

From the Editor

Why do so many low-income households settle for renting? Similarly, why are homeownership rates for minority families so disproportionately low? Despite housing industry efforts to answer these two questions in recent years, many of the theories advanced fail to consider how the emotional side of the decision factors into buying a first home.

In this issue, *Secondary Mortgage Markets* is proud to unveil new research by Freddie Mac economists Donald S. Bradley and Peter Zorn. Their work identifies a renter's comfort level with the homebuying and financing process as another critical variable capable of impeding homeownership among low-income and minority households.

Within these pages, you also will find a forward-looking examination by guest authors of the folly the housing finance community faces if it continues to ignore the default risks posed by earthquakes. Another article worthy of note is an easy-to-swallow explanation of changes occurring within the often impenetrable world of financial accounting.

As the incoming editor of *SMM*, I plan to present the best that Freddie Mac has to offer but do so in a way that does not require a Ph.D. in Economics in order to absorb the insights. I hope you like the results.

H. Jane Lehman
Editor

Freddie Mac Helps Renters Buy Leased Homes

Freddie Mac will help renters purchase the homes in which they live under a new pilot program to encourage lease-purchase mortgages.

The experimental project gives nonprofit housing groups or public agencies a way to help cash-poor but otherwise qualified borrowers overcome the down-payment obstacle.

Under the Freddie Mac pilot, a housing group purchases a starter home with conventional financing through a participating lender. It then leases the home to a renter who is financially capable of carrying the monthly payments but does not possess sufficient savings for a down payment. The program also spares the nonprofit group from paying a 1.5-percent delivery fee typically charged by a lender on a nonowner-occupied property.

During a lease period of one to five years, the resident pays rent comparable to the sponsor's principal and interest payments plus taxes and insurance. A portion of the rent payment is placed in reserve until enough cash accumulates to cover a 5-percent down payment and closing costs.

Instead of securing new financing to purchase the property, the renter exercises a one-time option to assume the loan. The renter must put down at least 5 percent of the property's value, with 3 percent amassed from excess rent

payments or personal cash holdings. Borrower sweat equity, nonrepayable grants from the nonprofit and gifts from relatives can count toward the remaining 2-percent down payment.

Before taking title to the property, the renter must complete a comprehensive homeowner education program taught by the sponsoring group. Other requirements include a timely rent-payment record and a final underwriting review.

Under other lease-purchase programs, the lender must hold the rental property mortgage until the tenant buys out the housing group. By purchasing the assumable loans at the time of origination, Freddie Mac provides lenders with immediate liquidity.

Zions Mortgage Company, based in Salt Lake City and one of Utah's largest mortgage originators, is the first lender to offer lease-purchase loans under the pilot. Freddie Mac's \$50 million program is sufficient to fund more than 500 lease-purchase transactions.

Although interest in this type of program is high among tenants seeking to own, many housing groups find it difficult to secure financing to cover more than ten to 15 lease-purchase home acquisitions a year. Freddie Mac expects its pilot will provide sponsoring agencies with greater funding and leveraging opportunities, thereby prompting more renter-to-owner conversions.