Winning Strategies in the NeighborWorks® Network

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Manchester Neighborhood Housing Services' Local Lender Partnership; Loan Participation Pool

Descriptors:

Category: Affordable Loan Products, Down-Payment Assistance, Partnership-Building
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Outcome:

Manchester Neighborhood Housing Services (MNHS) of Manchester, New Hampshire, has built a strong partnership with local lenders to fund its participation loan pool, which provides down-payment and closing-cost assistance to low-income, first-time homebuyers.

Background:

MNHS opened in 1992 with a goal to revitalize targeted Manchester neighborhoods. Its services include affordable housing and real estate development; renovation and reconstruction; resident leadership and community building initiatives; and counseling and education programs.

MNHS's participation loan pool was created in 1993 to provide down-payment and closing-cost assistance to low-income homebuyers throughout New Hampshire. The program performed well for a number of years, but began to fall short when housing costs started to climb in 2001. (The median home sales price rose from $125,000 in 2001 to $238,000 in 2004.) The rise in housing prices made mortgage loans unaffordable for many homebuyers, and strict lending criteria made it so loan pool funds sat dormant; essentially unused.

MNHS saw an obvious need to overhaul the program's guidelines and decided to recapitalize the loan fund, with an agreement from each partner to incorporate more flexible underwriting. Seven local lenders agreed to the plan and in March 2005 collectively committed $6.5 million to the new program.

Components:

Loan Partners. Funding commitments for MNHS's participation loan pool came from Bellwether Community Credit Union, Centrix Bank, Granite State Credit Union, Member's First Credit Union, St. Mary's Bank, TD Banknorth, and Southern New Hampshire Bank. MNHS met with each lender partner individually to explain the program needs and goals. Each partner then committed a specific amount over a three-year period, ranging from $250,000 to $2,500,000.

Loan Details. The new underwriting guidelines allow borrowers to receive a low-interest loan of up to $75,000 at a 30-year fixed rate. The interest rate is based on the 20-year Treasury bill, which has lingered around 5 percent since the program began. Buyers must have 1 percent of the purchase price from their own savings for the down payment.

To further increase affordability, MNHS and its partners eliminated fees for private mortgage insurance and allow customers to roll their closing costs into the overall cost of the loan. The borrower's loan-to-value may reach 104 percent, and those purchasing a multi-unit home can use the rent-offset method to calculate rental income.

Eligibility Factors. Any homebuyer in New Hampshire who is at or below 80 percent of the area median income is eligible for a loan through this program. Standard credit and employment factors apply, and customers must complete the eight-hour homebuyer education class offered through MNHS's NeighborWorks HomeOwnership Center. Borrowers must attend at least one individual counseling session and are encouraged, but not required, to attend MNHS's postpurchase classes, including landlord training for those buying multi-unit properties.

Loan Process. MNHS staff complete all loan origination and underwriting tasks, plus close and service each loan, with no fees to the lender. Lender partners approve and fund each loan on a rotating basis.

Loan Rotation. MNHS makes the rotation process fair by basing the number of customers that each lender serves on each rotation on the amount of funds the lender committed to the loan pool. A unit of $250,000 was used for this equation, meaning that each lender gets one customer for every $250,000 committed to the loan pool. So, lenders who committed $250,000 get one customer a rotation, while those who gave $2.5 million get 10 customers a rotation. This pattern repeats until the funds are depleted or the three-year commitment period ends.

This rotation system makes it so lenders who committed lesser amounts to the loan pool can remain in the program for the entire three-year period. Otherwise, their funds would be consumed within the first year. It keeps the process balanced and ensures that funding commitments will be depleted around the same time.

Marketing. Program marketing is conducted by lender partners who refer their customers to MNHS for application. MNHS also markets the program to participants in its homebuyer classes.

Staffing. All program responsibilities have been absorbed by existing MNHS staff.

Costs and Funding. The only expenses for MNHS are staffing and loan costs, which are covered through its operating and lending budgets. In addition, loan customers are charged two points at closing to generate income for MNHS.

Results:

MNHS's loan participation pool is helping bridge the affordability gap and is providing an option for underserved, lower-income buyers who are not qualified for conventional financing. Ultimately, the loan program will help borrowers avoid subprime and predatory lending situations.

From April 2005 through December 2005, MNHS provided down-payment and closing-cost assistance to 45 low-income households through this program. An additional seven loans were in the pipeline in early 2006. The average amount borrowed was $50,000, and, so far, the foreclosure rate is zero.

Representatives from each lender partner participate on MNHS's credit committee, which keeps them connected and informed. All participants are positive and enthusiastic about the program. Other lenders in the Manchester area have shown interest in joining the participation loan pool when the time comes to recapitalize the fund.

Lessons Learned:

- Promote Positive Features. When reaching out to potential funders, be sure to promote the benefits of the partnership, including access to a steady stream of customers who are educated and prepared for homeownership. Lender partners can also benefit from volunteering at the agency's educational seminars, where they'll meet potential customers. While it is important to highlight the benefits, it is also important to emphasize the needs in the community and how lenders can help satisfy those needs.

- Know the Market. Agency staff must know what lower-income homebuyers need to succeed in the local housing market and develop suitable guidelines so the product can be used.

- Develop Rotation Process. Developing a fair rotation process can be difficult, but is necessary. Basing the number of customers each lender gets on their commitment amount keeps the program balanced and makes it worth their while. Funding commitments must be used or lenders will loose interest.

- Be Prepared. Designing a loan product with guidelines that work for everyone can be a challenge and will take time to develop and implement. The capacity of each lender partner will vary, and their needs, abilities and concerns must be carefully balanced. Once the partnership is formed, however, the ongoing staffing requirements should decrease.

Agency interview took place on 02-06-06 with: Linda Dallaire, Deputy Director of Homeownership

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