



**What does a multi-trillion dollar opportunity for investors, lenders, and banks look like?**

THE UNTAPPED POTENTIAL OF  
UNDERSERVED COMMUNITIES



Homeownership  
Council of America

# Challenges & Opportunities in Homeownership: THE UNTAPPED POTENTIAL OF UNDERSERVED COMMUNITIES

## Executive Summary

The wealth gap is growing. Homeownership is the single greatest asset for many individuals and families today. Access to homebuying capital is a key front-line issue. To ensure that homeownership remains in reach, we must guarantee pathways exist for all qualified homebuyers. Unfortunately, today there is still a large mortgage-ready population that remains underserved by credit. These underserved communities represent both the future of this country and a major business opportunity. This underserved population is made up primarily of low-to-moderate income families, people of color and rural communities. These populations are accessing smaller loan amounts, which can be described as loans under as much as \$200,000, in order to purchase the most affordable homes in each market. These underserved populations are also growing. Under current lending practices, homeownership, a cornerstone of the American Dream will continue to become more and more out of reach. We must recognize these challenges and build delivery systems providing credit access to these communities. Underserved communities represent a missed opportunity for lenders. The untapped potential of lending to underserved communities would benefit lenders through increased volume. It would also benefit their investors by delivering the safe, consistent, and long-performing loan investments they seek. As of now, conservative estimates show that there are at least 10 million mortgage-ready people in this underserved community. Notwithstanding other factors, a 2017 data set compiled by Freddie Mac, "Future Borrowers; Challenges and Opportunities" show that there are over 36 million people in the US whose credit rating would qualify them for a mortgage. Improved access to credit could result in a potential for increased loan volume by trillions of dollars, while increasing the asset-building base for millions of Americans. Homeownership Council of America will explore how this can be accomplished by aligning human capital with financial services, developing new strategies and partnerships, and adding resources to improve access to affordable homeownership in our nation's underserved communities.



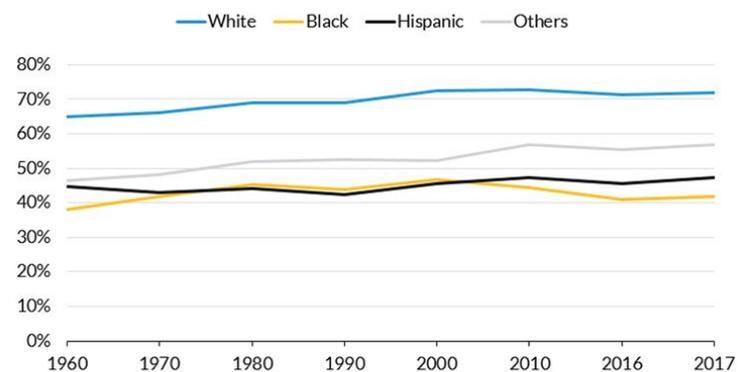
## Underserved Communities: Background

The mortgage lending industry is made up of hundreds of mortgage bankers and depository banks. Over the past decade a major shift has occurred. Mortgage lending has moved away from depository banks to mortgage banks. Today the prevalent source of mortgage originations are mortgage banks. These mortgage banks are highly competitive and always hungry for the next loan commission. They spend big dollars marketing to today’s homebuyers and homeowners for their home finance business. In the face of this fierce competition for the mortgage consumer, it may be surprising to see that certain segments of our country’s population have become underserved. This has arisen due to a variety of circumstances we will highlight. For this paper, we are defining underserved populations as those who qualify for a home purchase in their market, but who haven’t accessed the credit to do so. They represent an increasing wealth gap and homeownership represents the single greatest opportunity for many. It is the key for many families to attain a wealth-building asset. A home not only has the ability to increase in value and build equity over time, it also provides shelter and stabilized long-term housing costs. For the purposes of this paper we are looking at three distinct communities where many qualified borrowers are not achieving homeownership. These are communities of color, rural communities, and low-to-moderate income communities. These three communities share some common issues. They are less likely to have easy access to education and information. They often have less access to technology such as broadband access. They may be more likely to have grown up in a rental environment giving them less intergenerational knowledge of the homebuying process. They also have less choice in lending opportunities within their immediate community. It is important to note that one individual may belong to more than one of these communities thus compounding issues related to their credit opportunities. One last and very important shared interest among these groups; they are often looking to purchase the most affordable homes in their market, which translates to lower loan amounts known as “small balance mortgages”.

### Communities & People of Color

There is a long history of racial disparity in homeownership that has only grown due to the recent foreclosure crisis. This disparity is a challenge due to this deeply ingrained history of homeownership inequity in communities of color. According to the Urban Institute, data shows us that there has been no advancement in Black homeownership rates.<sup>1</sup>

#### Homeownership Rates by Race or Ethnicity

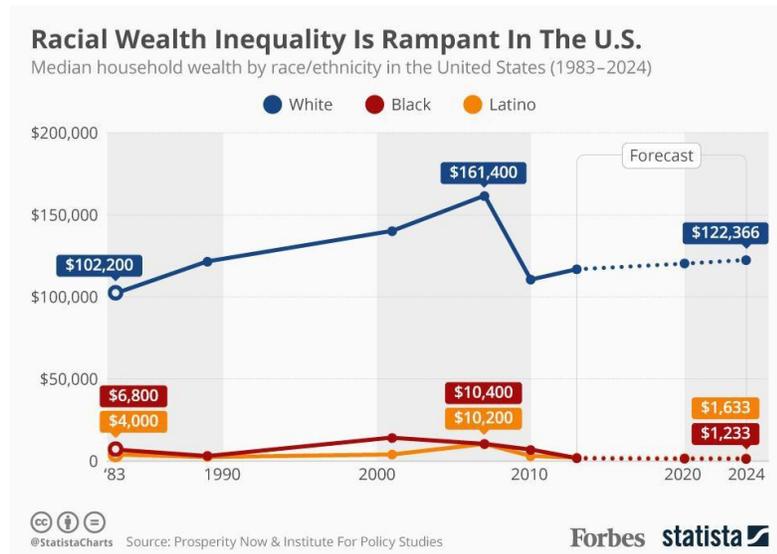


Source: Decennial Census, American Community Survey, and Urban Institute. **URBAN INSTITUTE**

Figure 1 Source: A Five Point Strategy for Reducing the Black Homeownership Gap - The Urban Institute

<sup>1</sup> McCargo, A. “A five-point strategy for reducing the black homeownership gap.” February 14, 2019 Urban Institute website: <https://www.urban.org/urban-wire/five-point-strategy-reducing-black-homeownership-gap>

Black communities are not the only ones being shut out of homeownership. Census data show that non-white races and ethnicities continue to trail behind whites in homeownership rates. The



homeownership rate in the US has always varied by race. Race and ethnicity continue to be correlating factors to success in accessing credit for a home purchase. Despite fair lending and credit regulations we are nowhere close to equality as demonstrated by current homeownership rates. Homeownership has been higher among Whites and Asians while the homeownership rate for Blacks and Latinos has typically been below fifty percent. The recent foreclosure crisis has only increased the historical problem.

Figure 2 Source: McCarthy, Niall Forbes.com “Racial Wealth Inequality in The U.S. Is Rampant.” September 14, 2017 Forbes.com

2

During the crisis, millions households of color were removed from the homeowner ranks.<sup>3</sup> According to a study published by the Center for Responsible Lending, Blacks and Latinos were 1.76 and 1.71 times as likely to have experienced a foreclosure than white households.<sup>4</sup> The indication is that the majority of those who lost homeownership were people of color and households of low-to-moderate income, a dynamic that continues to have long-term repercussions for overall homeownership levels. Most of those that lost homes through foreclosure have not returned to homeownership.

Adding insult to injury in homeownership disparity, a report by the Joint Center of Housing Studies of Harvard University indicates that that foreclosed homes in communities of color were being purchased by wealthy investors. The homes were often acquired at a discount via cash transactions, further transferring wealth out of communities of color. For a population that has required acts of Congress to

<sup>2</sup> McCargo, A. A five-point strategy for reducing the black homeownership gap. February 14, 2019, Urban Institute website: <https://www.urban.org/urban-wire/five-point-strategy-reducing-black-homeownership-gap>

<sup>3</sup> Assante-Muhammad, Dedrick, Chuck Collins, Josh Hoxie, and Emmanuel Nieves “The Road to Zero Wealth: How the Racial Wealth Divide is Hollowing Out America’s Middle Class” September 2017, Prosperity Now [https://prosperitynow.org/files/PDFs/road\\_to\\_zero\\_wealth.pdf](https://prosperitynow.org/files/PDFs/road_to_zero_wealth.pdf)

<sup>4</sup> Bocian, D.G., Li, W., & Ernst, K. S. (n.d.). “Foreclosures by Race and Ethnicity: The Demographics of a Crisis” June 18, 2010, Center for Responsible Lending <https://www.responsiblelending.org/mortgage-lending/research-analysis/foreclosures-by-race-and-ethnicity.pdf>

ensure fair lending standards and practices, and who has lagged far behind whites in homeownership historically as a result.

### The changing face of America, 1965–2065

% of the total population

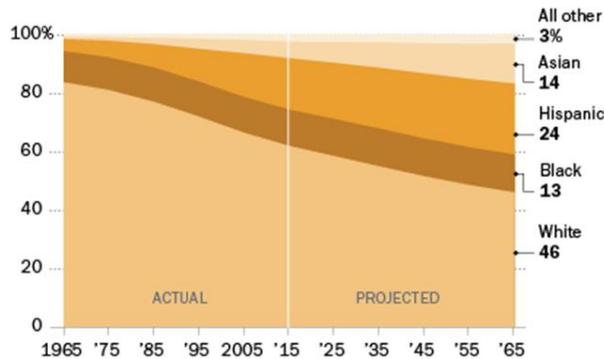


Figure 3 Source: Pew Research Center “The Demographics Trends Shaping America in 2016 and Beyond.” February 2, 2016

It is a sad indictment of fair and just representation, for this lag to continue in 2019. According to a study by the Urban Institute that maps the black homeownership gap; “not one of the 100 cities with the largest black populations has a black homeownership rate close to the white homeownership rate” even in areas where households of color are the majority. Given the changing face and demographics of America, we cannot allow the next decade to look like the past, or even like today.

### Rural Communities

Those living in rural communities are often faced with fewer opportunities and less choices than urban communities when accessing mortgage credit. The National Rural Housing Coalition points to three main factors; affordability, poor housing quality, and lack of access to affordable credit.<sup>5</sup> Homes are often more affordable in rural areas, but incomes are lower and poverty rates are higher. These areas of persistent poverty have recently become targets of FreddieMac & FannieMae, as part of their Duty to Serve efforts (described later). This is of major importance for incentivizing lenders to sell them loans in these areas, and whose premiums/incentives on those loans could go a long way in broadening access to mortgage credit for these rural areas.

Rural borrowers face fewer options in loan origination. A Brookings/Center for Responsible Lending study shows that Community Banks and Credit Unions are the prime source of mortgage origination in rural areas. These entities originate close to one out of every three mortgages<sup>6</sup>. In a world where many mortgage transactions and lenders are doing business online, rural areas are being missed. Presumably today, the internet should bridge the distance gap between rural households and lenders. Rural communities are often the last to receive technological advancements such as broadband access through local utilities. This can create a technological gap leaving rural community residents with less

<sup>5</sup> “Barriers to Affordable Rural Housing.” *National Rural Housing Coalition* (blog), December 14, 2012. <http://ruralhousingcoalition.org/overcoming-barriers-to-affordable-rural-housing/>.

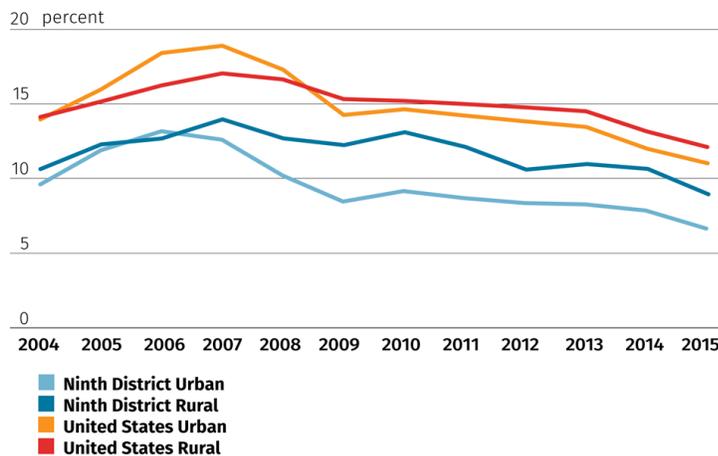
<sup>6</sup> Feltner, Tom, Peter Smith, & Michael Calhoun “Supporting Mortgage Lending in Rural Communities,” The Brookings Institute January 2018 [https://www.brookings.edu/wp-content/uploads/2018/01/es\\_2018\\_01\\_10\\_rural\\_housing\\_report.pdf](https://www.brookings.edu/wp-content/uploads/2018/01/es_2018_01_10_rural_housing_report.pdf)

access to information and fewer mortgage lending options. The lack of broadband access, which persist in rural areas, has an effect on their ability to benefit from e-commerce.

Denial rates are higher in rural areas than in urban ones. A study by Federal Reserve Bank of Minneapolis found an emerging gap in mortgage denials effecting rural communities<sup>7</sup>. HCA works with Community Development Financial Institutions and HUD-approved Housing Counseling Agencies to assist potential homebuyers. We have seen many examples of seemingly credit-worthy borrowers being

### Mortgage Denial Rate by Urban Status, 2004–2015

First-lien, owner-occupied, single-family purchase applications



<sup>5</sup> Figure 4 Source: Todd, Richard M. & Michael Williams, “A new lending gap?” Federal Reserve Bank of Minneapolis. (n.d.). April 28, 2017

denied credit in rural areas. More study is needed on these denial rates and reasons as we solve for consistent and fair access to credit for all markets and consumers. Rural communities remain a great opportunity for mortgage lending. The US Census shows that just over 19% of the US population lives in rural areas which comprise 68% of the counties in the United States. Access to credit and services is difficult in rural communities. For rural residents that are also low-to-moderate income the challenges are compounded. People in rural communities are more likely to own a home than those in non-rural areas. We cannot overlook the potential of rural homeownership.

## Low-Moderate Income (LMI) People

Low-Moderate Income (LMI) people have successfully purchased homes for decades. They are a population that cuts across all races and ethnicities. They represent a large population with a presence in nearly every community in the country. LMI borrowers are defined by the Community Reinvestment Act (CRA) as borrowers earning less than 80% of the median income for the area in which they reside. Numerous studies have shown low income and low wealth consumers to be responsible borrowers with well-performing loans. Lenders are not reaching this population sufficiently. A study by the Federal Reserve shows a sharp decline in LMI lending since 2011<sup>8</sup>. This may be due to the ongoing misperception by lenders that lower-income people are a higher risk. This has been shown to be false. The Urban Institute’s study on the performance of very small mortgages found similar credit profiles and performance when compared to high dollar loans<sup>9</sup>. This removes the argument against providing smaller

<sup>7</sup> Todd, Richard M. & Michael Williams, “A new lending gap?” Federal Reserve Bank of Minneapolis. (n.d.). April 28, 2017, <https://www.minneapolisfed.org/publications/community-dividend/a-new-lending-gap>

<sup>8</sup> Bhutta, Neil, Steven Laufer, & Donald R. Ringo, “The Fed - The Decline in Lending to Lower-Income Borrowers by the Biggest Banks.” (n.d.). September 28, 2017 <https://www.federalreserve.gov/econres/notes/feds-notes/the-decline-in-lending-to-lower-income-borrowers-by-the-biggest-banks-20170928.htm>

<sup>9</sup> McCargo, A., Bai, B., & Stochak, S. “Small-Dollar Mortgages: A Loan Performance Analysis.” March 6 2019, from Urban Institute website: <https://www.urban.org/research/publication/small-dollar-mortgages-loan-performance-analysis>

loans for loan performance or risk arguments against providing this credit. When coupled with the large appetite in the secondary market to invest in American mortgages, this emphasizes the lost opportunity of lending in underserved communities.

Lower income communities also face the challenge of accumulating enough savings for a down payment. In many communities across the nation, the monthly cost of homeownership is often lower than monthly rent. The challenge faced is in saving the funds needed for a down payment. This is compounded by a persistent misconception that mortgages require a 20% down payment. In reality; many conventional mortgages only require 3% of the borrower’s own funds be applied for down payment. Lower income communities are less resourced to build assets. This underscores the need to utilize the opportunity of converting the average family’s largest monthly expense into a wealth-building opportunity. For those who qualify, homeownership is more affordable than they may believe.

It is time to examine our current lending business model to capture the full potential of low-moderate income communities. It is time for lenders to provide LMI communities with additional credit access using widely agreed upon underwriting guidelines. This lending will not only lift LMI communities through asset-building, stable homeownership it will also lead to more loan volume for lenders and investors. Making homebuyers in underserved communities a worthy proposition for immediate solution.

### Lending Business Model Challenges

The mortgage industry generally works on a commission-based sales model. Commissions are paid based on a percentage of the loan amount originated. Underserved borrowers almost always require smaller than average loan amounts. Many first-time homebuyers need to purchase the more affordable homes in their market. This results in a group of borrowers that need lower loan amounts. From a lending business model perspective, the biggest challenges this situation are that revenues on smaller loans do not pay as much to originators and lenders anywhere near as higher loan amounts, while involving the same basic work effort to produce the loan.

When we move all the way to the front line of lending, we are at the originator level. Mortgage Loan Originators (MLO) today are licensed through the Nationwide Mortgage

Licensing System and accountable for the professional service they deliver, and are paid in a variety of ways, though primarily and at some point, always tied to their volume of loan production. Commissions are where MLOs make a large portion of their income and they are derived by a percentage of the loan amount. This connection between volume and income for originators, incentives the largest loan

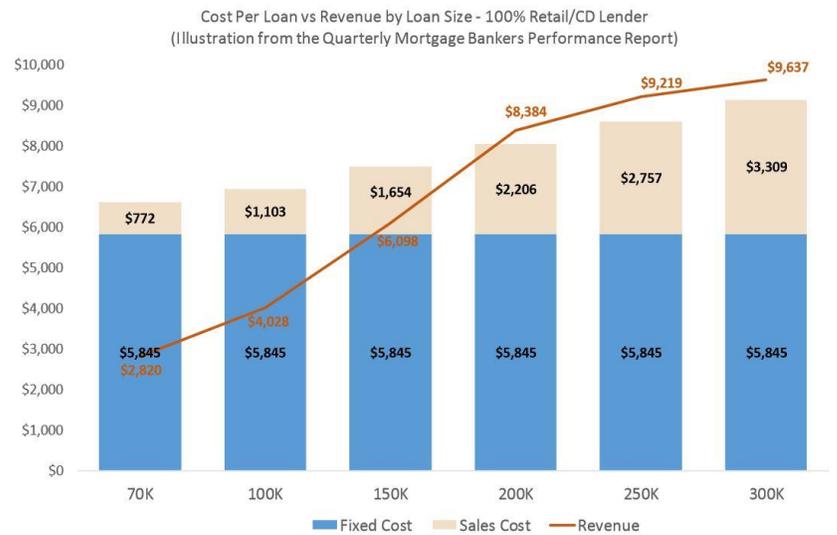
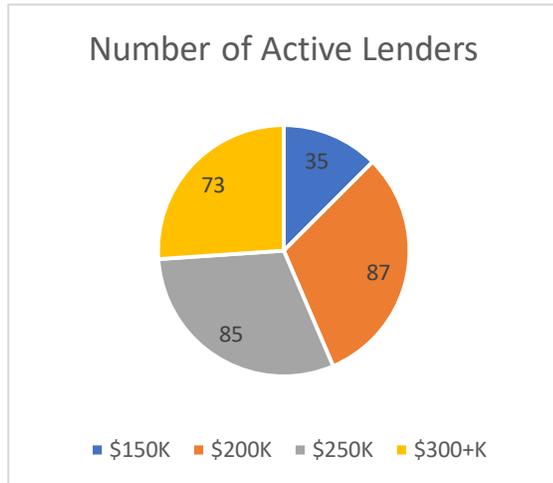


Figure 5: Source: Quarterly Mortgage Bankers Performance Report, June 2019, Mortgage Bankers Association

amounts that drive the highest earnings. This removes the sales incentives needed to maximize lending volumes for smaller loan amounts.

Moving from the originator perspective to the lender perspective, we can see using data accumulated by the Mortgage Bankers Association (see chart) from lenders who report their expenses; a lender may see a loss on a loan for less than \$200,000. This is a startling large number, especially given that the



median price of a home in the US according to Zillow as of June 2019, is \$289,900. Also evident, is the lack of lenders participating in the \$150K average balance lending area. Only 14% of those lenders who reported having activity at that loan balance. These relatively large, yet conceivably “small” balance lending creates a business challenge for lenders, who without providing for greater incentives or reduced costs, stand to lose money on these loans. While studies have focused on loan amounts less than \$70,000, or \$100,000 – the lending industry production cost and revenue data shows that from the lenders perspective, the business model of lending becomes a challenge for loan amounts that would provide credit access for the underserved communities discussed in this paper.

Figure 6: Source: Quarterly Mortgage Bankers Performance Report, June 2019, Mortgage Bankers Association

## Solutions

The lack of origination in underserved communities is a missed opportunity for lenders. Homeownership is still affordable for far more people than have been given the opportunity to achieve it. A 2017 data set compiled by Freddie Mac, “Future Borrowers: Challenges and Opportunities” demonstrates that there were over 36 million people across the country who were credit-ready and have not yet purchased a home. Another study released by the Urban Institute in 2016 showed that conservatively, over 5.2 million qualified people did not access credit from 2009-2014<sup>10</sup>. Little has changed in the lending and the business model in the past 5 years. We extrapolate that number to estimate that over 10 million mortgage ready homebuyers are going underserved in 2019. By successfully lending in underserved communities, lenders stand to conservatively increase their loan volume by at least \$1.5 Trillion.

The 2018 Annual Mortgage Bankers Performance Report provided by the Mortgage Bankers Association (MBA) shows some interesting and promising data. 280 lenders provided data for this report. It shows that while higher principal loan amounts over \$300,000 were more profitable there is still a significant profit margin in lower principal loans. It may come as some surprise that the data also showed that the profit margin for average loans sizes of \$150K were

<sup>10</sup> Bai, B., Goodman, L., & Zhu, J. “Tight credit standards prevented 5.2 million mortgages between 2009 and 2014”. January 28, 2016, from Urban Institute website: <https://www.urban.org/urban-wire/tight-credit-standards-prevented-52-million-mortgages-between-2009-and-2014>

more profitable than loans sizes \$200-250K, oddly, though there are clearly more lenders competing in that space than for lower balance mortgages. . The chart below summarizes the MBA report data and clearly shows that there is opportunity in an increased volume of lower principal loan amounts. This becomes even more apparent when coupled with the incentives that we will explore next.

| <b>MBA Data Chart - 280 Lenders Reporting</b>                            |                      |                      |                      |                       |
|--|----------------------|----------------------|----------------------|-----------------------|
| <b>Highlights of Residential Loan Production by Average Loan Balance</b> |                      |                      |                      |                       |
|  | <b><u>\$150K</u></b> | <b><u>\$200K</u></b> | <b><u>\$250K</u></b> | <b><u>\$300+K</u></b> |
| Number of Active Lenders   | 35                   | 87                   | 85                   | 73                    |
| Loan Balance   | \$151,674            | \$203,284            | \$247,334            | \$341,792             |
| Total Production Revenues  | \$5,754              | \$8,095              | \$8,985              | \$10,289              |
| Total Production Expenses  | \$5,316              | \$8,082              | \$8,715              | \$9,423               |
| Net Revenue Per Closed Loan  | \$438                | \$13                 | \$270                | \$866                 |

Figure 7: Source: Quarterly Mortgage Bankers Performance Report, June 2019, Mortgage Bankers Association

It is clear that underserved communities represent a missed opportunity for lenders and investors. It is also apparent that ready solutions are in reach. Lenders can tap into the potential through existing products, incentives, fees, and partnerships. Tapping this potential will not only increase volume and revenue for lenders will also benefit bank Community Reinvestment Act goals and Government Sponsored Enterprises (GSEs) in their Duty to Serve (DTS) rules, which we expand upon below. Most importantly, it will unlock credit access for our underserved communities allowing them to achieve homeownership and build wealth.

USDA rural lending programs have a long history. They remain an important source of vital credit access for rural communities. The USDA rural direct mortgage program for low income rural borrowers, began a pilot in 2009 that has since become formalized as a public/private partnership model. This model drives efficiency and scale for the program by partnering with the private and nonprofit sector. Both take part in packaging and quality control of borrowers' loan applications. This efficiency gain is an important channel for the vital credit resource that the USDA loans provide to rural communities. In order to meet the needs of underserved rural communities, two steps are needed. An immediate and consistent adoption of this methodology in all fifty states along with proportional departmental resources based on population need.





## ***Connecting Secondary Market Incentives to Originations***

### ***Community Reinvestment Act: Opportunities for Lenders***

Federally regulated depository banks are subject to the Community Reinvestment Act, causing them to seek out lending credits within that scoring system. These credits are obtained for mortgages and loans to LMI borrowers and to any borrower residing in LMI census tracts. This CRA score results in a rating that runs from Substantial Noncompliance to Outstanding, and banks that are found to be below Satisfactory are given a Needs to Improve rating and must address the score prior to being approved by their regulator for mergers, acquisitions, and various changes to their business such as branch closures and product line changes. As the business needs of the banks fluctuate, having a Satisfactory or better CRA rating becomes very important, and potentially invaluable depending on the business opportunities at hand otherwise, that a negative rating could put a halt to their business expansions and mergers. As such, these banks pay premiums to buy qualifying CRA loans, especially when they can't organically originate the requisite volume to achieve an acceptable CRA rating. It is important to note, as it relates to the issue of loan size, that CRA credits for loans are counted on a unit basis, not dollar volume, potentially making smaller loans more valuable as they demand less of the bank's capital to purchase.

Incentivized CRA loan purchase agreements are immediately implementable, using existing loan products and credit standards. There are already examples of these forward purchase commitment agreements in the market, but not at scale. Depository banks that need CRA, in this example, provide an open loan-purchase agreement to the mortgage banks who need a reliable secondary market premium to systemically incentivize more volume in these smaller loans. Banks regularly pay premiums from 1-3+% or 100-300+ basis points for qualifying CRA loans, depending on area, availability, and need. Given a reliable incentive of just a 1% premium or 100 basis points, we assert that many mortgage banks would be thrilled to have the opportunity and incentive to do more volume, and thereby provide more access to credit for underserved communities. Additionally, given the advanced notice of proposed rule changes for CRA; these loan trades will be limited in future. Whereas today the same CRA qualifying loan may be sold from one bank to the other endlessly, achieving CRA credit for each transaction, in future, the number of trades will be restricted and is proposed to be limited to two trades.

This therefore underscores the need to have an organized approach to this problem and opportunity. HCA is working with the Mortgage Bankers Association on the Small Balance Loan Task Force to create a

CRA exchange concept that will foster these relationships and organize the marketplace to drive efficiency and cost reduction in CRA for banks, while creating new reliable incentives for mortgage lenders to provide additional credit and volume in underserved communities.

### *Duty To Serve: Opportunities for Lenders*

These loans are not some new line of business, rather the credit needed to help these underserved communities essentially already exists, the problem is that we lack delivery systems that reach these underserved communities. The Government Sponsored Enterprises (GSEs) have a mandate from their regulator, Federal Housing Finance Agency (FHFA) called Duty to Serve (DTS) and have long held affordable housing finance goals. This mandate and set of goals cover a wide range of affordable housing finance needs that FannieMae and FreddieMac must seek to address to provide liquidity for both rental and homeownership. Additionally, the new DTS rules are helping to provide enhanced liquidity and clarity around affordable and lower income lending. This approach includes affordable mortgages for manufactured homes – a major solution to housing product in the US that is both high-quality and affordable.



DTS qualifying loans are not reflective of the majority of volume for which the GSEs provide liquidity. They are often difficult to achieve as they are intended to serve the most vulnerable yet investable populations. While DTS has created extra incentives for special qualifying loans, the GSEs have long had affordable housing goals. These have been primarily met through a wide range of loan programs made available to approved Seller-Servicers (lenders). These product sets carry discounts and credits for first time homebuyers, low income households, and homebuyers dealing with student loan debt. They are by many measures sensible and affordable loans. This means that first time homebuyers can find many options for 3% down-payment requirements, or in other words conventional first mortgages for 97% loan to value (LTV). It's not just FHA, which now capped at 96.5% LTV, that provides high-LTV lending for consumers. Today almost any lender has wide access to a variety of affordable, fixed rate, high LTV loan products. These only need to be made available to the underserved borrowers.

The fact is that most underserved borrowers can be served by loan products that already exist in the market, and it is the delivery system that is failing to reach them. DTS drives incentives that the GSEs are now offering to lenders selling them loans that meet DTS goals of serving low income, rural, and areas of persistent poverty. These enhanced products and increased incentives and liquidity for loan types, borrowers, housing types, and areas covered by Duty to Serve all represent opportunities for lenders to engage in more of this volume, while earning reliable premiums upon sale to the GSEs for qualifying loans. When loans are made to LMI borrowers, in LMI census tracts and many rural areas of persistent poverty – premiums can be gained upon sale of the loan by the lender. Lenders need to embrace smaller loan amounts systemically and pass these incentives to their originators encouraging more activity in underserved communities. The previously mentioned Duty to Serve (DTS) rule has caused the GSEs to provide products and incentives to lenders who can originate and sell them loans in rural areas of persistent poverty, among others, and carry these additional premium payments to lenders. These premiums represent one source of targeted transactional incentives to ensure that credit access is being provided in these underserved areas and populations, but it is incumbent upon lenders to tie those secondary market incentives to the front end of lending to incentivize more volume.



## *Community Development Financial Institutions and Nonprofits*

Community Development Financial Institutions (CDFI) have been a traditional partner for CRA grants and investments since their creation by the Riegle Community Development and Regulatory Improvement Act of 1994. Loans, grants and investments made to CDFIs are counted as CRA-qualifying activities for depository banks. CDFIs are often nonprofits with the ability to cross-subsidize clients in a program or service line, a desire to serve a mission, and the ever-growing need for revenue generating activities that are part of delivering their mission. The CDFI sector of the industry developed out of fair credit advocacy to create lending entities and investments that are targeted to low income and underserved communities. CDFIs come in many forms, both for-profit and non-profit, must direct the majority of their lending activity to LMI borrowers, and are incentivized to create niche product solutions that have built many local CDFI balance sheets. These organizations also often have deep roots in the communities they serve, are representative of that population, and provide culturally competent services.

Many banks and for-profit investors control their own CDFI for these reasons. CDFIs are certified annually and must maintain strong financial health while lending to LMI communities. These organizations are often well capitalized, yet smaller in scale, through both bank CRA-motivated investments and from the CDFI Fund directly. Hundreds of the just over 1,000 CDFIs nationally, provide down-payment assistance and niche home loan lending, but aren't well connected with the secondary mortgage market. This lack of connection to the secondary market results in narrow product offerings by these CDFIs, who often only carry loan products that stay on balance sheet and are therefore limited in scope by definition.

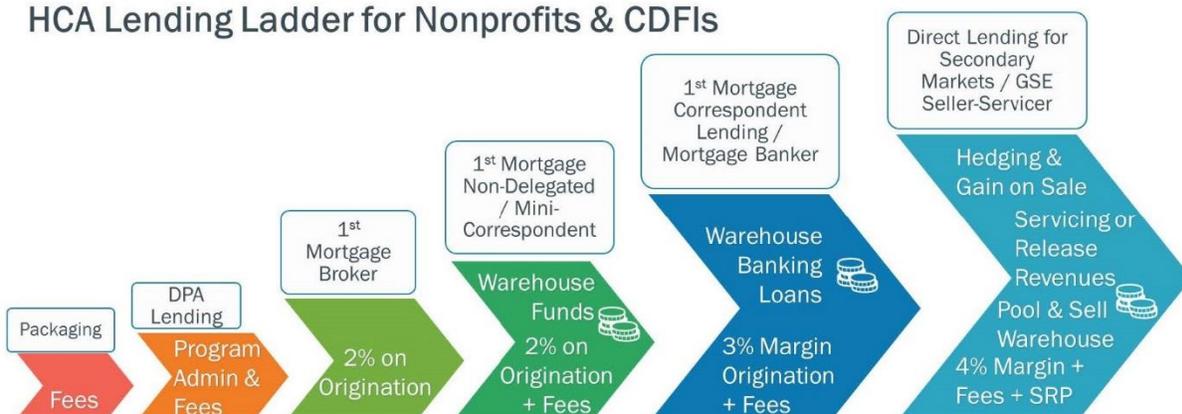
This sector is also Ability To Repay (ATR) and Qualifying Mortgage (QM) exempt and ripe for leveraging that exemption – which both allows for possible non-QM loan products to be developed and safely deployed, and lessens the reserve requirements of bank investors buying the permanently exempted loans that are generated by the CDFI. Nonprofit CDFIs have a mission and deep connections to serve communities as a delivery point for vital access to credit. These nonprofit CDFIs are an excellent opportunity for the mortgage business to engage with a source of originations in these communities. These nonprofits often have a narrow set of programs that can be leveraged and enhanced by adding the standard full range of government and conforming mortgage products (FHA, VA, GSE) with which they can serve their communities. This capital markets access creates better value propositions for these organizations as they serve their mission, while creating revenue generating mission-business opportunities that enhance the organizations sustainability and ability to serve more households. Additionally, rural communities may be best served through nonprofit delivery models that provide quality credit access in partnership with USDA. Nonprofit CDFI mortgage origination businesses that serve LMI and other underserved communities with access to credit, carry a triple bottom line (revenue model, mission service, community development) and represent a major opportunity for all involved.

We are just beginning to see investors connect with nonprofits, most on a wholesale and correspondent lending basis, and a handful who have achieved Seller/Servicer status with the GSEs but are just getting started. These nonprofit lending models also include what we call “hub and spoke” models whereby nonprofits work together collaboratively to serve clients and share in the resources generated through that production, which future HCA papers will bring more to light on while examining results and impact. One thing seems abundantly clear; serving the very lowest incomes and loan amounts, as well as the most difficult to reach communities, will need to involve a social enterprise model that blends nonprofit mission work with enterprising revenue generation to sustain it, and luckily in homeownership, even when “small” every transaction and sustainable homeowner creates significant value and revenues for a range of professionals, investors, and service providers.

### CLIMB Program

Homeownership Council of America works with both nonprofit and corporate homeownership lending partners to develop sustainable mission-business models, product, and programs that reach underserved communities. HCA provides a growth path for CDFIs and HUD-Approved Housing Counseling Agencies through our social enterprising Community Lending Initiatives in Mortgage Banking (CLIMB) program, where we help nonprofits ‘CLIMB the Lending Ladder’. CLIMB helps existing organizations to grow by enhancing their value proposition, product offerings, and capital markets outlets to create a long-term sustainability. HCA works in partnership to increase overall service to underserved communities nationally, and to underpin multi-decade investments in these organizations that could face extinction without improved revenue models. There are hundreds of organizations across the country who are deeply embedded in many of these underserved communities, need more revenue to sustain and grow their vital programs, and they represent a perfect opportunity for a front-end delivery system of access to credit. The CLIMB program helps organizations enhance their model while increasing services and credit options for the least served consumers in their market area. In doing so, these CDFIs and nonprofit homeownership organizations create product partnerships, wholesale lending channels, and loan sales opportunities with for-profit investors who provide liquidity and pay premiums that sustain the mission services of these organizations.

### HCA Lending Ladder for Nonprofits & CDFIs



## Conclusion

Lending to people in underserved communities is a huge opportunity for quality loans. The result would be increased volume and revenue for lenders and investors. Unfortunately, this is currently being overlooked by most lenders. The reasons for missing this opportunity are rooted in misperception and compounded by current business practices. Existing products and secondary market incentives clearly provide incentives that can be tied to more originations/lending in our underserved communities. The development of strong partnerships between lenders and nonprofits could substantially increase lenders abilities to originate these loans.

## Call to Action

Lenders can immediately begin accessing the opportunities in underserved communities. They can take advantage of existing secondary market incentives for these targeted loans. These loans create this extra value that can be tied directly to originations, in order to incentivize increased sales and production in underserved communities.

Lenders should partner with nonprofit mortgage brokers, correspondents, and providers of Down-Payment Assistance (DPA) loans. These partnerships increase lender reach into communities of color, provide product options for consumers, and increase production volume. HCA's CLIMB program can assist nonprofits and lenders to meet these goals.

Investors seeking more volume in these underserved, yet worthy, investable communities should create partnerships with mortgage banks and CDFIs. These partnerships can reliably deliver qualifying loans cost effectively, while creating additional incentives for originators and lenders to produce more.

Nonprofits should also increase their service and mission goals to increase lending in underserved communities. Leveraging local community connections and mission goals with lenders committed to providing credit access; creates delivery systems for underserved communities.

Investors and nonprofits can better partner around Down Payment Assistance solutions that reduce the barriers of entry into homeownership for the underserved communities described in this paper. We must bring more consistency to DPA loan programs, documents, and guidelines. Scaled, consistent, reliable and affordable solutions with lending liquidity are the way forward.

Culturally relevant outreach and consumer education is needed for the black community. While multi-cultural financial capability and homebuyer classes are prevalent, the industry has not yet solved for the best ways to reach the black community. We must empower through knowledge and careful effort to overcome the significant equity barriers that exist for black people in America.

Nonprofits can further serve underserved communities by increasing their ability to provide credit access and loans. HCA can help nonprofits to build out and increase their current lending models. Through CLIMB, HCA provides nonprofits with the technical assistance and capacity building needed to successfully lend in their communities.



## About HCA

Homeownership Council of America (HCA) is a national nonprofit focused solely on homeownership and the economic opportunity it presents for underserved communities. Issues like those explored in this white paper are of importance to HCA as we promote, advocate for, and build delivery systems that provide homeownership opportunities for underserved communities of color, rural areas, and low-to-moderate income families and individuals. HCA partners with industry leaders, nonprofit lenders, and capital providers to create products, partnerships, and capacity to create access to mortgage credit for LMI and disadvantaged populations. HCA provides technical assistance and capacity building services to CDFIs and nonprofit homeownership service providers through our CLIMB Program. Our overall goal is to increase delivery points and access to credit for underserved communities.



The Homeownership Council of America staff and board is made of highly qualified professionals who are experienced in helping underserved communities achieve homeownership. This paper is being reviewed by our National Leadership Advisory Council of leading homeownership professionals serving challenges communities across the country. The NLAC advises HCA staff on whitepapers, areas needing further research, and our policy advocacy agenda, in conjunction with the Board of Directors. This is the first of many white papers HCA will be publishing with the goal to inform, educate, influence and propose solutions in homeownership, with a focus on the underserved communities at the core of our mission. We believe homeownership is critical to building long-term significant wealth and assets, and that all Americans deserve access to that opportunity.

Please visit our website for more information: [www.homeownershipcouncil.org](http://www.homeownershipcouncil.org)

HCA also provides webinar presentations on this topic and our CLIMB program – please let us know if you'd like to schedule a presentation for your group by reaching out to Lupe Hernandez, COO at [lupe@homeownershipcouncil.org](mailto:lupe@homeownershipcouncil.org)

