

Performance Audit

**URBAN REDEVELOPMENT AUTHORITY
RESIDENTIAL CONSUMER
PROGRAMS**

Report by the
Office of City Controller

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June 2011

June 7, 2011

To the Honorables: Mayor Luke Ravenstahl and
Members of Pittsburgh City Council:

The Office of City Controller is pleased to present this Performance Audit of the *Urban Redevelopment Authority Residential Consumer Programs* conducted pursuant to the Controller's powers under Section 404(c) of the Pittsburgh Home Rule Charter.

EXECUTIVE SUMMARY

The Urban Redevelopment Authority (URA) offers five loan programs to rehabilitate homes: Home Improvement Loan Program (HILP), Homeowners' Emergency Loan Program (HELP), Pittsburgh Home Rehabilitation Program (PHRP), Pittsburgh Party Wall Program (PPW) and Keystone Renovation and Repair Program (R&R). The Pittsburgh Home Ownership Program (PHOP) provides low interest mortgages to qualifying buyers.

Programs have varying income eligibility requirements and interest rates. Income limits are higher for homes in target areas. Target areas are neighborhoods or parts of neighborhoods where little or no residential investment is occurring. Target area selection by the Department of City Planning is based on US Census tract demographics.

This audit assesses compliance with program eligibility criteria, program participation in target areas and program marketing by local community organizations.

Findings and Recommendations

Home Improvement Loan Program (HILP)

The HILP loan provides financial assistance to eligible City homeowners for rehabilitating and improving their homes. No equity requirement allows new homeowners to participate.

Finding: The maximum loan amount is \$15,000; all the loans were in compliance with this loan amount criterion.

Finding: Of the 27 HILP loans 23 or 86% were within the income guidelines of the program. The remaining 4 loans or 14% were over the income guidelines indicating waivers had been approved or the loans were for properties in target areas. HILP loans in targeted areas have no income restrictions.

Finding: The map provided by URA did not distinguish streets located within a target area. A list of all the streets in a target area does not exist.

Recommendation: For target areas, a street listing should be generated and made available on the URA's web site and in hard copy. This would enable city residents to determine if their home is located in a target area.

Recommendation: Whether or not the property is in a target area should be designated on all loan documentation and in the URA loan database. Such information would make tracking of target loans easier.

Finding: Twenty seven (27) HILP loans were approved in our 42 month sample period. This amounts to .65 loans per month, or less than 1 loan per month.

Recommendation: The URA should investigate the reason(s) for such low participation in HILP loans and try to correct it. HILP is a valuable resource that should be utilized more.

Homeowners' Emergency Loan Program (HELP)

HELP loans are available to low income homeowners for emergency repairs. Eligible repairs are limited to emergencies that have occurred within five (5) days of loan application.

Finding: Five days is a short period of time to apply for a loan and may prevent people from participating when help is needed.

Recommendation: The time to apply for a HELP loan should be increased. A two week window is a more reasonable and flexible time for people to find out about the program and apply for the loan.

Finding: Thirteen (13) or 72% of the HELP loans were in compliance with the loan award requirements. Five (5) or 28% of the loans were over the maximum loan limits. Seven (7) or 39% of the individuals filing for loans were over the age of 62.

Finding: Eighteen loans in the 24 month audit scope period amounts to .6 loans a month. This is not even 1 per month. It appears that participation in this program is low.

Finding: Exceedingly low income limits may be reason for poor program participation.

Recommendation: HELP income limits should be increased so more City residents are eligible for the program without needing a waiver.

Program Income Eligibility and Loan Amount Waivers

Finding: Of the 18 HELP loans, 2 applicants exceeded the loan income limits and 5 loans exceeded the maximum loan amount. All these loans were approved by the URA's Appeals Committee and Director of Housing.

Finding: The Director of Housing can choose to accept or reject the recommendation of the Appeals Committee and grant waivers of HELP, PHRP and PPW program guidelines.

Finding: Nowhere on any program literature does it state that program income requirements or loan amount can be increased in special circumstances.

Recommendation: URA residential program promotional material should note that a waiver may be available in certain circumstances. This could increase program participation by residents who exceed the income eligibility limits but could benefit from the loan programs.

HELP Loan Default Rate

Finding: There were 3 HELP loans that are in default. Any loans that default are forwarded to Credit Management Services. This is 17% of all HELP loans made.

Finding: The 3 defaulted loans were in 3 different neighborhoods: Fairywood, Marshall Shadeland and Spring Hill-City View.

Recommendation: Seventeen percent is a high default rate for HELP loans. URA administration should investigate the reasons why these loans went into default. This knowledge might help the administration prevent future default occurrences.

Pittsburgh Home Rehabilitation Program (PHRP)

The PHRP loan provides financial and technical assistance to eligible homeowners for rehabbing and improving residential owner-occupied properties

Finding: Twenty eight (28) or 34% of PHRP loans were made to recipients 62 years of age or older.

Finding: The PHRP program helps improve home value and livability.

Recommendation: The URA should work with AARP (American Association of Retired Persons), Citiparks Senior Centers and similar groups to promote the PHRP program to senior citizens.

Pittsburgh Party Wall Program (PPW)

PPW's objective is to provide timely financial aid and technical assistance to qualified home owners for reconstructing exposed party walls on residential row houses.

Finding: The Pittsburgh Party Wall Program is the Authority's most popular residential repair program. The URA awarded 121 PPW grants from January 1, 2007 through July 10, 2010 in 32 city neighborhoods.

PPW provides funding to landlords who rent to low and moderate income people if at least 51% of the units are occupied by households who meet the annual gross income requirement of not exceeding the 80% of the Pittsburgh Area Median Income adjusted for family size.

Finding: Twenty (20) or 16% of the 121 PPW grants were awarded to owners of rental properties during our audit scope.

Finding: There were 5 PPW grants awarded to participants over the maximum income limits. All 5 of these grants were located in a target area where no income limits exist.

Finding: There were 8 PPW grants awarded to participants over the maximum grant amounts. All of these grants were approved by the Appeals Committee and the Director of Housing consistent with program guidelines.

Keystone Renovation & Repair Program (R&R)

This is a State program offered by the Pennsylvania Housing Finance Agency (PHFA) administered by the URA. The applicant must have an acceptable credit rating of at least 620 which is higher than most conventional loans.

Finding: Only 4 R&R loans were awarded during the scope of our audit: one in 2008 in South Oakland, two in 2009 in Central North Side and Homewood West and one in 2010 in Bon Air. All loans were in compliance of the minimum and maximum loan amounts. No household income information was available in the data received from the URA.

Overall Loan Default Rate

Finding: According to URA staff, 3 of the 252 loans in the audit period defaulted. This represents 2% of all loans awarded.

Pittsburgh Home Ownership Program (PHOP)

From January 1, 2007 to July 21, 2010, the PHOP program made 92 loans. Of these, 19 were made in the Target Neighborhood areas and 73 were in non target areas or General Program neighborhoods.

Finding: The auditors tested whether the income limits and loan amounts were within the maximum limits of the PHOP Program per the database sent by the URA Housing Department. All 92 loans in the database did meet these criteria for the loans.

Recommendation: The URA should continue the good job they are doing in making sure applicants are within the guidelines of the PHOP program.

Finding: The current rate on the PHOP loan program is 5.99 %. This rate is not competitive with current 30 year loans and shorter duration loans. These loans are currently between 4 and 4.5 % in the private sector.

Program Funding

Each consumer program has a variety of funding sources including federal Community Development Block Grant (CDBG) and HOME funds and bond funds.

Finding: Some monies can be moved between housing programs depending on the program, funding source and household income eligibility.

Finding: Housing Recovery Program (HRP) funds were not utilized in 2006 and 2007.

Recommendation: The URA should make an effort to utilize all program funds in the year of allocation.

Statistics on Rejected Loans

Finding: The URA does not receive rejection information on the HILP programs from their lenders. They do receive information on canceled loans for PHOP, but not rejected loans.

Finding: According to the Consumer Programs Manager, the URA does not track rejected grants for PPW because the main reason for rejection is that potential applicants are over the income limits.

Recommendation: The URA should track all types of rejected loans in order to identify any programs inadequacies or shortcomings.

Credit Records and Banks

Finding: URA residential housing programs for low income families do not require acceptable credit records while the one program available to higher income applicants requires an acceptable credit record.

Finding: An acceptable credit record varies by lender. Each bank determines its own acceptable credit requirement for the HILP loans.

Finding: Parkvale Bank no longer offers participation in the HILP loan program. The auditor contacted Parkvale Bank, and was told that they had not done URA loans for a number of years and was referred to “one of the other banks”.

Recommendation: URA staff should keep current information about banks and bank participation. If a bank no longer wants to participate in the program its name should be eliminated from program materials.

Program Income Eligibility

Finding: Program income eligibility are set by the US Department of Housing and Urban Development (HUD). However these income limits do not appear to be set in stone.

Finding: URA residential housing program loan eligibility limits may be ‘waived’ at the discretion of the Housing Director. This waiver option is not posted on the URA website or in any program literature available to the public.

Recommendation: Waiver information should be included on program literature. This may encourage more loan applicants, especially people close to the income limits.

Community Group Marketing

According to URA administrators, Community Development Corporations (CDCs) that receive operating funds from the City (e.g., CDBG, Neighborhood Needs money) must market URA programs.

Finding: Representatives of five organizations stated that they received information from the URA regarding residential loan programs. This is 46% of the respondents and implies that over half of the respondents did not receive residential program information from the URA.

Finding: From the auditor’s survey, it appears that the URA is not doing a good job of providing promotional information on a regular basis to local community development organizations.

Recommendation: The URA should provide more information to local agencies on a regular basis regarding its residential loan programs in a consumer-friendly form.

The URA home improvement and mortgage assistance programs are a valuable resource for the City residents. We are pleased that the Authority agrees with many of our recommendations to further improve these programs.

Sincerely,

Michael E. Lamb
City Controller

INTRODUCTION

This performance audit of the Urban Redevelopment Authority (URA) Residential Consumer Programs was conducted pursuant to section 404(c) of the Pittsburgh Home Rule Charter. This is the first performance audit of the home ownership and home improvement loan programs offered by the URA.

OVERVIEW

The URA offers five different programs to rehabilitate homes throughout the city of Pittsburgh: Home Improvement Loan Program (HILP), Homeowners' Emergency Loan Program (HELP), Pittsburgh Home Rehabilitation Program (PHRP), Pittsburgh Party Wall Program (PPW) and Keystone Renovation and Repair Program (R&R).

The URA also offers the Pittsburgh Home Ownership Program (PHOP) that provides low interest mortgages to qualifying buyers. The Neighborhood Housing Program (NHP) offers a deferred 0% second mortgage on new construction to income eligible home buyers.

Programs have varying income eligibility requirements and interest rates. Income limits are higher for homes in target areas. Target areas are neighborhoods or parts of neighborhoods where little or no residential investment is occurring. Target area selection by the Department of City Planning is based on US Census tract demographics.

Tax Abatements

Tax abatement is a reduction or exemption from taxes granted by a local government on a piece of real property for a specified length of time. The URA advertises abatement availability for purchasing or building a new home or making improvements on an existing home. The standard County, City and School District tax abatement is three years. Tax abatement in target growth neighborhoods can be as long as ten years. Abatements are approved by the City Department of Finance.

Home Improvement Loan Program (HILP)

The HILP's objective is to provide financial assistance to eligible City homeowners for rehabilitating and improving their homes. No equity requirement allows new homeowners to participate. Income limits must not exceed the limits as outlined in the Program Areas of the URA's map. The loan amount depends on the borrower's financial status. The current interest rate (as of August 2010) is 5.99% with terms of 10, 15 and 20 years. Homeowners are permitted to do their own construction work, but can not finance costs associated with their labor. Only cost of materials would be allowed to be financed.

The program is funded by the sale of qualified Home Improvement Revenue Bonds issued by the URA. Eligible borrowers granted these mortgage loans must be a

natural person, must be an owner-occupant of the property and not have an income to exceed the following: (household income as a percentage of Pittsburgh area median).

<u>Household Size</u>	<u>Non-Target or Program Area</u>	<u>Target Area*</u>
1 or 2 persons	100%	125%
3 or more persons	115%	140%

*Some borrowers with incomes that exceed the Target Area income limits may be eligible for HILP financing on a per case basis.

Actual dollar amounts or income requirements are written on program material.

Eligible properties must meet the following criteria: must be located in the City, must be a permanent structure used primarily for year-round residential use, may contain up to four (4) units (one in which must be owner occupied) and must be for residential use only. Converting a property from a business to residential use is not permitted.

The HILP loans are purchased from participating lenders according to FHA Title I Requirements. The borrower must hold a fee simple or life estate interest in the property. However, loans may be issued to property owners that owns one-half (1/2) or more interest on the title of the property. This type of loan would be limited to \$12,500. The maximum HILP loan amount is \$15,000 with a maximum term of twenty (20) years. The interest rate for HILP loans will be determined on each program opening or bond issue based on interest rate, size of bond issue and actual cost of the bonds.

All HILP loans will be insured according to FHA Title I Property Improvement Loan Insurance Program. The borrower must meet credit underwriting standards for the participating lender. The HILP loan can not be used to refinance existing indebtedness on the property. Only improvements that meet FHA Title I Program requirements are allowed. A \$100 loan fee will be charged by the URA and can be financed as part of the HILP loan. The URA would require being in a second lien position on the property.

The homeowner would be responsible for selecting a contractor and submitting a signed, written proposal from the contractor that outlines the work to be performed along with the itemized costs.

Homeowners' Emergency Loan Program (HELP)

The HELP objective is to provide financing in a timely manner to homes that have suffered damage that present health and safety hazards. HELP loans are offered at zero interest (0%) to low income City homeowners for emergency repairs deemed necessary by the Allegheny County Health Department.

HELP funding is provided by the following to rehabilitate single-family, owner-occupied homes: Federal appropriations from different sources, URA funds received from the Commonwealth of Pennsylvania and proceeds from the sale of qualified URA bonds.

Eligible borrowers to receive HELP loans must meet the following: must be a 'natural' person (not a corporation), an owner occupant of the property, meet the annual household income requirement of not exceeding 50% of the Pittsburgh Area Median Income with adjustments accordingly for family size, must hold a fee simple or life estate interest in the property. However, a borrower may own less than a full interest on the property as long as all deed holders sign the URA mortgage and documents.

Eligible properties for HELP loans must meet the following: property must be a permanent structure used for year-round residential use in the City, may not be more than two (2) connected units and must be owner-occupied. Vacant properties are ineligible for HELP loans.

Eligible repairs must be limited to emergencies that have occurred within five (5) days of loan application. Emergency conditions eligible must meet Allegheny County Health Department's Class I and Class II Emergency Conditions as follows: Carbon Monoxide Hazard, Gas Leak or Discontinued Gas Service, Severe Electrical Condition or Discontinued Electrical Service, No Heat during Winter Conditions, Severe Structural Deficiencies, No Water or No Hot Water, Polluted Water Supply, Missing Sanitary Facilities/Uncontained or Backed-Up Sewage and Massive Rodent/Insect Infestation.

Participating private lenders service HELP loans, but the URA oversees the originating and closing of the loans. The maximum loan amount is \$5,000 for single unit properties and \$7,000 for two (2) units; \$500 is the minimum loan amount. The maximum loan term is ten (10) years.

All rehab work performed under HELP are subject to inspections by the URA and must comply with all relevant building codes.

Pittsburgh Home Rehabilitation Program (PHRP)

The PHRP objective is to provide financial and technical assistance to eligible homeowners for rehabbing and improving residential owner-occupied properties throughout the City. PHRP offers low interest loans and grants to low income homeowners to bring their properties into compliance with city codes and to improve energy efficiency.

Funding sources for PHRP are the following: federal appropriations, funds received by the URA from the Commonwealth of Pennsylvania designated for rehab and improvement of owner-occupied properties, proceeds from the sale of URA Home Improvement Revenue Bonds and revolving loan re-payments from the same sources.

Eligible borrowers must meet the following: must be a natural person, property must be owner-occupied, the annual household income may not exceed 80% of the Pittsburgh Area Median Income according to family size, maximum debt to income ratio will not exceed 55% and must hold a fee simple or life estate interest in the property. The owner must have at least one-half (1/2) or more interest in the title of the property.

Eligible properties for PHRP loans must meet the following: must be a permanent structure used primarily for year round residential use (if the property is currently vacant, the borrower must certify in writing their intent to occupy it within thirty (30) days of work completion) in the City, cannot contain more than two (2) connected units, must be owner-occupied and must comply with Environmental Review regulations and procedures required by the federal government and the State of Pennsylvania.

PHRP offers an optional Energy Efficiency Component which provides a \$2,500 grant and increased borrowing limits for air leakage, poor functioning heating and cooling systems, insufficient and poorly installed insulation and inefficient or leaky windows. A \$100 fee is required prior to loan closing that is applied to the cost of the Energy Efficiency Audit and performance testing. The maximum loan limits will be increased to \$35,000 for single unit properties and \$45,000 for two (2) units. These increased loan limits can only be used for qualified Energy Efficiency improvements.

PHRP funding is provided by private lenders that will originate and service the loans. Loan closings will be performed by the URA. CDBG funds and HOME funds may be used to write down the interest rate set by the PHRP. The maximum loan is \$25,000 for single unit properties and \$35,000 for two (2) units and the mentioned above loan amounts for the optional Energy Efficiency Component, if applicable. The minimum loan is \$3,000. The maximum loan term is twenty (20) years and twenty-five (25) years for Energy Efficiency loans. A maximum grant of \$3,000 may be available to physically disabled borrowers to make their unit accessible. A maximum grant of \$800 may be available to repair or replace public sidewalks.

A Community Improvement Grant is available for exterior home improvements up to a maximum of \$2,000. A lead hazard reduction work grant is available to those borrowers required to meet HUD's Lead Safe Regulation regulations.

All PHRP rehabbed properties must be inspected by URA officials and meet Allegheny County and City of Pittsburgh codes.

Pittsburgh Party Wall Program (PPW)

PPW's objective is to provide timely financial aid and technical assistance to qualified home owners for the reconstructing exposed party walls on residential row houses that present health and safety hazards to the occupants and the general public.

PPW's funding sources include federal appropriations and funds received by the URA from the Commonwealth of Pennsylvania designated for the rehabilitation and improvement of residential homes within the City.

Eligible applicants must meet the following accordingly:

- If the unit is owner occupied, the annual gross household income can not exceed 80% of the Pittsburgh Area Median Income adjusted for family size.
- If the unit is a rental, at least 51% of the units must be occupied by households with gross annual incomes that don't exceed 80% of the Pittsburgh Area Median Income adjusted for family size.
- Annual income will be based on current income projected from the date of application and based on gross income from all sources before taxes or withholdings from all household members who are not minors or full-time students. The most recent federal income tax form must be submitted to verify income history.
- The grantee must hold a fee simple or life estate interest in the property.
- Grants may be issued if the owner has one-half (1/2) or more interest in the title of the property.
- The grantee may act as their own general contractor if they meet all the general contractor requirements outlined in the program guidelines and submits project cost certifications in a form acceptable by the URA.

Eligible properties must meet all of the following: must be located in the City of Pittsburgh, must be a permanent residential structure used year round and must not contain more than four (4) connected units. Vacant properties are ineligible for PPW funds. Property must not violate any Allegheny County Health Department Class I or Class II Emergency Conditions codes.

All areas of the City are eligible to qualified applicants. Construction must be limited to the rehabilitation of an existing exposed party wall or a party wall that will be exposed from the demolition of an adjoining structure.

The URA is responsible for administering all PPW funds. The maximum grant amount is \$10,000. Demolition costs are not eligible to be covered under PPW. No grant will be issued for prior work performed before URA involvement.

All properties rehabilitated under PPW must be inspected by the URA and BBI. All work must meet Allegheny County and the City of Pittsburgh codes along with the General Specifications of the URA. Outlined payment procedures must be followed.

Keystone Renovation & Repair Program (R&R)

This program is a state program offered by the Pennsylvania Housing Finance Agency (PHFA) in which the URA acts as an administrator. This program allows the

household income to be as high as \$95,700. The minimum loan amount is \$2,500 and the maximum is \$35,000. A person must have an acceptable credit rating of at least 620 which is higher than most conventional loans. Little or no equity is required so new homeowners are eligible to participate. The current interest rates are 6.375% to 8.875%, depending on the term of the loan of 10, 15 or 20 years and the Combined Loan to Value ratio (CLV). The CLTV ratio cannot exceed 120% of the current property value including outstanding mortgage debts. The CLTV is determined by dividing the total property debts by the current property value; the lower the percentage the better the interest rate.

Pittsburgh Home Ownership Program (PHOP)

The Pittsburgh Home Ownership Program provides fixed, low interest, 30 year mortgage loans for low to moderate income home buyers. The program has a low down payment requirement of 3%. The URA offers a down payment/closing cost assistance grant of up to \$3,000 for income eligible borrowers.

The requirements of this program include that you must own and occupy the City of Pittsburgh home. It may have 1 to 4 residential units. There is income and purchase price limits shown on the Pittsburgh Home Ownership program map. If you are purchasing in a program area, you must either be a first time buyer or haven't owned a home in the last three years. There are 1 ½ points on the loan amount that is split equally between the buyer and seller. There are other fees and the purchaser may be required to attend homebuyer's education.

PHOP income limits for households in target neighborhoods are \$75,000 for 1-2 persons and \$87,500 for three or more person households. Household income limits for all other neighborhoods are \$62,500 for 1-2 persons and \$71,900 for 3 or more person households.

Maximum loan amounts are based on the number of building units and location of the property. Maximum loan amounts for properties in target neighborhoods range from \$264,000 for a one unit to \$480,000 for a four unit property. Maximum loan amounts for properties in non-target neighborhoods range from \$216,000 for a one unit to \$393,120 for a four unit property.

There are four employees in the Consumer Programs Department; one manager, two Program Officers and one Finance Specialist.

SCOPE

The scope of this performance audit is the URA's residential home buyer loans and home improvement loans awarded for the years 2007 thru July 2010.

OBJECTIVES

1. To assess loan policy and procedures.
2. To assess eligibility compliance criteria for each program in the testing sample.
3. To assess program participation in target areas.
4. To assess the marketing and advertising of programs by local community organizations.
5. To make recommendations for improvement.

METHODOLOGY

The auditors interviewed the Executive Director of the URA, Director Department of Housing and the Manager Consumer Programs, Housing Department; reviewed the URA's guidelines and summary sheets for each residential loan programs for rehabilitation and homeownership

The auditors did not access the URA's paper files and used the URA's excel databases of the consumer home improvement loan programs provided to the auditors via email. This included the following information for each borrower per loan program: neighborhood, zip code, note date, last name, address, income, sex, family size, grant/loan amount and age.

Databases of all the consumer home improvement loan programs within the scope of the Audit were reviewed and analyzed for compliance with program income eligibility requirements and loan limits. For each home improvement program, a breakdown per neighborhood, number of loans issued and income requirement compliance were reported.

The auditors tested the Pittsburgh Home Ownership Program database as to whether it complies with the income guidelines and loan amounts for the target and non-target areas.

To assess the URA's marketing tactics; a survey of 22 community groups was conducted in October-November 2010 to determine if they received information on the residential programs offered by the URA. This survey was performed either through email or telephone.

FINDINGS AND RECOMMENDATIONS

Residential Home Improvement Loan Compliance Testing

The auditors examined the five home improvement loan programs offered to city residents for residential repairs. Each program has eligibility requirements based on household size, income and neighborhood location. Some lower income neighborhoods are considered “target areas” and, therefore, have no program income limits.

For each of the loans, the funding allocation and expenditures per year, the number of loans per neighborhood and compliance with income limits in target and general program areas were examined.

Targeted Growth Zone Neighborhoods

Targeted growth zone neighborhoods are determined by City Planning based on the 2000 Census and will be updated with the 2010 Census when available. There are four criteria for the targeted growth areas that were compiled and analyzed in 2007: the lowest number of building permits issued, neighborhood vitality index score, majority of the property is not owned by the Housing Authority and majority of the neighborhood is not new construction. The purpose of using these four criteria is to spur residential development in areas where there was no investment occurring. The amount of public demolition is also looked at, but not included as a criterion.

There are 27 targeted growth zone neighborhoods throughout the City: Allentown, Arlington, Beltzhoover, California-Kirkbride, Elliot, Esplen, Fineview, Hazelwood, Homewood North, Homewood South, Homewood West, Knoxville, Larimer, Lincoln-Lemington-Balmar, Lower Lawrenceville, Upper Lawrenceville, Manchester, Spring Garden, Upper Hill, Uptown, West End, East Allegheny, Hays, Marshall-Shadeland, Perry South, Sheraden and Mt. Oliver.

Home Improvement Loan Program (HILP)

The HILP loan provides financial assistance to eligible City homeowners for rehabilitating and improving their homes. No equity requirement allows new homeowners to participate. Income limits must not exceed the limits as outlined in the Program Areas of the URA’s map. The loan amount depends on the borrower’s financial status. The current interest rate (as of August 2010) is 5.99% with terms of 10, 15 and 20 years.

From January 1, 2007 through July 1, 2010 the URA awarded 27 HILP loans in 19 Pittsburgh neighborhoods. The table below shows which neighborhoods these loans were made in. Target areas identified by one asterisk (*) and those neighborhoods that are a mix of target and program neighborhoods by two asterisks (**).

TABLE 1

HILP NUMBER OF LOANS BY NEIGHBORHOOD FROM JANUARY 2007-JUNE 2010	
Neighborhood	# Loans
Allentown **	1
Arlington **	1
Bloomfield	2
Carrick	1
Central Lawrenceville **	1
Central North Side **	3
East Hills *	2
Highland Park	1
Knoxville **	1
Manchester **	1
Marshall-Shadeland	1
Mt. Washington	2
Overbrook	1
Perry North	1
Point Breeze	1
Polish Hill	3
Troy Hill	1
Upper Lawrenceville	2
Westwood	1
TOTAL	27

*Target Area

** Mixed Target Area

Finding: The maximum loan amount is \$15,000; all the loans were in compliance with this loan amount criterion.

Finding: Of the 27 HILP loans 23 or 86% were within the income guidelines of the program. The remaining 4 loans or 14% were over the income guidelines indicating waivers had been approved or the loans were for properties in target areas. HILP loans in targeted areas have no income restrictions.

Loan information for the 4 loans outside the income guidelines included the street address. However, the map provided by URA did not distinguish streets located within a target area. Some neighborhoods have a small portion within the target area; other neighborhoods are entirely in a target area.

Finding: A list of all the streets in a target area does not exist.

RECOMMENDATION NO. 1:

For target areas, a street listing should be generated and made available on the URA's web site and in hard copy. This would enable city residents to determine if their home is located in a target area.

RECOMMENDATION NO. 2:

Whether or not the property is in a target area should be designated on all loan documentation and in the URA loan database. Such information would make tracking of target loans easier.

HILP has historically been funded with tax exempt bond funds. According to the URA, the cost of a new bond issue is prohibitive, so for the last few years the Authority has been recycling loan repayments into the indenture to make new loans. The URA plans to continue this practice. In May 2010, the URA paid off the outstanding HILP bonds.

Finding: Twenty seven (27) HILP loans were approved in our 42 month sample period. This amounts to .65 loans per month, or less than 1 loan per month.

RECOMMENDATION NO. 3:

The URA should investigate the reason(s) for such low participation in HILP loans and try to correct it. HILP is a valuable resource that should be utilized more.

Homeowners' Emergency Loan Program (HELP)

HELP loans are available to low income homeowners for emergency repairs. Eligible repairs are limited to emergencies that have occurred within five (5) days of loan application. Eligible emergency conditions must meet Allegheny County Health Department's Class I and Class II Emergency Conditions, such as winter furnace replacement. The maximum loan amount is \$5,000 for single unit properties and \$7,000 for two (2) units; \$500 is the minimum loan amount. The maximum loan term is ten (10) years. All are offered at 0% interest.

From January 1, 2008 through July 10, 2010, the URA awarded 18 HELP loans in 16 city neighborhoods. All HELP loans issued during the audit scope were for single units.

Finding: Thirteen (13) or 72% of the HELP loans were in compliance with the loan award requirements. Five (5) or 28% of the loans were over the maximum loan limits.

Finding: Seven (7) or 39 % of the individuals filing for loans were over the age of 62.

Table 2 displays the HELP loans issued by neighborhood.

TABLE 2

HELP NUMBER OF LOANS BY NEIGHBORHOOD FROM JANUARY 1, 2008-JULY 10, 2010	
Neighborhood	# Loans
Brookline	1
Carrick	1
Central North Side **	1
Elliot	1
Fairywood *	1
Garfield **	1
Highland Park	1
Manchester **	1
Marshall-Shadeland	1
Mt. Washington	1
Spring Garden	1
Spring Hill-City View **	1
Stanton Heights	3
Upper Hill **	1
Upper Lawrenceville	1
Westwood	1
TOTAL	18

*Target Area

** Mixed Target Area

Finding: Eighteen loans in the 24 month audit scope period amounts to .6 loans a month. This is not even 1 per month. It appears that participation in this program is low.

Table 3 shows the HELP income limits.

TABLE 3
HELP INCOME LIMITS
BY HOUSEHOLD

HOUSEHOLD SIZE	INCOME LIMIT
1 person	\$21,900
2 person	\$25,000
3 person	\$28,100
4 person	\$31,250
5 person	\$33,750
6 person	\$36,250

Finding: Exceedingly low income limits may be reason for poor program participation.

RECOMMENDATION NO. 5:

HELP income limits should be increased so more City residents are eligible for the program without needing a waiver.

Finding: Of the 18 HELP loans, 2 applicants exceeded the loan income limits and 5 loans exceeded the maximum loan amount. All these loans were approved by the URA’s Appeals Committee and Director of Housing on a case by case basis.

Finding: If a HELP, PHRP and PPW loan request exceeds the program limits or guidelines, it must be approved or disapproved by the URA’s Appeals Committee. This Appeals Committee is made up of four URA employees that will recommend approval or disapproval of the loan request to the Director of the Department of Housing. The Director of Housing can choose to accept or reject the recommendation of the Appeals Committee and grant any waiver(s) of the program guidelines on a case by case basis.

Finding: No where on any program literature does it say that program and income guidelines or loan amount can be increased in special circumstances.

RECOMMENDATION NO. 6:

URA residential program promotional material should note that a waiver may be available in certain circumstances. This could increase program participation by residents who exceed the income eligibility limits but could benefit from the loan programs.

Finding: There were 3 HELP loans that are in default. Any loans that default are forwarded to Credit Management Services. This is 17% of all HELP loans made.

Finding: The 3 defaulted loans were in 3 different neighborhoods: Fairywood, Marshall Shadeland and Spring Hill-City View.

RECOMMENDATION NO. 7:

Seventeen percent is a high default rate for HELP loans. URA administration should investigate the reasons why these loans went into default. This knowledge might help the administration prevent future default occurrences.

Pittsburgh Home Rehabilitation Program (PHRP)

The PHRP loan provides financial and technical assistance to eligible homeowners for rehabbing and improving residential owner-occupied properties throughout the City. PHRP offers low interest loans and grants to low income homeowners to bring their properties into compliance with city codes and to improve energy efficiency.

The difference between PHRP and HILP is the interest rate and income of the borrowing individuals. The interest rate for PHRP is 0% and covers lower income individuals. HILP currently offers a 5.99% interest rate for higher income individuals.

There were 82 PHRP loans issued from January 1, 2008 through July 10, 2010 in 37 city neighborhoods. All 82 loans met the maximum income criterion per household size. For a single unit home, the maximum loan amount is \$25,000 and \$35,000 for a two unit home.

Both the PHRP and HELP loans are funded with CDBG and loan repayment funds. According to the Manager Consumer Programs, the loan repayment funds are deposited into two different accounts: Installment Payment Collection Account and Dollar Bank Repayment Account. The URA's housing department receives weekly e-mails of the balances available in the repayment account. In accordance with CDBG regulations, the URA uses PHRP repayments prior to drawing on new CDBG funds.

The PHRP can also use funds from the HILP indenture/HILP repayments.

Table 4 shows the number of PHRP loans by neighborhood.

TABLE 4

PHRP NUMBER OF LOANS BY NEIGHBORHOOD FROM JANUARY 1, 2008-JULY 10, 2010	
Neighborhood	# Loans
Beechview	3
Beltzhoover	1
Bloomfield	1
Brighton Heights **	2
Brookline	5
Carrick	4
Central Business District **	1
Central Lawrenceville **	4
Central North Side **	4
Chartiers City	1
East Allegheny	2
East Hills *	2
East Liberty **	2
Elliot	2
Esplen	1
Fairywood *	2
Fineview	1
Garfield **	4
Greenfield	2
Homewood North **	1
Knoxville **	3
Lincoln Place	1
Lincoln-Lemington **	1
Lincoln-Lemington-Belmont **	2
Lower Lawrenceville	1
Marshall-Shadeland	1
Middle Hill *	2
Mt. Washington	3
Overbrook	1
Perry North	1
Polish Hill	5
South Oakland	2
South Side Flats	2
Spring Garden	2
Upper Hill **	6
Upper Lawrenceville	3
Windgap	1
TOTAL	82

*Target Area

** Mixed Target Area

Finding: Twenty eight (28) or 34% of PHRP loans were made to recipients 62 years of age or older.

Finding: The PHRP program helps improve home value and livability.

RECOMMENDATION No. 8:

The URA should work with AARP (American Association of Retired Persons), Citiparks Senior Centers and similar groups to promote the PHRP program to senior citizens.

There were no PHRP PLUS grants or loans issued during our audit scope. This program just began in 2010.

Pittsburgh Party Wall Program (PPW)

PPW's objective is to provide timely financial aid and technical assistance to qualified home owners for reconstructing exposed party walls on residential row houses. An untreated party wall can present health and safety hazards to the occupants and the general public. The PPW offers grants rather than loans to eligible home owners. These monies do not need to be paid back. The maximum grant is \$10,000 but if more money is needed grant funds can be provided to owner occupants on a case by case basis with a waiver request..

PPW is normally funded with CDBG funds except when a Historic District is involved.

Finding: The Pittsburgh Party Wall Program is the Authority's most popular residential repair program. The URA awarded 121 PPW grants from January 1, 2007 through July 10, 2010 in 33 city neighborhoods.

Table 5 shows the neighborhood and number of grants disbursed.

TABLE 5

PPW NUMBER OF GRANTS BY NEIGHBORHOOD FROM JANUARY 1, 2007-JULY 10, 2010	
Neighborhood	# Loans
Beltzhoover	1
Bloomfield	2
Brighton Heights **	1
California-Kirkbride*	15
Central Lawrenceville **	4
Central North Side **	11
Central Business District **	1
Crawford Roberts*	4
East Allegheny	4
East Hills *	2
Elliot	1
Esplen	1
Fineview **	1
Garfield **	10
Hazelwood **	6
Homewood North**	1
Homewood South*	2
Homewood West*	1
Lincoln-Lemington-Belmont **	3
Lower Lawrenceville	4
Manchester **	5
Marshall-Shadeland	5
Middle Hill*	7
Perry South**	3
Polish Hill	4
South Side Flats	2
Spring Garden	1
Spring Hill-City View **	4
Troy Hill	3
Upper Hill **	4
Upper Lawrenceville	5
West End	2
West Oakland**	2
TOTAL	121

*Target Area

** Mixed Target Area

PPW and Real Estate Companies

PPW provides funding to landlords who rent to low and moderate income people if at least 51% of the units are occupied by households who meet the annual gross income requirement of not exceeding the 80% of the Pittsburgh Area Median Income adjusted for family size. This provision allows for owners of rental properties to participate in the program and not just owner occupants.

TABLE 6

80% Income Limit Chart for PPW Grants and Loans	
Household Size	Income Limit
1 person	\$35,000
2 person	\$40,000
3 person	\$45,000
4 person	\$50,000
5 person	\$54,000
6 person	\$58,000

Finding: Twenty (20) or 16% of the 121 PPW grants were awarded to owners of rental properties during our audit scope.

PPW Funds

PPW did not receive funds from CDBG in 2007 budget year. For 2008 budget year, \$100,000 CDBG funds were received along with \$175,000 in 2009. The URA reallocated the unused HRP CDBG funds from budget years 2006 and 2007 totaling \$159,043 to the PWP.

Finding: There were 5 PPW grants awarded to participants over the maximum income limits. All 5 of these grants were located in a target area where no income limits exist.

Finding: There were 8 PPW grants awarded to participants over the maximum grant amounts. All of these grants were approved by the Appeals Committee and the Director of Housing consistent with program guidelines.

Keystone Renovation & Repair Program (R&R)

This program is a state program offered by the Pennsylvania Housing Finance Agency (PHFA) in which the URA acts as an administrator. This program allows the household income to be as high as \$95,700. The minimum loan amount is \$2,500 and the maximum is \$35,000. A person must have an acceptable credit rating of at least 620 which is higher than most conventional loans. Little or no equity is required so new homeowners are eligible to participate.

Finding: Only 4 R&R loans were awarded during the scope of our audit: one in 2008 in South Oakland, two in 2009 in Central North Side and Homewood West and one in 2010 in Bon Air. All loans were in compliance of the minimum and maximum loan amounts. No household income information was available in the data received from the URA.

Overall Loan Default Rate

Finding: According to URA staff only 3 of the 252 loans in the audit period defaulted. This represents 2% of all loans awarded.

Home Purchase Loan Program Compliance Testing

Pittsburgh Home Ownership Program (PHOP)

From January 1, 2007 to July 21, 2010, the PHOP program made 92 loans. Of these, 19 were made in the Target Neighborhood areas and 73 were in non target areas or General Program neighborhoods. The following table shows the number of loans and in which areas the loans were made.

TABLE 7

PHOP NUMBER OF LOANS BY NEIGHBORHOOD FROM JANUARY 1, 2007-JULY 10, 2010				
Neighborhood	# Loans		Neighborhood	# Loans
Banksville	1		Larimer *	1
Beechview	4		Lincoln Place	2
Beltzhoover	2		Lincoln-Lemington **	1
Bloomfield	2		Marshall Shadeland	3
Bon Air	1		Morningside	2
Brighton Heights **	3		Mt. Oliver Neighborhood	1
Brighton Heights (part) **	2		Mt. Washington	2
Brookline	4		New Homestead	1
California-Kirkbride *	1		Overbrook	2
Carrick	5		Perry North	1
Central Lawrenceville **	1		Perry South **	1
Central North Side **	2		Polish Hill	1
Crafton Heights	4		Sheraden	5
Crawford Roberts *	4		South Side Slopes	1
Duquesne Heights	1		Spring Garden	2
East Allegheny	1		Spring Hill-City View **	3
East Hills *	5		Stanton Heights	2
East Liberty **	2		Summer Hill	1
Fineview **	1		Swisshelm Park	1
Greenfield	3		Troy Hill	1
Highland Park	3		Upper Hill **	1
Homewood North **	1		Upper Lawrenceville	1
Homewood South *	1		Grand Count	92
Knoxville **	2			

*Target Area

** Mixed Target Area

Finding: The auditors tested whether the income limits and loan amounts were within the maximum limits of the PHOP Program per the database sent by the URA Housing Department. All 92 loans in the database did meet these criteria for the loans.

RECOMMENDATION NO. 9:

The URA should continue the good job they are doing in making sure applicants are within the guidelines of the PHOP program.

PHOP is funded with Tax exempt Bond Funds issued by the URA. The last URA bond issue for PHOP was in 2006. The economics of the bond market and the economic downturn of recent years has made it infeasible to issue new debt that would allow for competitive mortgage loans. The current interest rate of the PHOP program is 5.99 %. Conventional lenders can offer lower rates than the PHOP rate.

Finding: The current rate on the PHOP loan program is 5.99 %. This rate is not competitive with current 30 year loans and shorter duration loans. These loans are currently between 4 and 4.5 % in the private sector.

Program Funding

Each consumer program has a variety of funding sources including federal Community Development Block Grant (CDBG) and HOME funds and bond funds.

Finding: Some monies can be moved between housing programs depending on the program, funding source and household income eligibility.

According to the Manager Consumer Programs, the following are general rules:

1. HILP indenture funds and HILP repayments can be used for the HILP and PHRP programs.
2. The URA allocates its annual allotment of CDBG Neighborhood Housing Initiative funds to various housing programs and projects. CDBG funds are used for income eligible households (below 80% of area median income) for the PHRP & HELP programs, PPW program and Housing Recovery Program (HRP). With URA Board authorization, available fund balances can be moved from one program line item to another.
3. PHRP repayments stay with the PHRP & HELP programs.

Table 8 below lists the CDBG funds received for the PHRP & PPW consumer programs for our audit scope years 2007 through 2009. These amounts do not include program income.

TABLE 8

CDBG FUNDS ALLOCATION & EXPENDITURES FOR PHRP & PPW CONSUMER PROGRAMS FOR YEARS 2007-2009			
PROGRAM & CDBG YEAR	CDBG FUNDS ALLOCATED	AMOUNT EXPENDED	AMOUNT REMAINING
PHRP 2007	\$250,000	\$250,000	\$0
PHRP 2008	\$300,000	\$300,000	\$0
PHRP 2009	\$300,000	291,938.50	\$8,061.50
PPW 2007	\$0	\$0	\$0
PPW 2008	\$100,000	\$100,000	\$0
PPW 2009	\$175,000	\$174,590	\$410.00
HRP to PPW 2006*	\$109,043.28	\$63,390	\$45,653.28
HRP to PPW 2007*	\$50,000	\$0	\$50,000
TOTALS	\$1,284,043.28	\$1,179,918.50	\$104,124.78

*In 2010 these unused Housing Recovery Program (HRP) funds were reallocated to PPW.

Finding: Housing Recovery Program (HRP) funds were not utilized in 2006 and 2007.

RECOMMENDATION NO. 10:

The URA should make an effort to utilize all program funds in the year of allocation.

Statistics on Rejected Loans

The URA has statistics for the number of applications received and number rejected, along with the reasons for rejection. From January to August 2010, Dollar Bank has denied approximately 27 applications for the PHRP and HELP loans. The reasons for rejection include: bankruptcy, charge offs, accounts in collection and judgments (non-medical) on Credit Reports, the home is not in the applicant's name, applicant income exceeds the 80% median income limits or debt to income ratio exceeds 50%.

Finding: The URA does not receive rejection information on the HILP programs from their lenders. They do receive information on canceled loans for PHOP, but not rejected loans.

Finding: According to the Consumer Programs Manager, the URA does not track rejected grants for PPW because the main reason for rejection is that potential applicants are over the income limits.

RECOMMENDATION NO. 11:

The URA should track all types of rejected loans in order to identify any programs inadequacies or shortcomings.

Credit Records and Banks

Finding: The URA uses the terms ‘credit record’ interchangeably with ‘credit rating’.

Finding: URA residential housing programs for low income families do not require acceptable credit records while the one program available to higher income applicants requires an acceptable credit record.

**TABLE 9
CREDIT REQUIREMENT
FOR HOME IMPROVEMENT LOANS and HOME OWNERSHIP PROGRAM
BY PROGRAM AND INCOME LIMIT**

PROGRAM	CREDIT REQUIREMENT	1 to 2 PERSON MAXIMUM INCOME
Home Improvement Loan Program (HILP)	YES	\$62,500
Home Emergency Loan Program (HELP)	NONE	\$25,000
Pittsburgh Home Rehabilitation Program (PHRP)	NONE	\$40,000
Pittsburgh Party Wall Program (PPW)	NONE	\$40,000
Keystone Renovation & Repair Program (R&R) (State program)	YES (need 620 score)	\$95,000
Pittsburgh Home Ownership Program (PHOP)	YES	\$62,500 Program Areas \$75,000 Target Areas

Banks were contacted for information about application procedures and the meaning of acceptable credit record for HILP loans.

Finding: An acceptable credit record varies by lender. Each bank determines its own acceptable credit requirement for the HILP loans.

Finding: Parkvale Bank no longer offers participation in the HILP loan program. The auditor contacted Parkvale Bank, and was told that they had not done URA loans for a number of years. The auditor was referred to “one of the other banks”.

RECOMMENDATION NO. 12:

URA staff should keep current information about banks and bank participation. If a bank no longer wants to participate in the program its name should be eliminated from program materials.

Program Income Eligibility

Finding: Program income eligibility are set by the US Department of Housing and Urban Development (HUD). However these income limits do not appear to be set in stone.

Finding: URA residential housing program loan eligibility limits may be ‘waived’ at the discretion of the Housing Director. This waiver option is not posted on the URA website or in any program literature available to the public.

RECOMMENDATION NO. 13:

Waiver information should be included on program literature. This may encourage more loan applicants, especially people close to the income limits.

Marketing of URA Programs

URA Marketing

According to the URA staff, its programs are marketed through Community Development Corporations (CDCs), realtors, human resource agencies, various banks, contractors etc. URA representatives speak at community group meetings and public events but consider word-of-mouth to be their biggest marketing tactic.

Community Group Marketing

According to URA administrators, Community Development Corporations (CDCs) that receive operating funds from the City (e.g., CDBG, ACCBO, Neighborhood Needs money) must market URA programs.

Each City Council Member receives Unspecified Local Option (ULO) CDBG monies yearly in the amount of \$75,000 to fund various organizations in their district. The Mayor’s Office also distributes ULO/CDBG grants to various organizations. Some of these funds go to local development agencies and other organizations designed to develop the neighborhood.

The auditors contacted 22 local development organizations and other local organizations that received operating funds from the City during the audit period. Contact was by email or telephone. The auditors were able to speak with representatives of eleven or 50% of the 22 organizations.

Finding: Representatives of five organizations stated that they received information from the URA regarding residential loan programs. This is 46% of the respondents and implies that over half of the respondents did not receive residential program information from the URA.

The following is a table of organizations included in the survey, who responded to the auditors phone call or email and whether information was received from the URA.

**TABLE 10
COMMUNITY ORGANIZATION
SURVEY RESULTS**

ORGANIZATION	RESPONSE	RECEIVED INFORMATION FROM URA
31st Ward Community Action Group	Y	N
Beltzhoover Neighborhood Council	N	
Bloomfield Citizens Council	N	
Brightwood Civic Group	Y	Y
Central Northside Neighborhood Council	N	
East Allegheny Community Council, Inc	Y	N
East Northside Action Committee Assoc.	N	
Fineview Citizens Council, Inc.	Y	Y
Greenfield Org.	N	
Hazelwood initiative	N	
Lawrenceville Corp.	N	
Manchester Citizen's Corp.	Y	Y
Mt. Washington CDC	Y	N
North Side Leadership Conference	Y	Y
Oakland Planning & Development	Y	N
Observatory Hill, Inc.	N	
Perry Hilltop Citizen's Inc.	Y	N
Polish Hill Civic Assoc.	Y	Y
Spring Garden Neighborhood Council	N	
Spring Hill Civic League	N	
Troy Hill Citizens	Y	N
West End-Elliott Citizen's Council	N	

Finding: From the auditor's survey, it appears that the URA is not doing a good job of providing promotional information on a regular basis to local community development organizations.

RECOMMENDATION NO. 14:

The URA should provide more information to local agencies on a regular basis regarding its residential loan programs in a consumer-friendly form.