to do this, but deeply discounted homes are only produced in limited numbers and are then sold pursuant to local government and non-profit priorities regarding how assistance is targeted.

In light of the HELPER Act now pending before Congress, it would seem prudent for Virginia to await the outcome of that legislative proposal. If it passes, Virginia can then monitor its success in meeting the needs of critical public service workers. To the extent that additional assistance is needed to supplement that offered through the HELP Act program, Virginia could then consider the type and magnitude of the assistance that is most-needed based on initial program experience and housing market conditions, and consider alternative means of providing such assistance. Currently, given rapidly changing housing market and economic conditions, it is difficult to predict the specific type of home purchase assistance to which additional state resources should be directed in order to best assist critical public service workers in affording home purchases.