

Challenges and Changes in Community-Based Lending for Homeownership

Abigail Pound

The Edward M. Gramlich Fellowship
in Community Development 2010

February 2011



NEIGHBORWORKS AMERICA

Neighborhood Reinvestment Corporation dba NeighborWorks America was established by an Act of Congress in 1978 (Public Law 95-557). A primary objective of the Corporation is to increase the capacity of local, community-based organizations to revitalize their communities, particularly by expanding and improving housing opportunities.

These local organizations, known as NeighborWorks organizations, are independent, resident-led, nonprofit partnerships that include business leaders and government officials. All together they make up the NeighborWorks network.

JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY

The Joint Center for Housing Studies analyzes the ways in which housing policy and practices are shaped by economic and demographic trends, and provides leaders in government, business and the nonprofit sector with knowledge and tools for formulating effective policies and strategies.

Established in 1959, the Joint Center is a collaborative unit affiliated with the Harvard Design School and the Kennedy School of Government at Harvard. The Center's programs of research, education and public outreach inform debate on critical housing issues and illuminate the role of housing in shaping communities. The Policy Advisory Board, a diverse group of business leaders in the housing sector, provides support and guidance for the Center and its activities. The Joint Center also receives input from its Faculty Committee, which draws on the expertise of a university-wide group of scholars.

This paper was written with the support of the NeighborWorks' America Edward M. Gramlich Fellowship in Community and Economic Development which provides opportunities for highly qualified professional students at Harvard University to research and publish applied analytical projects of interest to the community-development field. For more information, please go to: http://www.nw.org/network/pubs/applied/gramlich_fellowship/gramlich_fellowship.asp

The opinions expressed represent solely the opinions of the author, not those of NeighborWorks America, the Joint Center for Housing Studies of Harvard University, or of any of the persons, entities or organizations providing support to, or affiliated with, these entities. The findings and conclusion of this report are solely the responsibility of the author.

This analysis was performed with the support of NeighborWorks America, with editing and production by Jennifer Ford. NeighborWorks America has full rights to use and distribute this document.

Copyright © 2011 by NeighborWorks America

Harvard Joint Center for Housing Studies
Harvard University
1033 Massachusetts Avenue, 5th Floor
Cambridge, MA 02138
(617) 495-7908
www.jchs.harvard.edu

NeighborWorks America
1325 G Street, NW, Suite 800
Washington, DC 20005
(202) 220-2300
www.nw.org

About the Author

Abigail Pound is a Master in Public Administration candidate at the Harvard Kennedy School. Prior to attending the Kennedy School she was an Equal Justice Works Fellow with Pro Seniors in Cincinnati, Ohio, where she provided representation for older adults in foreclosure. She graduated from University of Cincinnati College of Law in 2007 and from Earlham College in 2002.

Abstract

Community based organizations have been providing mortgage loans in low-to-moderate income and minority communities on a small scale since the 1970s. These include community or economic development organizations, loan funds, and not-for-profit homeownership centers. Organizations offer different types of products: some offer subsidized, below market mortgages, others offer entirely market-rate. Many offer only subordinate loans, for purchase or home rehabilitation, while a smaller number offer first mortgages for home purchase. In general, these organizations seem to do a good job delivering mortgages to low-income communities; underwriting processes are often more flexible and personal than mainstream lenders, and almost always involve counseling and education. Default rates tend to be below the market average. Research on the relative performance of prime and subprime loans made to similar borrowers, generally those who had problematic credit histories or low incomes, has confirmed the wisdom of this model; borrowers targeted by subprime lenders are not inherently problematic; rather, the nature of the loan products was key to the subprime mortgage crisis.

However, many community based organizations are facing serious challenges post foreclosure crisis and in the context of a deeply troubled housing market. The organizations use a myriad of strategies for offering loans, ranging from referrals systems to mortgage banking. While most are quite successful with homebuyer education and counseling, many struggle with access to capital and generating profit through lending. Scale is increasingly important in lending and brokerage businesses. Regulatory changes that include increased licensing requirements may add substantial cost for loan originators. Most community based lenders depend on being able to sell loans on the secondary market, but they face loss and uncertainty with the withdrawal of their primary secondary market for subordinate loans and an unknown future for Fannie Mae and Freddie Mac. Finally, some community based organizations are attempting to respond to some of the many problems left in the wake of the financial crisis, including large numbers of vacant homes and underwater homeowners.

Table of Contents

Abstract.....	iii
Introduction.....	1
The Role of Community Based Mortgage Lenders.....	1
Permanent Affordability Strategies.....	2
<i>Manna Mortgage</i>	3
Methods Use for Offering Loans.....	4
<i>Direct Lending Family and the Federation of Appalachian Housing Enterprises...</i>	5
<i>Neighborhood Housing Services of Orange County</i>	5
Mortgage Brokerage.....	6
Mortgage lending – Correspondent Lending.....	6
Mortgage Banking.....	7
Subordinate Mortgages.....	7
Subordinate Purchase and Home Rehab Loans.....	8
<i>Utica Neighborhood Housing Services</i>	8
<i>LaCasa, Inc., of Goshen, Indiana</i>	8
<i>LaPlata Homes Fund of Colorado</i>	8
First Mortgages	9
Large-Scale Lending Programs.....	9
<i>Homewise Santa Fe</i>	9
<i>Neighborhood Housing Services of Chicago</i>	11
Looking Forward: Challenges and Opportunities.....	12
Vacant Properties: A New Loan Product for Redeveloped Homes	17
<i>Self-Help Credit Union and Atlanta Neighborhood Development Project</i>	17
Conclusion.....	18
Appendix: Methodology.....	20
Resources	22

Introduction

Home mortgage finance has received an unprecedented amount of attention from the public and policymakers since the subprime crisis of 2007. Waves of foreclosures devastated communities and brought up questions about the virtues of homeownership and the safety and fairness of certain financial instruments. Though they rarely make headlines, since the 1970s many community organizations have been providing mortgage loans in low- to moderate-income and minority communities – the same communities targeted by subprime lenders.

This paper will discuss the experience of some of these organizations, categorized loosely as “community-based organizations.” These include community or economic development organizations, loan funds and not-for-profit homeownership centers.

The loans made by these organizations support a mission of safe and affordable homeownership. Many are certified community development financial institutions (CDFIs), community development corporations (CDCs) and/or NeighborWorks network organizations. This paper will not focus on deposit-taking financial institutions such as banks or credit unions or mainstream private mortgage companies that also originate mortgages in low-income and minority communities. It will describe the myriad strategies used by community-based organizations, the increased barriers to successful lending in the current environment and the future post-foreclosure crisis environment, and some emerging trends in the field.

Access to homeownership for low- and moderate-income families remains an important policy goal. While some have interpreted the mortgage foreclosure crisis as an indictment of low-income homeowners, this is not the case. The crisis had far more to do with the loan products used and multiple factors that lead to a “bubble” in housing prices than with the demographics of the borrowers (Ding et al. 2010, 3). If anything, the crisis has heightened the need for thoughtful strategies in this area, and the loan performance of many community-based lenders has borne out the wisdom of their design. The goal of such homeownership programs should not be interpreted as simply increasing homeownership, but rather of promoting sustainable and equitable access to homeownership.

The Role of Community-Based Mortgage Lenders

Programs such as the ones discussed in this paper are not focused on simply increasing homeownership, but rather on making safe and sustainable mortgages accessible to lower income communities. While it is increasingly clear that homeownership does not always build wealth, income is not the only determinant of whether a family or individual would benefit from owning, and community-based homeownership and lending programs help identify and support ready borrowers. In fact, “Evidence abounds that lower-income homeowners benefit from well-designed affordable homeownership programs, many of which are weathering the foreclosure crisis reasonably well” (Abromowitz & Ratcliffe 2010, 1). Examination of affordable homeownership programs in five cities revealed overall default rate as of 2009 below one percent (Id.).

Organizations with homeownership programs use a wide range of models and strategies depending on the particular obstacles to homeownership in a particular time and place (Listoken et al. 2000, 67). They generally address affordability (income and wealth), bankability (credit history) and/or unfamiliarity with the homebuying and homeowning (Mayer & Temkin 2008, 12). For example, education and counseling programs are designed to address the familiarity and bankability issues. Some, particularly NeighborWorks affiliates, only offer homebuyer education and counseling to help potential borrowers get ready to apply for a loan on the private market and be successful homeowners. Others develop affordable homes for ownership. Some administer assistance programs on behalf of local or state government.

An interesting question about this type of program is whether they should address bankability only by helping people become more bankable (through counseling) or also by making loans to people who are unbankable in the mainstream credit market. The answer depends on the relative availability of credit in the mainstream credit market (which varies, as we see over the past 30 years), the nature of the issue preventing the individual from becoming bankable and whether funds for subsidized loans are available. It also depends on how the organization sees itself: as an alternative to the mainstream mortgage market, as a complement and partner with mainstream lenders or as innovators and researchers creating new ideas to change the mainstream market practice and policy (Wolff & Ratcliffe 2008, 2).

Some CDFIs are full service, viable alternative to private banks. However, many are relatively small “niche” players. One of the most common categories of loan products offered by these community-based organizations is “soft” (below market or otherwise favorable terms) subordinated mortgages, often used for down payment or closing costs. If this allows the borrower a first mortgage from a private lender, the organization is acting as a partner to the private market (Wolff & Ratcliffe 2008, 2). Of the 30 organizations interviewed for this paper, 24 offered favorable seconds of some sort, often funded with federal funds such as Community Development Block Grant (CDBG) or HOME investment funds. At the same time, some offer innovative products with the hope of influencing the private mortgage market or showing that lending to a particular community can be profitable (J. O’Calaghan, personal communications; Wolff & Ratcliffe 2008, 4).

Permanent Affordability Strategies

Champlain Housing Trust

Champlain Housing Trust (CHT) is the largest community land trust organization in the country. As a land trust, they provide permanently affordable homeownership for the hundreds of houses in their portfolio. At sale of a house, the land trust retains ownership over the land itself and the new buyer takes ownership of the improvements only, leasing the land from the trust with a 99-year renewable lease. The buyer gets a standard first mortgage as well as a “grant” made to the property to make the home affordable. In order to retain affordability in the long run, as part of the lease, the trust retains an option to repurchase structures on the land if the owners ever choose to sell. The resale price is set by

a formula and is designed as a compromise between giving present homeowners a return on their investment while preserving affordability. The homeowner's cash settlement upon sale includes their down payment, equity accrued through paying down their mortgage debt, the cost of preapproved capital improvements that were made, plus 25 percent of any value appreciation since purchase. CHT requires all homebuyers to participate in prepurchase homebuyer education and counseling and also provides education and counseling after customers purchase in order to help them sustain homeownership.

Currently, CHT does minimal lending – its only available loan product is a small rehabilitation loan. It is CDBG funded and targeted at low-income homeowners (under 80 percent of area median income [AMI]). The exact loan terms depend on the income level of the borrowers. For lower income borrowers the loan is deferred until transfer; for higher income borrowers it is low-interest and amortizing.

CHT faces several challenges to its ability to lend. First, due to the Secure and Fair Enforcement for Mortgage Licensing (SAFE) Act (discussed below) its state now requires it to be licensed as a loan originator, which adds considerably to costs. Also, the organization has been extremely hard hit by the economic downturn and tightening of credit. Finally, the recession has also caused funding cuts from state and local government.

Rather than leaving the lending space entirely, though, the organization is looking into becoming a CDFI and expanding its capacity to meet the credit needs for its homeowners in several ways. The organization hopes to offer first mortgages for those currently excluded from the market, second mortgages to avoid private mortgage insurance (PMI), and energy efficiency rehabilitation loans. In the past, almost all homeowners buying a house in the land trust used a state housing finance agency (HFA) loan. However, the product used is no longer available, and many private lenders are unfamiliar with the land trust model, which can seem quite complicated initially. Additionally, CHT is the only organization making small, low-cost housing rehabilitation loans. These are fulfilling an important need in the community, so although there are several challenges to lending, the CHT leadership would like to expand their capacity.

Manna Mortgage

Manna Mortgage, an affiliate of Manna, Inc. in Washington, D.C., currently brokers loans used to finance affordable homes developed for homeownership. Manna, Inc. is a nonprofit affordable housing developer and homeownership support organization. In 2003 they formed an affiliated nonprofit, Manna Mortgage, a brokerage company (www.mannamortgage.org). Originally, the leadership at the organization wanted to both provide their clients with safe mortgages as an alternative to subprime (“chase out bad money with good”) and generate revenue. During the subprime boom, however, they found it tough to compete with subprime lenders. They narrowed their focus to the “hardest to reach” borrowers and the complicated financing situations that are very labor intensive.

At this point, the majority of the loans they broker finance the affordable homes developed by Manna, Inc. Manna imposes loan restrictions to preserve affordable homeownership, such as resale restrictions or land trusts. The organization has had better luck brokering these in-house because the affordability restrictions make them somewhat more complicated to finance and outside the box of most private lenders.

Like CHT, Manna is working to become a certified CDFI, and this will help toward their goal of originating second mortgages. They have hit a snag in that the anticipated secondary market for their second mortgages was Neighborhood Housing Services of America (NHSA; discussed in more detail below), which is no longer purchasing loans. If they originate second mortgages and hold them in portfolio they will be able to do a lot less due to decreased liquidity.

One of the most fundamental reasons for a community-based organization to be involved in mortgage lending is simply to ensure that the borrowers who go through education and counseling programs actually get safe and sound mortgages. Internal research on NeighborWorks organizations shows that homeownership education and counseling are effective in that they reduce delinquencies, particularly when those borrowers also get affordable, fixed-rate mortgages. Some organizations are struggling to balance the capital needs and risks of lending and are trying to find alternative ways to ensure safe loans for their clients, such as the use of loan portals and partnerships with banks or credit unions.

Methods Used for Offering Loans

As mentioned above, although the reasons for getting involved in lending vary, so do the methods used. They range from referral systems to large-scale mortgage banks. A sample of strategies is described below.

Some community-based organizations do not offer loans directly but rather use an alternative method such as packaging loans, using an Internet “loan portal,” or developing a relationship with a particular trusted lender that makes products available to the organization’s clients. Some organizations had been operating a loan fund but have suspended their programs for various reasons, which will be discussed below, and have been transitioning to a strategy like this. Columbus Housing Partnership, a NeighborWorks Organization in Ohio that develops affordable housing for homeownership, has never offered loans directly. The organization has a relationship with a local bank whereby potential buyers of their homes who have been through their education program have exclusive access to a mortgage product.

NeighborWorks America has invested in and endorses the Direct Lending Family (DLF), a proprietary Web portal with a loan search engine. An affiliated financial institution, Emery Federal Credit Union, acts as a retail lender for a constantly changing network of participating wholesale lenders (currently more than 100) and financial institutions, including national banks. NeighborWorks America recently signed an agreement with DLF through which NeighborWorks network organizations (NWOs) have access to the DLF portal without cost. Under the NeighborWorks America contract with DLF, the loan

portal Web site will operate under the name nwMORTGAGEsource.org. The Web site, screen graphics, logo and tag line will be reskinned.

NWOs using DLF do not originate, fund or broker loans. They provide education and counseling services to a borrower, and then the NWO housing counselor goes to the Web portal and submits basic borrower data. The DLF underwriting engine determines borrower eligibility and then presents options for the borrower. NWOs receive a \$500 payment for counseling services from DLF when they close a loan through this platform. These alternatives to lending are advantageous in that they do not require the capital or the business considerations of a lender. They also primarily don't require professional training or state licensing, although the leadership at one organization interviewed for this paper expressed the possibility of state licensure requirements as a concern about using the DLF portal (R. Usner, personal communication). On the other hand, organizations using these programs also have little control over the loans or terms. They also can generate very little fee income.

Direct Lending Family and the Federation of Appalachian Housing Enterprises

One organization already using DLF is Federation of Appalachian Housing Enterprises, or FAHE, a large, membership-based organization with a network of over 40 organizations. It is a certified CDFI and has been working for more than 30 years to help people throughout Appalachia access capital for housing (www.fahe.org). It lends extensively through its mortgage company, Just Choice Lending, and member organizations act as brokers. Like many community-based organizations, it has experienced some difficulty accessing lending capital and wholesale loans since the financial crisis, and it has used DLF to fill gaps in available products (J. Rogers, personal communication).

FAHE was one of the first NeighborWorks organizations to submit an applicant to the DLF system. Because FAHE is a developed mortgage company and has the capacity to generate fees through lending, the organization would prefer to utilize its capacity to originate, process and close mortgages and work within a more traditional broker/lender or correspondent/lender relationship (J. Rogers, personal communication). However, it has added it to its toolbox and has chosen to make referrals through the system in a few instances when they couldn't offer the client the best product. Also, there is some concern that a few of the smaller member organizations will not be able to afford to comply with new regulatory requirements and may stop offering loans (J. King, personal communication). For such an organization, using the DLF portal may provide an alternative to lending.

Neighborhood Housing Services of Orange County

In Orange County, California, Neighborhood Housing Services has recently started using the DLF portal. It has had a positive experience with it so far, although only a few potential borrowers have been entered through the portal to qualify for a mortgage loan. The organization offers most of its loans through retail partnerships with lenders, and it a patchwork of other products, such as down payment assistance. However, recently it has not consistently been able to offer a full range of first mortgage products. The organization

does not anticipate that it will stop offering loans themselves but finds the DLF is easy to use and provides value to its clients. The organization anticipates that about 50 percent of its clients who get loans in the next year will go through the DLF portal.

Mortgage Brokerage

Particularly in the early 2000s, many homeownership organizations started brokering or considered starting to broker loans. A mortgage broker does not originate loans or advance any funds to a borrower but rather acts as an intermediary, theoretically finding the best mortgage available to a borrower. Brokerage offered the opportunity for organizations to support their mission of affordable homeownership while recovering their costs (Collins et al. 2008, 6). In particular, it seemed illogical to help get so many families ready for homeownership through counseling, only to pass the borrower off to a bank or private mortgage company just before the financial transaction and fee generation (Id.). There were not steep barriers to entry for brokering, and it seemed that brokerage would both serve the mission of expanding homeownership, because low-income people weren't being well served by for-profit mortgage brokers, and generate fee income. NeighborWorks America supported this line of business with technical assistance (F. Rodriguez, personal communication).

However, generating fees through brokerage or lending was a challenge during the housing market bubble of the early to mid 2000s, as credit became cheaper and more accessible. Community-based organizations actually had competition for low-income borrowers, and subprime lenders didn't have as many requirements like classes and saving for a down payment (Collins et al. 2008, 8). More and more first-time homebuyers flocked to using "risky and exotic loan programs" where requirements were fewer and access to credit much quicker (Id.).

Many organizations continue to broker loans and continue to struggle to generate fee income. As of a 2008 study, in a survey of 101 nonprofits, half were involved in making loans and about a quarter were brokering mortgages (Id.). Brokering loans requires trained and professional staff and compliance with state regulation and licensing. It does not require as much capital or risk management as acting as a mortgage bank. On the other hand, organizations that act as brokers are limited in the loans that they can provide because the terms and underwriting standards are determined by the lender.

Mortgage Lending – Correspondent Lending (First Mortgages)

Some community-based lenders act as "correspondent" lender, temporarily advancing funds and closing in their own name, but then quickly reselling the loan. Correspondent lenders have relationships with one or more particular wholesale lenders. For example, Cabrillo Economic Development Corporation, which serves Ventura County, California, is transitioning to a correspondent lender system. Like many organizations, it has used several different types of lending models. At first it offered down payment assistance loans and packaged first mortgages on behalf of third-party banks. These loans, both the first mortgages made through financial institutions and the down payment assistance loans made directly by Cabrillo, were sold to NHTSA. With the departure of NHTSA from the

marketplace, the organization is forming a relationship with a national mortgage bank and acting as a correspondent lender (B. Garcia, personal communication).

This model has advantages and disadvantages. Correspondent lenders do receive fees, as a percentage of the loan, from the borrower. Because they hold the loan only briefly, they do not bear the long-term risks of default, interest rate risk or pipeline risk that the borrower will decline the loan, although they still bear some risk in that they would be unable to resell the loans if there were a major market event. However, the correspondent lender is bound by the underwriting standards of the wholesale lender, so community-based organizations have less flexibility to lend to promising but unconventional borrowers. Additionally, if they have relationships with only one or a few wholesale lenders, they may not be able to offer clients the best product available.

Mortgage Banking

Some community-based organizations originate and fund their own loans, whether first or subordinate mortgages for purchase, home repair loans or refinance loans. They use several different funding mechanisms. Revolving loan funds can be funded by federal CDBGs, CDFI funds, NeighborWorks America, Federal HOME funds, private investors, foundations and/or local government. After origination, the loans can be held or sold in some form to the secondary market. Because of the need for liquidity, most groups that make first mortgage loans for purchase utilize the secondary market in some way. NHTSA provided a secondary market for subordinate mortgages, which is currently unavailable in the mainstream mortgage market.

Subordinate Mortgages

Organizations that offer loans directly commonly offer a second mortgage, made at purchase, with favorable loan terms. For example, a qualifying borrower who has completed necessary homebuyer education may be able to get a second mortgage, used for closing costs, down payment, home repair or just to reduce the size of the first mortgage. These can be forgivable, deferred (meaning that they have to be paid off when the home is sold or transferred), or amortizing with no interest, low interest, or the same interest level as the first mortgage. Clearly those that are forgivable and deferred require ongoing subsidy, as the model is basically a form of subsidy to the homeowner. Many organizations use CDBG or HOME funds, and some have local government, foundation or employer funding. Some of the subsidy may be recaptured if the loan becomes due when the home is sold or transferred. Even those that are amortizing take the riskiest positions at a below-market interest rate, so organizations that use this sort of product to bridge the affordability gap will have to be subsidized in the long term (Wolff & Ratcliffe 2008, 2).

Such loans have several uses, such as reducing wealth barriers to down payments or necessary repairs. If the second mortgage brings the loan-to-value ratio under 80 percent (called an 80/20 loan), it eliminates the need for mortgage insurance on the first mortgage. This helps to overcome the income barrier to ownership and, again, may allow the

borrower to access a private market loan.¹ Many entered the business in the 1990s – a period of “stable growth” in the house market when there were not significant barriers for organizations to offer subordinate loans (Collins et al. 2008, 7). It involved relatively small capital requirements and wasn’t highly regulated because of the small volume (Id.).

Subordinate Purchase and Home Rehab Loans

Utica Neighborhood Housing Services

Utica Neighborhood Housing Services (UNHS) NeighborWorks HomeOwnership Center in upstate New York offers primarily home rehab loans from a loan pool and hold in portfolio. The community has many elderly residents and older homes, so there is an ongoing need for home repair. They have multiple products, some of which are amortizing and some deferred, depending on the income of the borrower and the restrictions of the funder. The organization maintains a revolving loan fund using multiple sources, including local government, NeighborWorks America, and CDGB funds. UNHS does not sell any of its loans into the secondary market; it holds all loans it originates in portfolio. The performance of the amortizing loans has been quite good; very few are written off. The organization puts a lot of emphasis on education and community organization (J. Forte, personal communication).

La Casa, Inc., of Goshen, Indiana

Another organization that offers primarily subordinate mortgages, but does so using a different sort of funding model, is LaCasa, Inc., in Goshen, Indiana. LaCasa recruits financial institutions to participate in a loan pool. The banks get Community Reinvestment Act (CRA) credit for their investment and one of the participating banks acts as the administrator. In addition to a processing fee, LaCasa earns a brokerage fee of five percent of the total dollar amount funded into the pool by the member banks. Like many organizations, LaCasa is considering changing its model again. When this model was initiated, the focus was on providing first mortgages for purchasers of homes redeveloped by LaCasa. However, LaCasa found that its clients were generally able to get first mortgages from banks, so they transitioned to providing primarily a 20 percent second mortgage designed to make homes more affordable by eliminating the need for PMI. Now, they are experiencing much more demand for first mortgages as lending standards have tightened. They have also lost their buyer for their packaged second mortgages, which had always been NHSA. The organization’s leadership is looking for an alternate way to ensure liquidity (J. Davis, personal communication).

La Plata Homes Fund of Colorado

A relatively new CDFI that offers subordinate loans for homeownership is La Plata Homes Fund (LPHF) in Colorado. It was founded in 2008 by a local housing task force in response to a lack of affordable housing in the area, which is a resort area where prices can

¹ Advocates for responsible lending may question the wisdom of a mortgage with 100 percent loan-to-value ratio. However, many nonprofits use this structure, and one makes a 20 percent portfolio loan on top of an 80 percent first mortgage which is sold to Fannie Mae; the organization retains the risk of the second mortgage, reflecting a confidence in the product.

be quite high. LPHF works closely with the Regional Housing Alliance (RHA) to offer two loan products: a shared appreciation second mortgage for buyers up to 125 percent AMI, and a one-percent amortized second mortgage which is income capped at 80 percent AMI. LPHF also provides homebuyer education and counseling. Buyers secure their own financing for the first mortgage, and the counselors from LPHF help to ensure that they get a safe and appropriate loan.

As of August, 2010, LPHF has an unusual statistic about which to brag – there have been no defaults, nor has there been a late payment. Of course, the organization is relatively young, having only made 55 loans so far. LPHF has had 550 potential borrowers come through its doors. The organization receives funds through RHA, BP America (they sit on a large natural gas deposit), the CDFI fund and several local employers. The demand exceeds the capital, though; they have a long wait list. The leadership is looking to expand, possibly providing new loan products or going to scale regionally.

First Mortgages

Some organizations offer only subordinated loans, and borrowers must secure a first mortgage from a private lender. Other community-based organizations offer first mortgage lending as well, sometimes making a small number of loans out of their revolving loan fund on a case-by-case bases for clients who were unable to secure loans elsewhere. A smaller number, two of which are highlighted below, have very extensive mortgage lending businesses.

In some ways a large-scale mortgage bank operation is desirable because it allows significant autonomy and the possibility of fee generation. It allows organizations to keep the potential homebuyer within the organization throughout the process. This can be good for the borrowers, in that they can be shepherded away from unsafe products and receive guidance, and it also allows the organization to receive the fees from loan origination. It also allows more flexibility regarding loan products and delivery. On the other hand, it is a complicated and sophisticated business. It is risky and capital intensive. In order for a community-based organization to be a mortgage lender, it must comply with significant regulations and reach a scale at which it is efficient.

Large-Scale Lending Programs

Homewise Sante Fe

Homewise was founded in 1986 as a nonprofit focused on home improvement and rehabilitation. In the 1990s, it grew into a full-service agency helping Santa Fe's moderate-income residents buy homes. Homewise provides free financial literacy and homebuyer education classes and counseling, new home construction, water and energy efficient home improvement services, and, as a certified CDFI, provides financing for home purchase, home improvement, and refinance loans. Homewise works at a high lending volume, selling loans extensively to Fannie Mae.

Because of its vertically integrated business model, Home Smart, Homewise stands out in the field. Homewise is involved in virtually every step of the home buying process. This

model grew over time. Initially, Homewise offered home improvement loans and then through conversations with their clients, found that affordability of homes for purchase, especially for young people, was a problem in the community. Home prices had been rising since the 1980s, while wages in the area remained the same. Homewise began offering homeownership classes that qualified the borrowers to get loans through the state HFA. Down payment assistance became available for Homewise home purchase customers through city and CDGB funds. Homewise then added mortgage brokering, but this still didn't fully meet the needs of its customers. Consequently, Homewise became a mortgage lender and a CDFI and eventually added real estate brokerage with salaried realtors and qualifying brokers. Homewise also has a real estate development component, building energy- and water-efficient affordable homes.

According to Executive Director Mike Loftin, the HomeSmart™ model works because Homewise is the point of entry for borrowers and consequently the customer is guided throughout the home purchase process by “trusted advisors.” Financial counseling and home buyer education is provided early in the process. Homewise counselors help home purchase customers determine the price of the home they can afford before the potential buyer finds and gets attached to the “perfect,” but often overpriced, home. The results support the HomeSmart model; Homewise loans consistently outperform the market and the delinquency rate for Homewise customers remains significantly below the national rate for prime conventional, Federal Housing Association (FHA) and subprime mortgages.

Homewise operates at a relatively high volume. They serve eight counties in Northern New Mexico, with the majority of the lending in Santa Fe County. Homewise sells mortgages extensively to the secondary market. Unlike most not-for-profit lenders, they are Fannie Mae seller/servicers. They also are FHA certified. They do hold some loans in portfolio, however this is a small portion of the overall annual loan volume. Homewise originates about \$30 million per year in loans sold to the secondary market and has a current loan portfolio of about \$28 million.

Homewise offers several different loan products. For example, the “super prime” mortgage, is a combination of a conforming 80% loan-to-value first mortgage with a portfolio-held second mortgage of up to 18%, the balance having been the customer down payment. This eliminates costly mortgage insurance for the new homeowner.

The organization secures capital from several different sources: the U.S. Department of the Treasury CDFI Fund, the Calvert Foundation, NeighborWorks America, religious and private foundations, and loans from community banks. As part of a Homewise program to assist with retention of local employees, Homewise has partnered with a community hospital that provides down payment assistance and second mortgage funding for its employees.

A new initiative to secure capital is the Homewise Community Investment Fund. This fund will provide a way for high-wealth community members to invest in the work of Homewise and receive a guaranteed rate of return for their investment. This socially

responsible investment fund will provide additional capital for home purchase and home improvement lending as well as short-term capital needed for real estate development.

Neighborhood Housing Services of Chicago

Neighborhood Housing Services (NHS) of Chicago is another NeighborWorks network organization and CDFI that uses innovative funding mechanisms to support its high-volume mortgage lending to underserved borrowers (J. Wheaton, personal communication). NHS Chicago is a large organization with a long history. Founded in 1975, it provides homebuyer counseling and education, foreclosure prevention services, housing development and rehabilitation, and lending services (<http://www.nhschicago.org/>).

NHS has a related entity, Neighborhood Lending Services (NLS), which is a nonprofit, state-licensed mortgage banker. NLS originates first mortgages for purchase, subordinated loans and deferred loans. It uses a warehouse line of credit, program-related investments from a foundation and CDBG funds. For permanent funding, NLS aggregates nondeferred loans four or five times per year and creates private-placement mortgage-backed certificates, which it sells to financial institutions. This pays off the short-term financing. In April of 2009, 19 financial institutions committed to purchase \$110.25 million in certificates over a three-year period. NLS earns three percent on the certificates, and this pays for operating costs (J. Wheaton, personal communication).

Banks are motivated to take part for several reasons, One being that they get credit for CRA lending. Also, although their “footprint” is expanded for Home Mortgage Disclosure Act (HMDA) reporting, because although individual loans aren’t counted for HMDA reporting, NLS provides lenders with a report for the bundled loans. Also, first mortgage customers at participating lenders have access to favorable subordinate loan products from NHS.

NHS Chicago/NLS target clients are determined by either geographic location (in a low-income census tract) or income (low- to moderate-income borrowers, irrespective of census tract). NHS Chicago sets its underwriting standards in house. Although they seemed relatively strict during the subprime boom, like most lenders even this organization has had to tighten its lending since the mortgage crisis. For example, for a borrower who intends to rent a unit out, it looks at the borrower’s ability to pay without the rent included and underwrites to a front-end ratio (percentage of monthly income that would be required for mortgage payment) of 31 percent instead of a back-end ratio (percentage of income that would be required to cover all debt payments) of 40 percent. It also requires slightly higher down payments.

Jim Wheaton, the deputy director of programs and strategies at NHS Chicago, sees his organization as better able to serve low-income communities than private lenders. Through its funding structure, which pools bank participation and spreads risk, NHS Chicago is able to make somewhat more innovative and higher risk loans. It can “make markets” in

that private banks are now more likely to operate in neighborhoods where previously only NHS would invest.

The organization is also well equipped to work in these markets because it has strong relationships in the community and can provide individualized support that other lenders cannot. It has a network of local NHS offices that provide counseling and community development. This is also serving the organization well at the moment; through loan origination fees, interest income, premiums on loan sales and infrastructure support from the City of Chicago, NLS generates income sufficient to pay its own expenses and to contribute to the support of the NHS Chicago as a whole.

Looking Forward: Challenges and Opportunities

Community-based organizations have, on the whole, been effectively delivering mortgages, both subsidized and market-rate, to low- to moderate-income homeowners in cities across the country. Some are strong and highly capitalized – even growing. Most of the organizations interviewed for this paper were experiencing some difficulties, and many have temporarily suspended their lending programs. Looking forward, there are significant challenges for community-based organizations to engage in lending. These include ongoing challenges to the lending line of business and fall-out from the foreclosure crisis: issues of scale, a lack of a secondary market (particularly for subordinate loans), state HFAs in transition, regulatory changes, and many vacant and underwater homes.

Scale is increasingly important for successful mortgage lending.

Not-for-profits that originate mortgages need to be concerned about their business model and fee structure just like a private business and face a substantial challenge in reaching an efficient scale if they hope to be self sustaining or generate fees. Research by the Mortgage Bankers Association revealed that it is actually quite difficult to turn a profit in the mortgage lending business (M. Fratantoni, personal communication). Risk management is a big concern for all types of lenders. Demand fluctuates greatly, so a mortgage business with high fixed costs will sink when volume drops. The industry continues to consolidate, with a few big companies and a larger number of small ones that enter and exit the market frequently. The mortgage brokerage system was a way to reduce fixed costs. However, the mortgage crisis has revealed problems with incentives and information in the brokerage system, resulting in poor loan performance.

Additionally, human capital is an issue – loan origination is a skilled professional position, and sought-after professionals can be quite highly paid. Volume is an advantage for human capital as well – it is hard for loan officers and brokers to become highly skilled when they originate only a small number of loans per year (M. Frantantoni, personal communication). Also, as previously discussed, regulatory compliance requirements are increasing with updates to the Truth in Lending Act and the Real Estate Settlement Procedures Act. Lenders can use computer software to assist in compliance, but customized software can be prohibitively expensive for small companies.

Organizations have responded to this issue in several ways. Some are attempting to increase their volume, particularly for things like market rate mortgage brokerage that generate fees for the organization. Others, particularly those with very small lending programs, are stepping away from the practice entirely, simply managing the loans they have in portfolio or using a referral system such as DLF.

These organizations bring several assets to the table, and in many cases a primary asset is strong knowledge of and relationship with the community. They are better equipped than most lenders at distinguishing which potential borrowers are ready to purchase homes and at preparing and guiding those borrowers through the process. They have an ear to the ground with respect to the needs and assets of a particular place (D. Goldstein, personal communication). Most organizations interviewed for this paper seem to be strong in their loan delivery and servicing, as evidenced by their below-market default rates. Some are also quite sophisticated with respect to raising capital, mitigating risk in lending, and managing a loan portfolio, while many have struggled with these aspects and struggled to grow their lending to an efficient scale. Partnerships and membership in intermediaries such as the Housing Partnership Network and NeighborWorks can help organizations compensate for relative inexperience in some areas.

These findings are echoed by a recent year-long study of “Mission Entrepreneurial Entities” in affordable housing. The Affordable Housing Institute (AHI) found that successful organizations that effectively produced housing were decisive, embraced business principles, and had adequate capital to “scale up” (Christman, Asquith, & Smith 2009, Executive Summary 6). Some of the community-based lenders interviewed for this paper are small but strong; they are appropriately funded for small staffs and loan portfolios. However, of those that have a model dependent on generating revenue through lending, scale is essential. The AHI study similarly found that mission entrepreneurial entities “oriented on neighborhoods can and do successfully remain small and effective; those that commit to growth must achieve it or die” (Id.).

The future of the secondary housing market is unclear and complicates community-based lending.

The future of the secondary housing market in the United States, particularly government-sponsored entities (GSEs), is unclear, and will greatly impact community-based lenders. Most community-based nonprofits are dependent on some use of the secondary market in order to assure adequate liquidity. This presents several challenges in the near future. First, NHTSA has left the market for small loans. Additionally, the future of GSEs is uncertain.

NHTSA bought loans from local nonprofit housing organizations, providing a secondary market for loans to low- and moderate-income borrowers that would not be able to be sold in the conventional market. It also bought some loans from private lenders. It was funded with both private sector and government funds. However, on June 10, 2010, NHTSA announced that they would discontinue operations.

Several organizations are considering becoming Fannie Mae seller/servicers, meaning that they would be able to sell conforming loans to GSEs. However, it is not clear that this entity will remain in its familiar form for long. In 2008 Fannie Mae and Freddie Mac were placed in conservatorship, which means that the federal government now controls it, although it is not fully nationalized (Unfinished business, 2010). Their losses have been covered by capital from the U.S. Department of the Treasury. Though troubled, at this point the two firms are more critical than ever to the economy. As mentioned above, almost all new mortgages in the first part of 2010 were guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae (which has always been explicitly government backed, unlike Fannie or Freddie).

Right now, Fannie Mae and Freddie Mac guarantee approximately \$5 trillion in mortgages. They will continue to accrue losses, which the government has to decide how to handle. It may continue to cover losses as they mature, make them public entities (which would inflate the national debt), sell them and let them become fully private or some combination of those options (Id.).

Many state housing finance agencies have struggled in current environment.

Many state HFAs, often partners to community-based lenders, have been struggling due to the ongoing financial crisis. The future of this industry depends in some states on the future of the HFAs. States can issue tax-exempt bonds to support low-income housing in the form of rental development or homeownership, though mortgage revenue bonds (MRBs; also known as housing bonds) are more prevalent (Muellera & Schwart, 2008, 126). They are often administered through HFAs chartered by the states. In addition to housing bonds, HFAs administer the federal low-income housing tax credit and HOME programs. The federal government caps each state's annual issuance of housing bonds; in 2009 the limit was \$90 times the state population.

The tax-exempt housing bonds finance low-cost mortgages. In order to qualify for mortgages funded by mortgage bonds, homebuyers must be first-time buyers, earn no more than the area median income (though larger families can earn slightly more) and be purchasing a qualifying home (no more than 90 percent of the average area purchase price). The recession has put a damper on this process; investors are buying fewer MRBs and therefore fewer funds are available for affordable home mortgages (www.ncsha.org). Some states have had to discontinue their housing bond program entirely.

Many of the subject organizations have offered mortgage loans from their state HFA, and again, the current status varies considerably. Organizations in Connecticut and Washington are now developing relationships with their respective HFAs. Organizations in California, Oregon and Vermont have faced the loss of state housing bond programs, in some cases forcing them to look for partners in the private market.

Though some states have been unable to sell housing bonds, HFAs remain important sources of affordable mortgages. Community-based organizations that want to increase

volume should consider both working with their state HFAs, as well as becoming FHA certified (C. Riedy, personal communication).

Regulatory changes will make lending more complex and expensive.

Regulatory changes regarding mortgage origination will make lending more complex and expensive. There have also been several regulatory changes and updates since the financial crisis, and these have an impact on community-based lenders. In particular, statutory changes have brought additional requirements for licensing, in some cases where licensing was previously not required, and stepped up requirement for closing and servicing loans. Two of the most significant federal law changes were included in the SAFE Act and the RESPA updates.

RESPA addresses closing costs and settlement procedures. It mandates that borrowers get particular disclosures at particular times and prohibits certain practices, such as kickbacks, that make settlements more expensive (Homes and Communities, “More Information About RESPA”). The U.S. Department of Housing and Urban Development (HUD) offered revisions to RESPA in November of 2008 (published at 73 FR 68203) including a revised “good faith estimate” form with additional disclosures and a more structured application process (Homes and Communities, “RESPA – Real Estate Settlement Procedure Act”).

The SAFE Act refers to Title V of P.L. 110-289, which was passed on July 30, 2008. The goal of the law was to enhance consumer protection and reduce fraud regarding mortgage origination. It requires states to pass legislation regarding the licensure of mortgage loan originators. A mortgage loan originator is defined by the SAFE Act as anyone who “for compensation or gain, takes a residential mortgage loan application or offers or negotiates terms of a residential mortgage loan application.” It doesn’t provide exceptions for the above activities, but does not extend to real estate brokerage, loan processing and loan underwriting activities.

The law set national standards for state licensed mortgage loan originators (federally insured mortgage banks are not licensed by the state), including a written qualified test, pre-licensure education courses, continuing education courses, as well as submission of fingerprints to the Nationwide Mortgage Licensing System (NMLS) and authorization for the NMLS to obtain an independent credit report (NMLS Resource Center, “SAFE Mortgage Licensing Act of 2008”).

At issue for many of the community-based organizations engaged in lending is that HUD’s proposed rules implementing the SAFE Act are quite broad and do not contain exceptions for groups that have, in many cases, been exempted from their state’s mortgage origination licensing. HUD received extensive comments on the proposed rules issued in 2009. Organizations such as the National Consumer Law Center (NCLC)² and the National

² Submitting comments with the National Association of Consumer Advocates, National Legal Aid & Defender Association, Neighborhood Economic Development Advocacy Project, National Association of

Council of State Housing Finance Agencies (NCSHFA) have submitted to HUD regarding the proposed rules and regulations to be codified pursuant to the Act.

The NCLC advocated for an exemption for bona fide nonprofits and attorneys. NCSHFA urged HUD to exempt state HFAs and bona fide nonprofits from the licensing requirements under the SAFE Act or grant states authority to do so. The NCSHFA argued that state HFA employees, nonprofit counselors and loan modification specialists should not be classified as “loan originators” on the basis that although they are paid, it is not in a way that is reasonably covered by the “compensation or gain” provision of the SAFE Act, such as origination fees or loan interest (NHSA, “NCSHA SAFE Act Comments”).

Because the act is a federal mandate for states to regulate, the impact varies from state to state. Some nonprofit community-based organizations that originate loans, such as Portland Housing Center and NHS Chicago, were already licensed by their state but experienced heightened compliance costs for things like increased education of bond requirements (M. Puggarana and J. Wheaton, personal communication). Others were previously exempted from licensing and are now going through the process, which can have substantial costs. Some in the industry are concerned that even housing counselors will have to be licensed. Because HUD has yet to release a final rule, some groups are in limbo, waiting for a final rule and postponing licensing.

The increasing number of vacant and underwater homes require innovative strategies.

The increasing number of vacant and underwater homes requires innovative strategies from community-based organizations. The number of homes that are underwater after the subprime crisis and major market correction is staggering and represents a huge challenge in the housing market, as discussed above. The amount of principal write-downs as part of loan modifications that would have to happen to make a dent in the problem is unlikely to happen (McIlwain 2010, 7). In addition to leading to more loan defaults and foreclosures, and to making people less mobile because it is difficult to pay off a mortgage when selling a house, underwater homes may also lead to homes falling into disrepair. Homeowners who would normally borrow against the equity in their house to make a significant repair will be without collateral for a loan (R. Credle, personal communication).

One organization is trying an innovative method of dealing with underwater mortgages. Boston Community Capital (BCC) is a CDFI that is involved in several different types of lending for low-income communities. Although BCC has not traditionally done loans for homeownership, when problems with foreclosures started to emerge, the organization launched an initiative to buy distressed mortgages at substantial discounts, allowing the mortgages to be rewritten at values consistent with market values supported by the incomes of the residents and of the neighborhood. BCC found that no entity involved with the defaulted mortgages were willing (or had the legal authority) to sell them at a discounted sale, but that banks and servicers would sell the foreclosed homes at substantial discounts,

once the foreclosure had occurred. In addition, BCC found that many banks did not evict the residents after the foreclosure, allowing BCC to intervene before the properties became vacant or abandoned. BCC already had an associated nonprofit brokerage company, Aura Mortgage. BCC buys foreclosed homes – at substantial discounts – in which the owner is still living then makes a new loan to the homeowner, via Aura Mortgage, with a reduced principal balance (D. Jones, personal communication).

Many nonprofits around the country will be purchasing and rehabilitating vacant homes with Neighborhood Stabilization Program (NSP) funds. “NSP Funds” refers to two different designations of funds authorized as part of the NSP for the purpose of helping to stabilize communities with lots of foreclosed and abandoned properties (Homes and Communities, “Neighborhood Stabilization Program Grants”). The goal is that homes are purchased and redeveloped. NSP funds may be used for activities such as purchasing and rehabbing abandoned or foreclosures homes, demolishing blighted properties, redeveloping demolished properties, and establishing land banks (Id.).

“NSP1” was authorized under Division B, Title III of the Housing and Economic Recovery Act of 2008 and provides grants to all states and selected local governments on a formula basis. “NSP2” funds were authorized under the American Recovery and Reinvestment Act of 2009. The funds come in the form of competitive grants to states, local governments and nonprofits. NSP is a component of the CDBG program, and the CDBG regulatory structure is the platform used to implement it. NSP grantees must fulfill certain requirements. All of the NSP funds have to benefit people who are low to moderate income, meaning their income doesn’t exceed 120 percent of AMI (Id.).

Vacant Properties: A New Loan Product for Redeveloped Homes

Self-Help Credit Union and Atlanta Neighborhood Development Project

Self-Help Credit Union (SHCU) has recently started offering a new niche lease-purchase mortgage product to nonprofits working to stabilize neighborhoods. SHCU actually participates in the home lending market in several ways. Through its many retail branches, it originates loans to qualified borrowers. Through Self Help Ventures Fund, their affiliated CDFI, it has provided credit enhancement for home loans originated by other lenders for sale to Fannie Mae.

Waves of foreclosures have left many neighborhoods with copious vacant and abandoned property, and the tightened credit environment combined with the economic recession has left many potential homebuyers unable to qualify for credit. Long term, scattered site rental is one use, but management of such rentals is challenging for several reasons (Levy 2009, 11). The lease-purchase product is designed to be used as permanent financing for vacant houses purchased and rehabbed by nonprofits and leased to tenants who plan to then purchase the home.

SHCU makes a mortgage loan on a house to a nonprofit, and the organization leases the house to a potential buyer. It is a 30-year fixed-rate loan with a maximum loan-to-value ratio of 90 percent. After a predetermined lease period, the potential buyer has the right to

assume the mortgage and purchase the house (C. Godschalk, personal communication). In order to be eligible as a borrower, the group has to be an LLC owned and managed by community development corporations or other nonprofit housing organizations. The mortgages will be sold from SHCU to Fannie Mae, and a one-time assumption by the tenant/purchaser is permitted when the tenant/purchaser is ready to purchase the home (Id.).

The initial term has to be at least one year and no more than five years, and the tenant/purchaser must go through counseling throughout the process. The monthly payment must be able to cover the borrower's costs for the property (principal, interest, taxes, insurance) plus an amount to be set aside in a "Homeownership Account" to be used as down payment and/or closing costs when the tenant is ready to purchase the property (C. Godschalk, personal communication). To qualify to assume the mortgage, the tenant/purchaser must be underwritten by SHCU to the minimum credit criteria for SHCU's secondary market, Fannie Mae mortgage product (through a review of their lease payment history, credit reports and other verifications). The minimum FICO score is 620 for a single-family property (Id.).

So far, the SHCU lease-purchase program has a very small volume (C. Godschalk, personal communication). One of the few borrowers thus far has been Atlanta Neighborhood Development Project (ANDP). Atlanta was hit hard with foreclosures, despite not experiencing as much of a "bubble" in prices as many other places (J. O'Calaghan, personal communication). ANDP is a CDFI, a developer and a policy advocate. The organization currently has 173 homes in its pipeline to be rehabilitated and sold.

While some of these homes will immediately be sold to homeowners, they anticipate that they will use a lease-purchase loan from SHCU to finance about a third of them. They are not yet setting a firm time limit on when a tenant/purchaser must be able to assume the mortgage; they are using a one-year lease and requiring that tenant/purchasers make substantial progress toward homeownership in that year. Long-term, high-quality rental is, in itself, an asset to the community. So far they have used the loan for the first five homes they rehabilitated, prior to receiving NSP funds. Now that they are receiving NSP funds, they hope to be able to build in several layers of subsidy in the home purchase, the bulk of which can be recaptured at sale (J. O'Calaghan, personal communication).

Conclusion

There is a remarkable diversity in community-based lending for homeownership – from homeownership centers with small loan funds offering soft second mortgages to a few needy clients, to large and sophisticated nonprofit mortgage companies. Several trends and challenges generally transcend the industry. Access to capital has become increasingly difficult post-foreclosure crisis; financial institutions are less likely to invest in loan pools, and some state HFA funds have become available. Generating profit through lending is very challenging, and scale is rewarded in lending and brokerage businesses. Selling loans on the secondary market has become all the more necessary for lenders who wish to grow to scale, but this is also complicated with the loss of NHTSA and the uncertainty of the

GSEs. Along with funding challenges, the regulatory changes, particularly the SAFE Act, could increase substantially the expenses associated with lending.

Finally, the subprime lending and financial crisis of 2007 has left the housing market as a whole troubled. Vacant homes and underwater homeowners are serious challenges. Many community organizations are in good positions to respond to these challenges because they have an “ear to the ground” with respect to needs and trends on the local level (D. Goldstein, personal communication). Homeownership is not appropriate for everyone, yet many low- to moderate-income people can benefit from homeownership and many minority communities are still subject to discrimination with respect to mortgage prices. While the subprime crisis and associated housing price correction has drawn attention to the risks of homeownership, community-based organizations have made and continue to make access to homeownership for low- to moderate-income communities more equitable.

Appendix: Methodology

Research for this paper consisted of a review of relevant literature, a series of interviews with staff members at community-based organizations, and several interviews with people with expertise in the field who do not work for organizations that are engaged directly in mortgage lending. Of the 30 interviews with staff members at community-based organizations, the vast majority was phone interviews; three were on site. In most cases the staff member interviewed was either the executive director or the director of the homeownership division of the organization. Nine other experts were interviewed. Representatives from the following organizations were interviewed between May and September, 2010:

Affordable Housing Resources
Baltimore Neighborhood Housing Services
Cabrillo
Clearinghouse
Columbus Housing Partnership
Community Neighborhood Housing Services St Paul
Federation of Appalachian Housing Enterprises
HomeSight
Homewise
Housing Development Fund Connecticut
Indianapolis Neighborhood Housing
Kalamazoo Neighborhood Housing
La Plata Homes Fund
LaCasa
Manna
Neighborhood Development Services
Neighborhood Finance Corporation
Neighborhood Housing Services Chicago
Neighborhood Housing Services New Orleans
Neighborhood Housing Services South Florida
NeighborWorks Green Bay
NeighborWorks Montana
NeighborWorks of Greater Manchester
NeighborWorks Resource Group
NeighborWorks Salt Lake
Nuestra
Portland Housing Housing Services
Self Help Credit Union
United Housing
Urban Edge
Utica Neighborhood Housing Services
The following industry experts were also interviewed:
Center for Housing Policy – Jeffrey Lubell
Center for Responsible Lending – Deborah Goldstein

Export Import Bank – Charles Tansey
Housing Partnership Network – Danielle Samalin
National Housing Trust – Keiva Dennis
Mortgage Bankers Association – Mike Fratantoni
Open Door Housing Fund – Jerry Kahonia
Massachusetts Housing Partnership – Clark Zeigler
Habitat for Humanity (formerly) – Dan Hall

Resources

- Abromowitz, D., & Ratcliffe, J. (2010). *Homeownership done right: What experience and research teaches us*. Washington, D.C.: Center for American Progress.
- Belsky, E. S., Retsinas, N. P., & Duda, M. (2005). *The financial returns to low-income homeownership*. Cambridge: Joint Center for Housing Studies, Graduate School of Design and John F. Kennedy School of Government, Harvard University.
- Coalition of community development financial institutions. Retrieved June 15, 2010, from <http://www.cdfi.org/index.php?page=info-3>.
- Collins, M. J., Dylla, D., Mosier, M., Nedland, M., DiPetta, A., Leslie, J., & Nawrocki-Gorey, R. (2008). *Toes in the water: Nonprofit community development real-estate and mortgage brokerage programs*. Montclair, NJ: National Housing Institute.
- Christman, R., Asquith, G., & Smith, D. (2009). *Mission entrepreneurial entities: Essential actors in affordable housing delivery*. Boston: Affordable Housing Institute.
- Ding, L., R. Quercia, J., Ratcliffe, & Li, W. (2008). *Risky borrowers or risky mortgages: Disaggregating effects using propensity score models*. Chapel Hill, NC: Center for Community Capital, University of North Carolina.
- Essene, R. S., & Apgar, W. C. (2009). The 30th anniversary of the CRA: Restructuring the CRA to address the mortgage finance revolution. In: *Revisiting the CRA: Perspectives on the Future of the Community Reinvestment Act*. Federal Reserve Banks of Boston and San Francisco.
- Fernandez, M. (2007, Oct. 15, 2007). Racial disparity found among New Yorkers with high-rate mortgages. *The New York Times*.
- Herbert, C., & Belsky, E. (2008). The homeownership experience of low-income and minority households: A review and synthesis of the literature. *Cityscape*, 10(2), 5-59.
- The history of NeighborWorks® America and the NeighborWorks network*. Retrieved September 5, 2010, from <http://www.nw.org/network/aboutUs/history/default.asp>.
- Homes and Communities, U.S. Department of Housing and Urban Development. *More information about RESPA*. Retrieved July, 2010, from <http://www.hud.gov/offices/hsg/ramh/res/respamor.cfm#AE>.
- Homes and Communities, U.S. Department of Housing and Urban Development. *Neighborhood stabilization program grants*. Retrieved January 27, 2011, from <http://hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/>.
- Homes and Communities, U.S. Department of Housing and Urban Development. *RESPA: Real estate settlement procedures act*. Retrieved July, 2010, from http://www.hud.gov/offices/hsg/ramh/res/respa_hm.cfm.
- Joint Center for Housing Studies. (2010). *State of the nation's housing*. Cambridge: Harvard University.
- Levi, I. (2010). *Stabilizing neighborhoods impacted by concentrated foreclosures: Scattered-site rental housing challenges and opportunities*. Washington, DC: Joint Center for Housing Studies.
- Listokin, D., Wyly, E. K., Keating, L., Rengert, K. M., & Listokin, B. (2000). Making new mortgage markets: Case studies of institution, home buyers, and commodities. *Housing Policy Debate*, 11(3), 575-644.

Mayer, N., & Temkin, K. (2008). *An analysis of successful mortgage lending strategies in six cities*. Washington, DC: U.S. Department of Treasury Community Development Financial Institution Fund.

McIlwain, J. (2010). *Housing in America: The next decade*. Washington, DC: Urban Land Institute.

Mueller, E., & Schwart, A. (2008). Reversing the tide: Will state and local governments house the poor as federal direct subsidies decline? *Journal of the American Planning Association*, 74(1), 122-135.

National Council for State Housing Agencies. *About HFAs*. Retrieved September 5, 2010, from <http://www.ncsha.org/about-hfas>.

National Council for State Housing Agencies. *NCSHA SAFE Act Comments*. Retrieved September 5, 2010, from <http://www.ncsha.org/resource/ncsha-safe-act-comments>.

National Council for State Housing Agencies. *Housing bonds*. Retrieved September 5, 2010, from <http://www.ncsha.org/advocacy-issues/housing-bonds>.

Nationwide Mortgage Licensing System. *SAFE mortgage licensing act of 2008*. Retrieved July 26, 2010, from <http://mortgage.nationwidelicencingsystem.org/safe/Pages/default.aspx>.

NHS Chicago. About us. Retrieved September 5, 2010, from http://www.nhschicago.org/site/topnav_landing/category/about_us.

NMLS Resource Center. *SAFE Mortgage Licensing Act of 2008*. Retrieved August, 2010, from <http://mortgage.nationwidelicencingsystem.org/safe/Pages/default.aspx>.

Park, K. (2008). *Subprime lending and the Community Reinvestment Act*. Working paper N08-2. Cambridge: Joint Center for Housing Studies, Harvard University.

Retsinas, N. P., & Belsky, E. S. (2002). *Low-income homeownership: Examining the unexamined goal*. Washington, DC: Joint Center for Housing Studies; Brookings Institution Press.

U.S. Department of Housing and Urban Development. *Safe mortgage licensing act – HUD*. Retrieved July 26, 2010, from <http://www.hud.gov/offices/hsg/ramh/safe/smllicact.cfm>.

Unfinished business. (July 22, 2010). *The Economist*.

Wolff, S., & Ratcliffe, J. (2008, October). *The role of community development financial institutions in home ownership finance*. Washington, DC: Community Development Financial Institutions Fund of the U.S. Treasury Department.