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Date: Wednesday, February 25, 1998 7:25 AM
Subject: Nehemiah Settlement Negotiations

Emelda,

My attorney, Dick Nichols, spoke with U.S. Attorney Ken Newman and HUD Counsel Eddie Eitches yesterday. The short of it is appears to be that HUD is offering approval, but no pilot because of not wanting to provide Nehemiah with "preferential" treatment.

I am concerned because we have included a lot of protections in our program that our not required by any existing guidelines. If other organizations can copy the service fee component of our program, without the corresponding seller obligation and buyer obligations, there will be increased risk to the insurance fund and fewer consumer protections.

For example, during our Sacramento pilot there was a group called SAHARA ("Sacramento Affordable Housing and Redevelopment Association") that attempted to copy our program, except that they did not require home warranties or roof certifications, or home ownership education, or a 1% commitment from the buyer, and they allowed the family income to be as high as 140% of Area Median Income (this is unprecedented under any definition of moderate income in California). This group actually marketed itself to sellers and buyers on the basis that it had "less red tape" than the Nehemiah Program. HUD Sacramento refused to allow SAHARA to continue, and their sole basis for being able to do so was that the Nehemiah Program was a pilot. NOTE: (SAHARA was started by a mortgage company).

Without the Nehemiah Program being a pilot until HUD issues a mortgagee letter which requires that other nonprofit organizations meet the same standard that we have had to meet, nonprofit organizations will compete for service fees from sellers by requiring less of sellers and buyers, and in our view, substantially weakening the save-guards that have been included in the Nehemiah Program over time as the result of constant negotiations with HUD. This is unacceptable to Nehemiah and should be unacceptable to HUD. Please let Eitches know the following:

1. We want a national "pilot" until such time that HUD has issued a mortgagee letter that requires other nonprofit organizations providing gift funds to:
 - a. Have program specific approval from the IRS;
 - b. Be an approved nonprofit under Mortgagee Letter 96-52;
 - c. Require the buyer to provide a minimum of 1% of the contract price toward down payment and closing costs from buyer's own funds (not from another gift source or loan source);
 - d. Require the buyer's income not exceed Moderate Income definitions in each state (e.g. 120% of AMI in California)
 - e. Require the buyer to complete a minimum of 3 hours of home ownership education prior to receiving nonprofit gift funds;
 - f. Require the seller to provide a minimum one-year home warranty (or

equivalent) on resale homes;

g. Require the seller to provide a minimum 2-year roof certificate (or equivalent) on resale homes; and

h. Require the Seller to provide the buyer a clear pest report (or its equivalent) on resale homes.

2. We are amenable to a 6-month notice of termination provision if item #1 is agreed to.

3. If HUD does not issue the above mortgagee letter, the Nehemiah Program continues as a nationwide pilot until December 31, 1999.

Nehemiah concurs that nonprofit organizations should not be given "preferential" treatment. Such concerns formed the basis for our lawsuit. Apparently, Newman is out of town and Eitches is working on drafting something that will not be acceptable to us. In the interest of time, please forward this information to Eitches.