



Developing Strong Native CDFI Housing Loan Products and Services

The CDFI Fund's Capacity Building Initiative
Building Native CDFIs' Sustainability and Impact II

July 16–18, 2019

ICF | First Nations Oweesta Corporation | Seven Sisters Community Development Group, LLC



Disclaimer

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Module 1 – Course Overview

Course Overview

- Welcome
- Introductions
- Course Objectives
- Preview of Agenda

Your Trainers

Joanna Donohoe
Partner



Lanalle Smith
Program Manager



Participant Introductions

- Name
- Organization
- Expectations

Course Introduction

This curriculum is designed to help Native CDFIs to expand their programs to meet the demands of homebuyers in their communities, especially on trust lands.

Course Learning Objectives:

- Explain the basics of the mortgage lending industry;
- Describe model CDFI housing programs, tools and resources;
- Formulate strategies to expand housing loan products and services to meet the demand for mortgage financing in their Native communities;
- Address challenges with the residential leasing and mortgage lending processes on trust land; and
- Develop a plan to operationalize those expansion strategies that includes staff training, licensing and regulatory compliance.

Agenda Overview – Days One & Two

Day One - Tuesday

- Course Overview
- Mortgage Lending Basics
- Housing Lending in Native Communities
- Housing Needs Assessments
- Selecting Products and Services
- Native CDFI Housing Models

Day Two - Wednesday

- Mortgage Lending Roles for CDFIs
- Becoming a Secondary Market Seller/Service
- CDFI Mortgage Lending Business Models

Agenda Overview – Day Three

Day Three - Thursday

- Mortgage Lending on Trust Land
- Engaging Tribal Governments
- Operationalizing Your Mortgage Lending Plan
- Pulling Your Plan Together

Common Courtesies

- Be engaged
- Turn cell phones to vibrate
- Take care of yourself

Logistics

- Restrooms
- Breaks
- Lunch

Module 2—Basics of Mortgage Lending Landscape

Mortgage Lending Players

Secondary
Market

Insurers/
Guarantors

Lenders

Servicers

Housing
Counselors

Foreclosure
Prevention
Specialist

Secondary Mortgage Market



Bank awards mortgages to homeowners



Lender

Bank sells mortgages, thus releasing more funds to lend more



Investors

Fannie Mae or Freddie Mac sell mortgage-backed securities to investors



Who are secondary market players?

GSEs – Fannie & Freddie

Ginnie Mae

Federal Home Loan Banks

State Housing Finance Agencies

Other Lenders

Your Tribe

Investors

What does the secondary market do?

- Raise money in the global capital markets.
- Establish loan standards, parameters and guidelines.
- Provide liquidity to lenders by purchasing loans that meet their standards.

What is Duty to Serve?

Federal Housing Finance Agency Overview of Duty to Serve



Who is Ginnie Mae?

- Division of HUD
- Securitizes loans with government insurance or guarantees



What do insurers/guarantors do?

- Provide insurance or credit enhancement
- Cover for loss (or portion of loss) that an investor would incur if a borrower doesn't pay mortgage
- Benefit investor, not borrower
- Provide incentive for lenders

Public Insurers/Guarantors

- HUD Federal Housing Administration
- U.S. Department of Veterans Affairs
- USDA Rural Development
- HUD Office of Native American Programs

Private Mortgage Insurance

- Required for conventional loans with loan-to-value ratio greater than 80%
- Provided by private mortgage insurance (MI) companies

Mortgage Loan Credit Enhancements

PUBLIC

PRIVATE

HUD - FHA

USDA Section
502
Guaranteed
Home Loan

VA
Guaranteed
Home Loan

HUD Section
184/184A

Conventional

Mortgage
Insurance
Premium
(MIP)

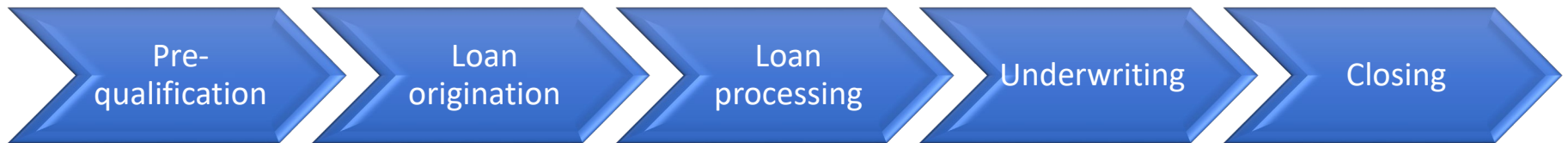
Loan
Guarantee
Fee

VA Funding
Fee

Loan
Guarantee
Fee

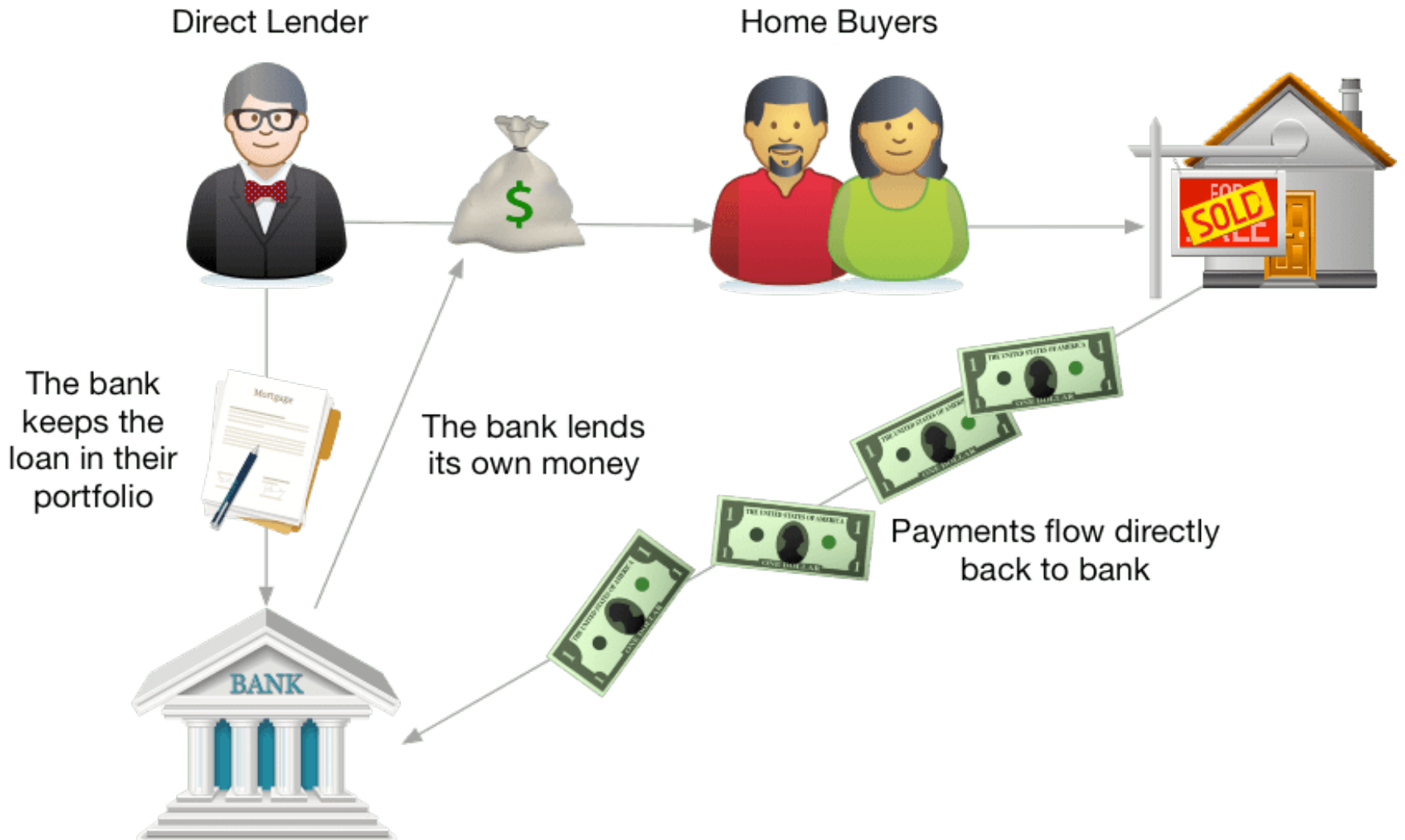
Private
Mortgage
Insurance

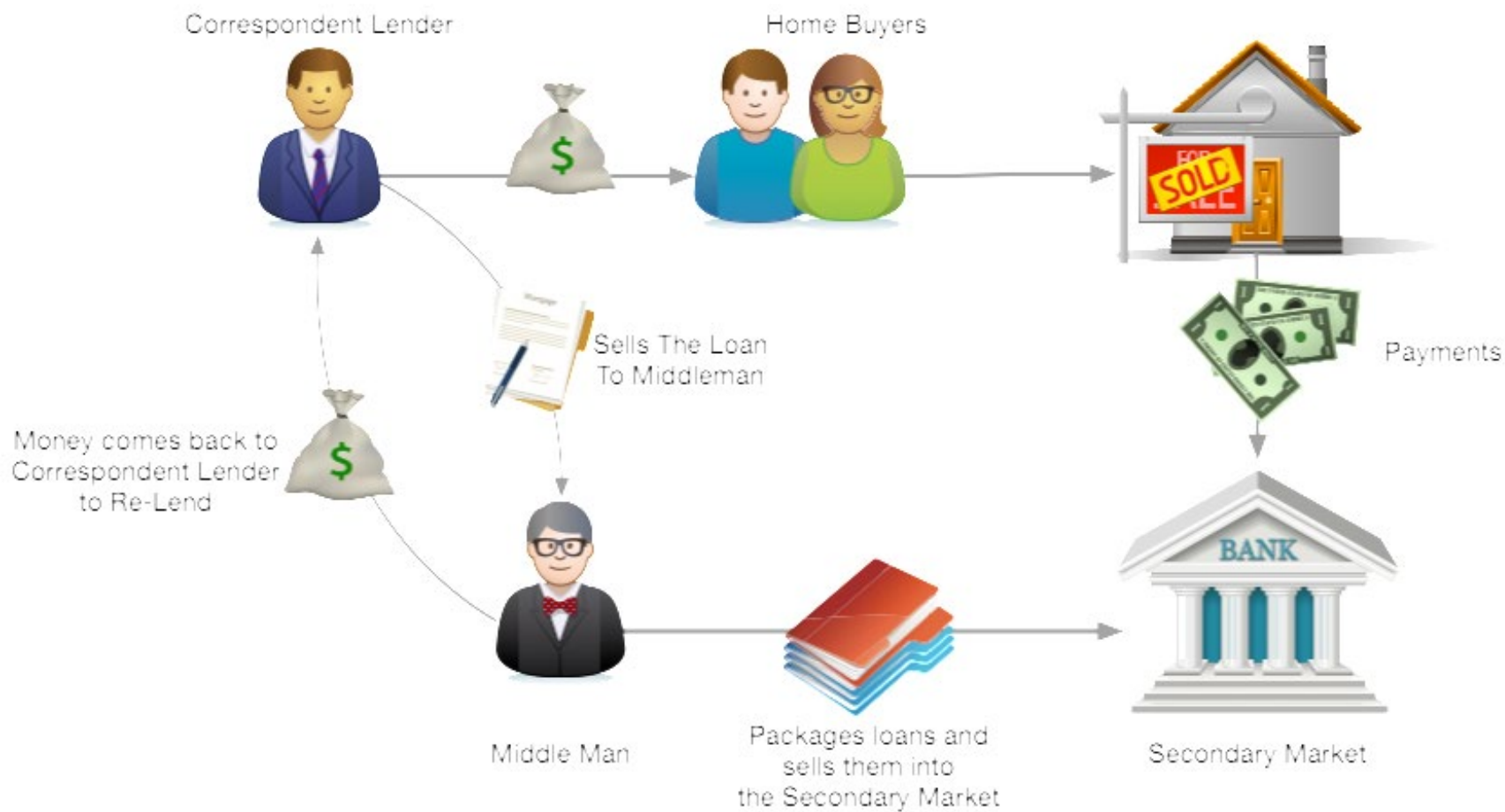
Loan Process

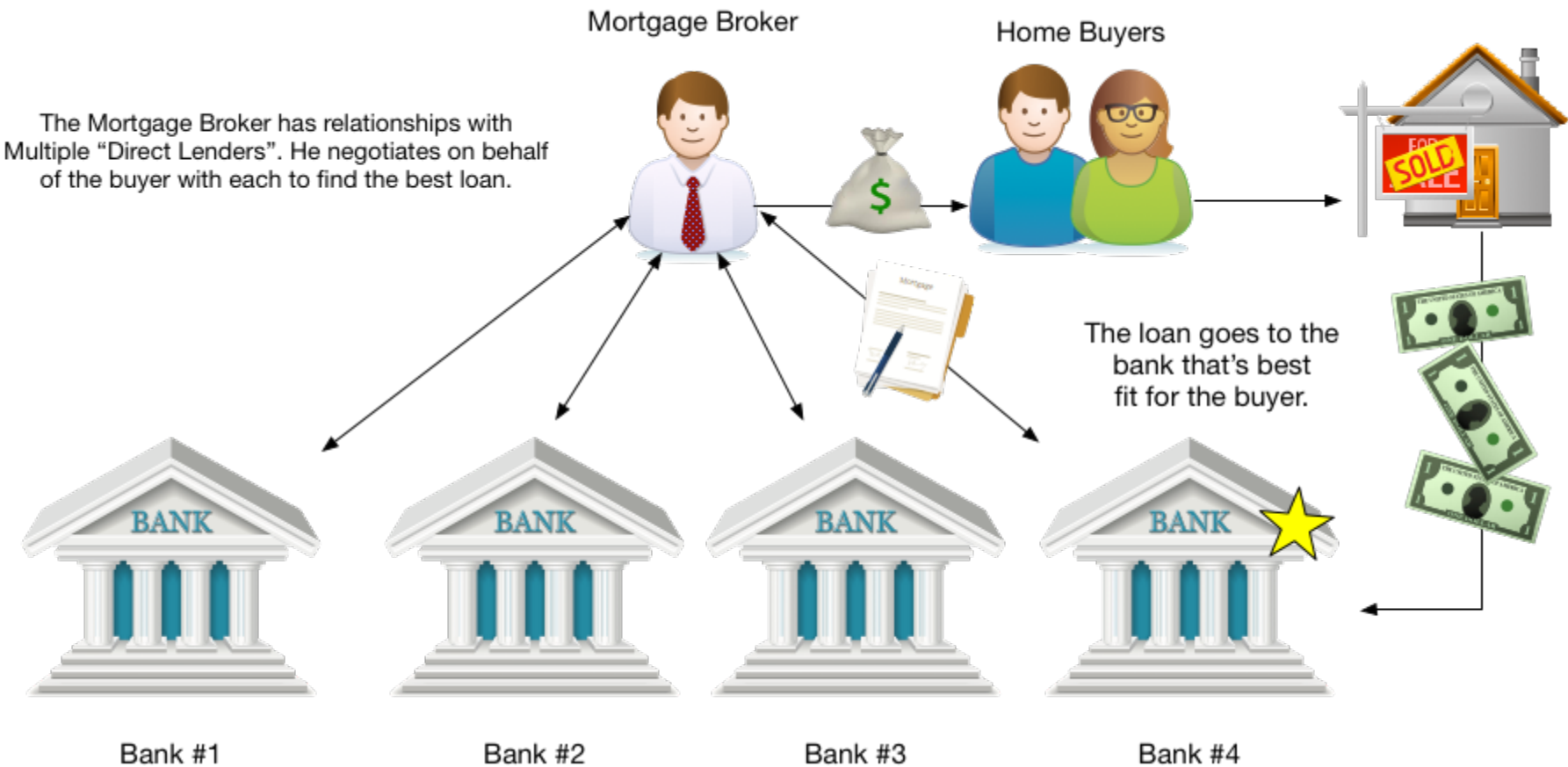


Types of Mortgage Lenders

- Direct Lenders
- Correspondent Lenders
- Mortgage Brokers
- Portfolio Lenders







Portfolio Lender

- Holds loans on lender's books rather than selling to secondary market
- Does not have to meet secondary market requirements
- Can be more flexible with loan terms

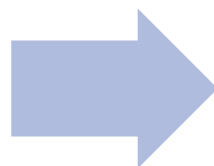
Aggregator

- Many large lenders offer third party origination (TPO) programs.
- Small lender originates conforming loan and aggregator purchases loans and sells to GSEs.
- The aggregator earns servicing income through economies of scale.

Aggregator – Third Party Origination (TPO)

Small lender

- Originates loan in own name
- Lacks capacity to sell directly to GSEs



Aggregator

- Purchases loan
- Sells to GSE
- Large servicing platform

Other Mortgage Industry Players

- Servicer
 - May or may not be lender
 - Collects payments
 - Pays investor
 - Pays mortgage obligations out of escrow
- Housing Counselor
 - Helps homebuyer prepare
- Foreclosure Prevention Specialist
 - Post-purchase education
 - Early intervention services

Lender Role-Playing Exercise

1. Watch each role play and determine which type of lender the homebuyers approached.
2. Write your answer on page 11 of the workbook.
3. With your table, discuss:
 - a) Which type of lender would be best in your community?
 - b) What factors contributed to that decision?
4. Select a spokesperson to report out.



BREAK

Module 3—Housing Lending in Native Communities Today

Identifying Housing Challenges Exercise

1. Record your housing challenges on page 14.
2. Discuss your list of challenges with those at your table.
3. Select spokesperson to report out top three challenges.

Common Housing Challenges

- Homebuyer Readiness
- Availability of Housing Stock
- Complexity of Land Issues
- Access to Capital and Credit
- Capacity of Stakeholders and Partners

Module 4—How to Assess Your Housing Market Demand

What is a Housing Needs Assessment?

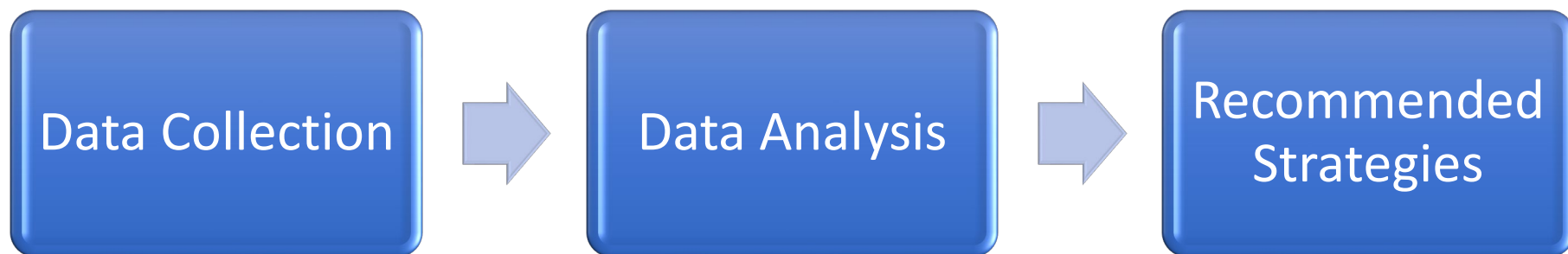
Compilation and evaluation of:

- Demographic data
- Economic characteristics and trends
- Current housing inventory and characteristics
- Government policies and incentives
- Availability of community services and infrastructure
- Input of key stakeholders and residents

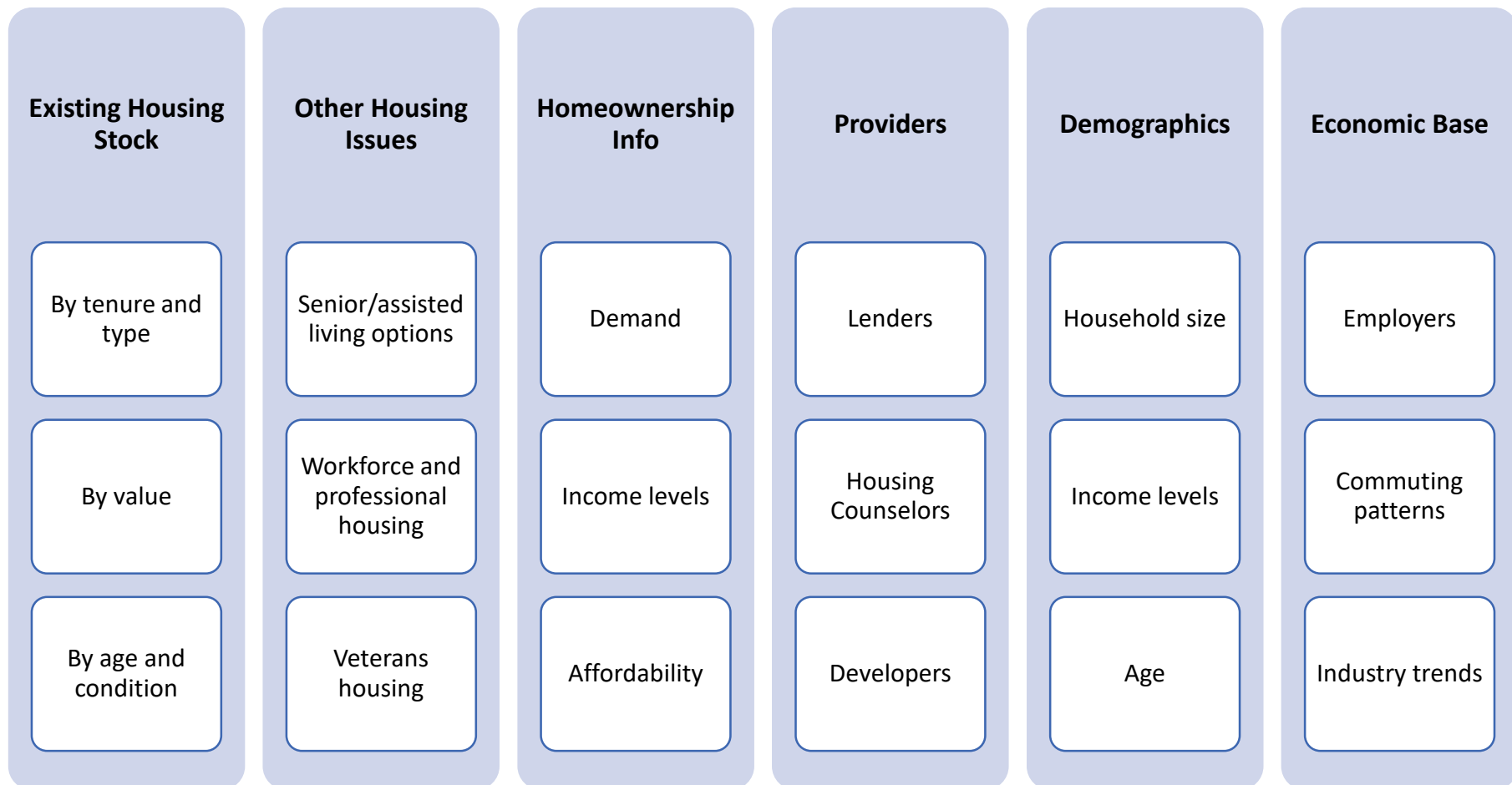
Uses of Housing Needs Assessment

- Inform decisions on future housing development
- Determine funding needs
- Understand market demand
- Help to address affordability
- Learn about needs of special populations
- Identify types of housing most needed

Components of Housing Needs Assessment



Data Elements of Housing Needs Assessment



Discussion Questions

1. Why might some organizations not complete a housing needs assessment?
2. Why take the time and expense to complete one?
3. How can a housing needs assessment help you to design housing loan products and development services?

LUNCH BREAK



Module 5—Selecting Products and Services for Your Market

Home Loan Product Types

Government

- Insured or guaranteed by government

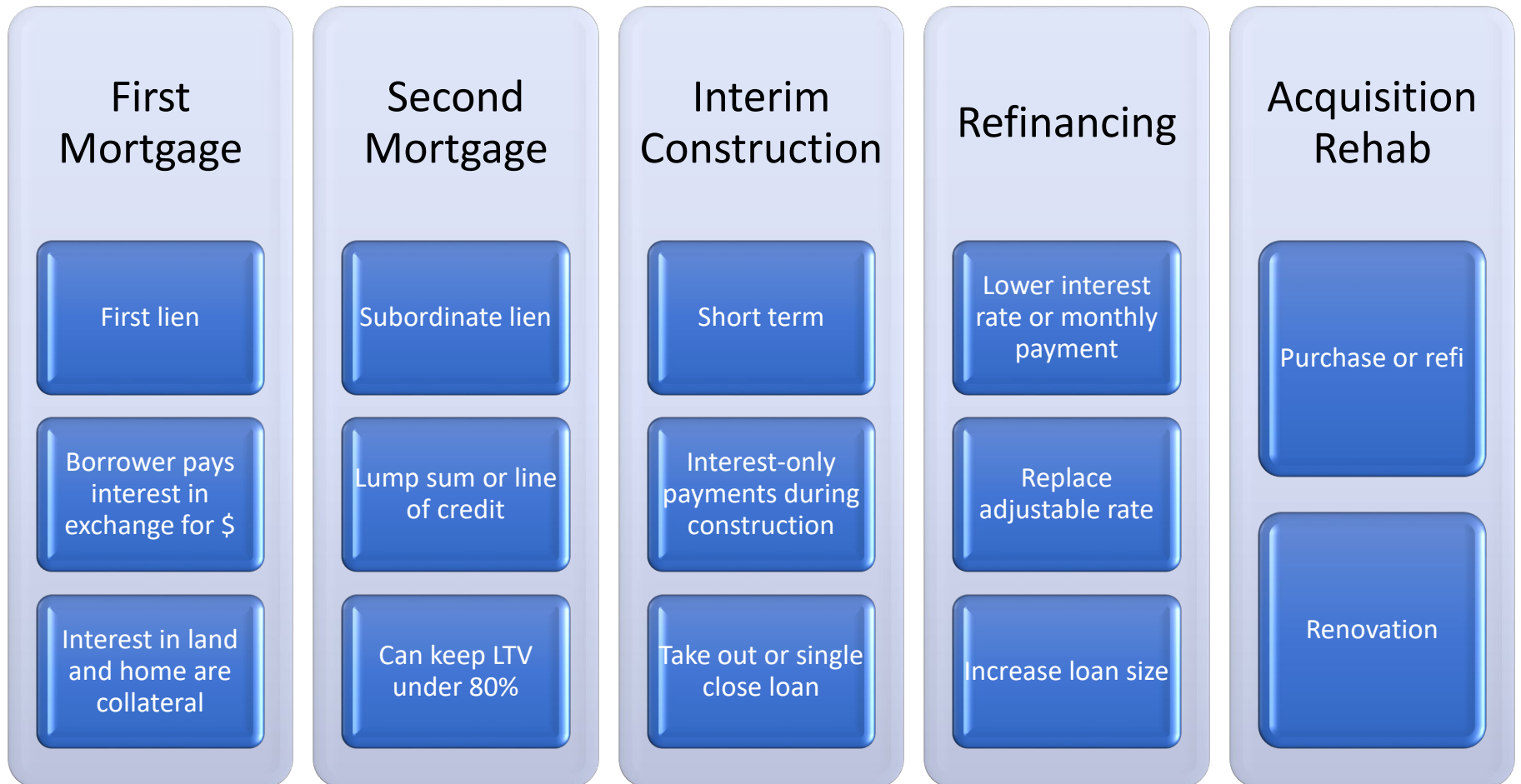
Conventional

- Insured with private mortgage insurance

Portfolio

- Flexible
- No secondary market constraints

Home Loan Product Uses



Considerations for Choosing a Product

Eligibility

- *Which loans will the borrower qualify for?*

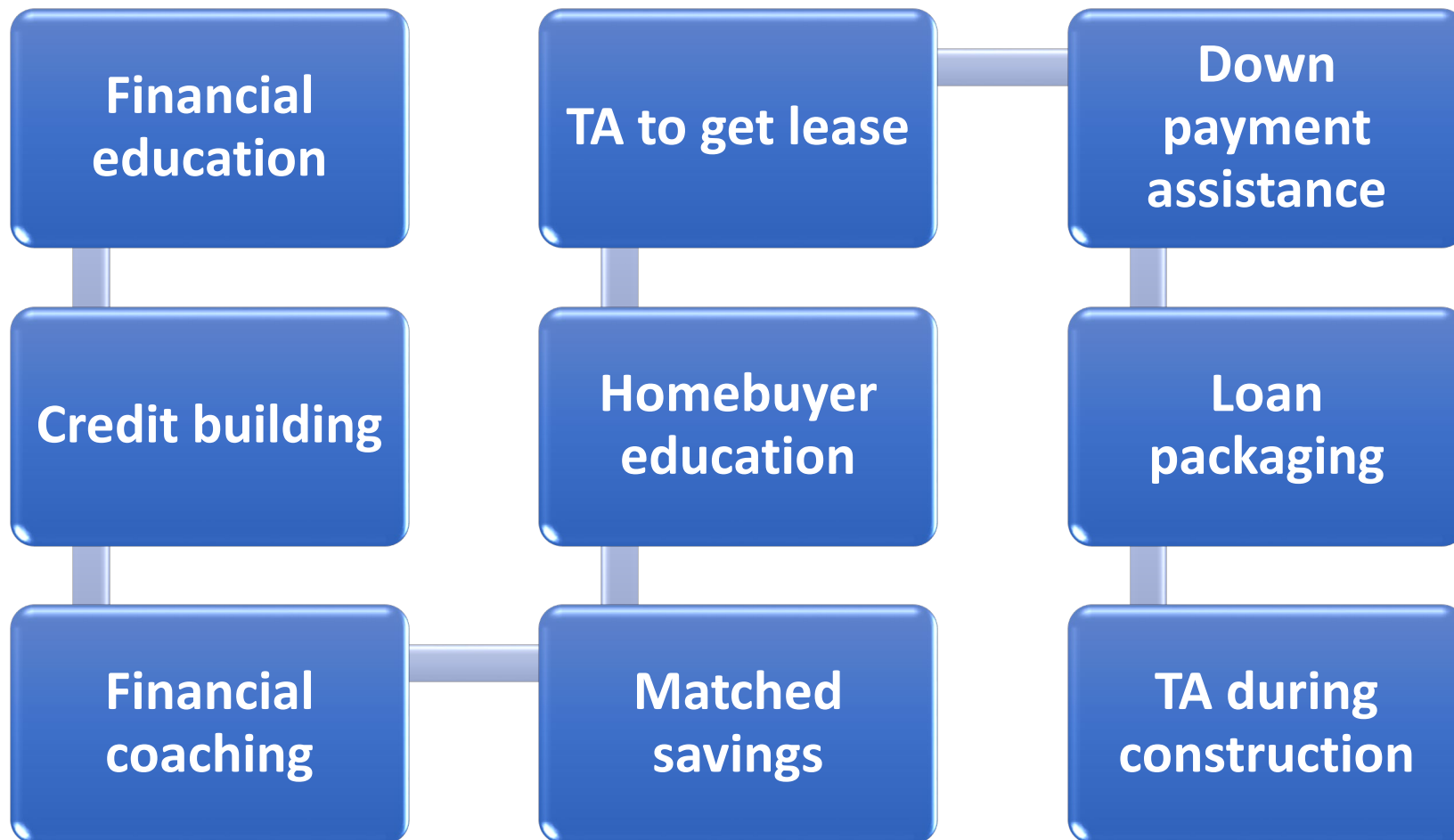
Credit Standards

- *How much flexibility does the borrower need?*

Cost to Borrower

- *What is the better deal for the borrower?*

Development Services



Loan Product Selection Exercise

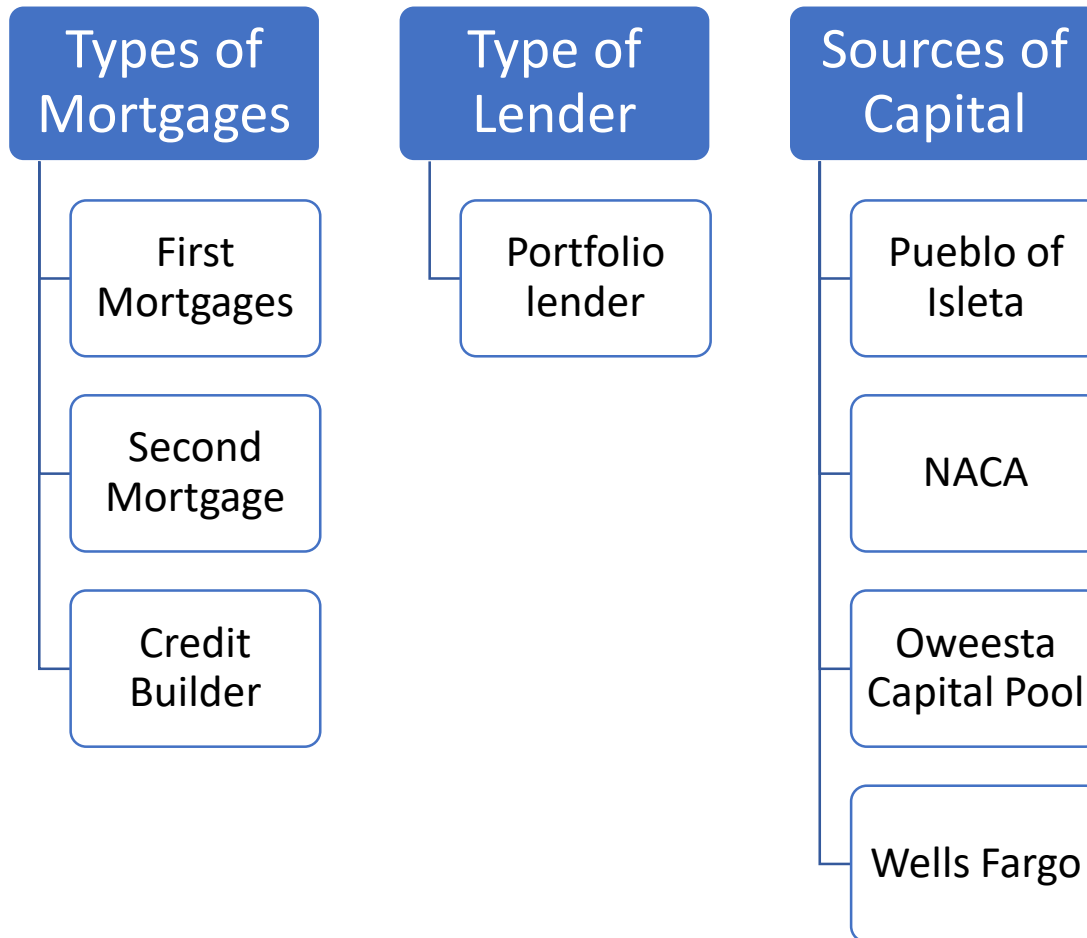
1. Read each scenario on page 23 and decide which loan product would be most suitable for each borrower.
2. Discuss your answers with your table.
3. Pick a spokesperson to report out.



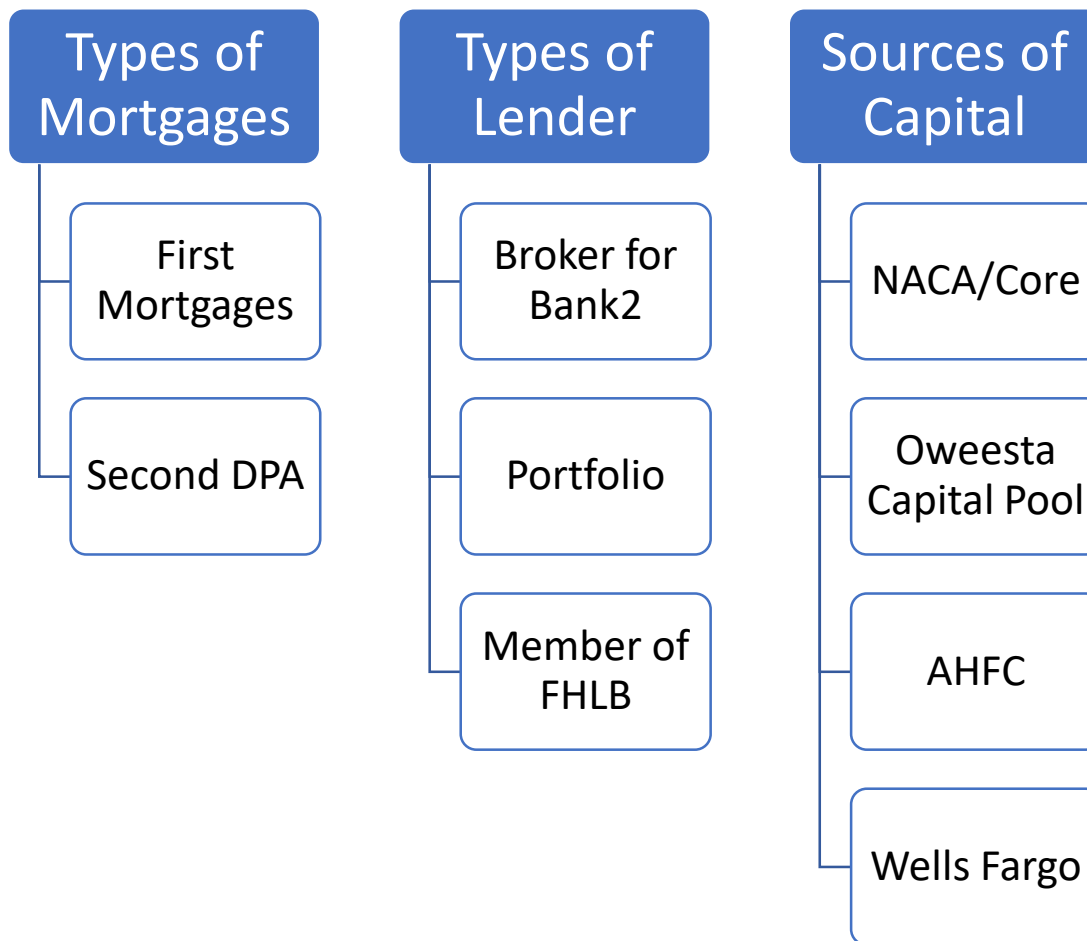
BREAK

Module 6—Housing Lending Models of Native CDFIs

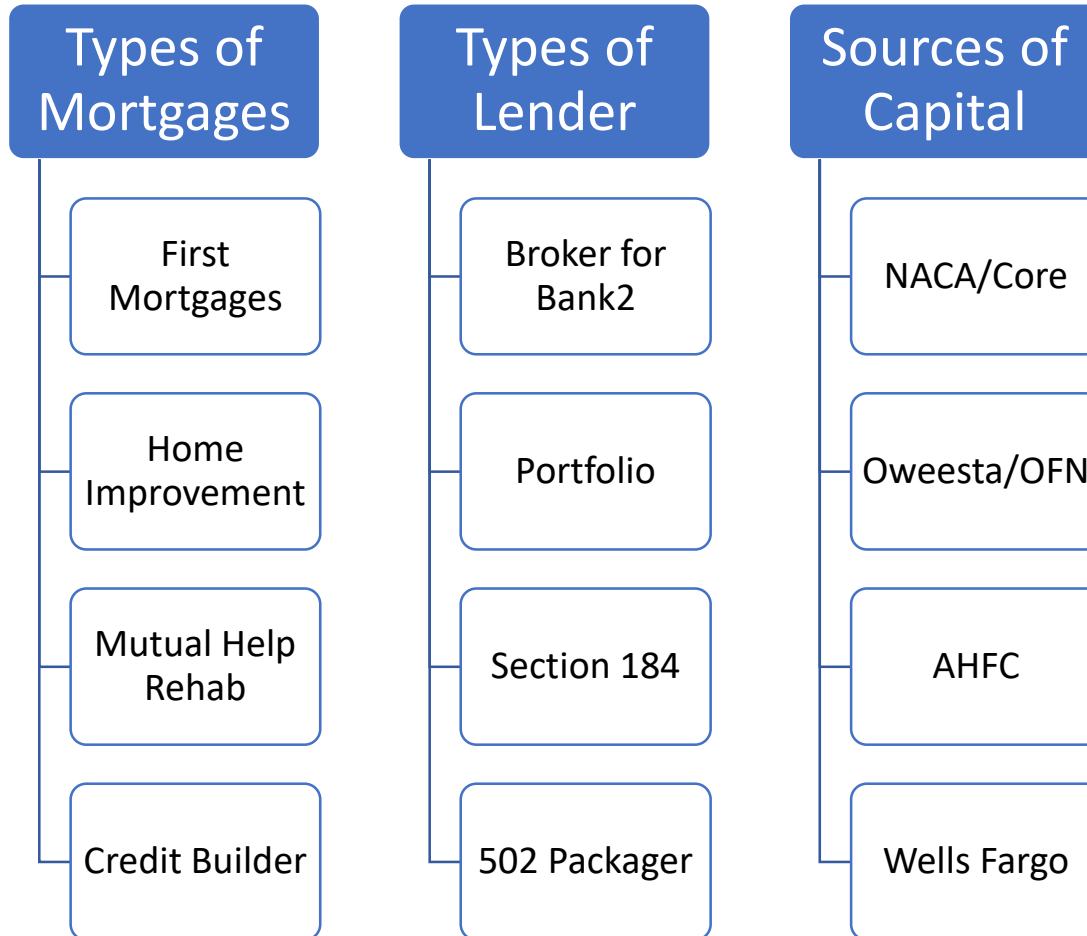
Tiwa Lending – Isleta, NM



Cook Inlet Lending Center – Anchorage, AK



Four Directions Development Corp, Orono, ME



Native CDFI Housing Activities Exercise

1. On page 28, list three housing activities you offer.
2. Discuss your list with your table. Pick three activities your table thinks are the most innovative.
3. Select a spokesperson to report out your three most innovative activities.



Reflections and Wrap- Up

- Share a reflection about what you learned today.

Day Two Preview

- Module 7 – Mortgage Lending Roles for CDFIs
- Module 8 – Becoming a Secondary Market Seller/Service
- Module 9 – CDFI Mortgage Lending Business Models

Day Two

- Welcome Back
- Additional Reflections
- Today's Topics
 - Mortgage Lending Roles for CDFIs
 - Becoming a Secondary Market Seller/Servicer
 - CDFI Mortgage Lending Business Models

Module 7—Mortgage Lending Roles for CDFIs

Possible Housing Roles for Native CDFIs



Borrower Preparation

- Help homebuyer meet loan parameters
- Provide technical assistance with lease and mortgage approval process
- Assist during construction process

Secondary Market Lending Parameters

- Credit Score
- Debt-to-Income Ratio
- Borrower Contribution
- Cash Reserves
- Loan-to-Value (LTV)/Combined Loan-to-Value (CLTV)

Down Payment Assistance (DPA)

- Increases purchasing power
 - May eliminate need for private mortgage insurance
- Types of DPA
 - Second mortgage
 - Subordinated lien
 - Provides income and experience to lender
 - Forgivable loan
 - Grant

Capacity Checklist for Borrower Prep

Knowledge of loan guidelines

Access to credit bureau

Homebuyer education certifications

Ability to provide credit counseling services

Mortgage Broker

- Takes application
- May originate and process loan
- Works for multiple lenders
- Finds best deal for borrower
- Must be licensed to originate
- Uses Loan Origination System (LOS)
- May have processor on staff
- Earn 1%–2% of loan balance

Capacity Checklist for Broker

National/state licensing

Knowledge of applicable regulations and disclosure requirements

Access to Loan Origination System

Loan processing capacity

Lender

- Originates, processes and underwrites loan
- Sells loan to secondary market
- May require approval from insurer or guarantor
- Must be able to fund loans
 - Warehouse line of credit
- Earns 3%–5% of loan balance

Capacity Checklist for Lending

National/state licensing

Knowledge of applicable regulations and disclosure requirements

Access to Loan Origination System

Loan processing capacity

Underwriting capacity

Government lender approval

Ability to fund loans

Other Roles

- Servicing
 - Earn .25% to .44%
 - Requires investment in technology and staff capacity
 - Requires high volume to be profitable
- Real Estate Development
 - Provides housing stock to purchase
 - Facilitates lease-purchase
 - Must have capacity to manage housing assets
- Foreclosure Intervention



BREAK

Module 8—Becoming a Secondary Market Seller/Servicer

Seller/Servicer

- Requires track record of lending
- Must have capacity
- Eliminates need to use conduit
- More profitable

Benefits

- Eliminates need to use conduit lender which may have overlays
- Opportunity to access low-cost capital while retaining service rights
- Can sell conventional or government-backed loans
- Can offer lower fees and still earn profit

Challenges

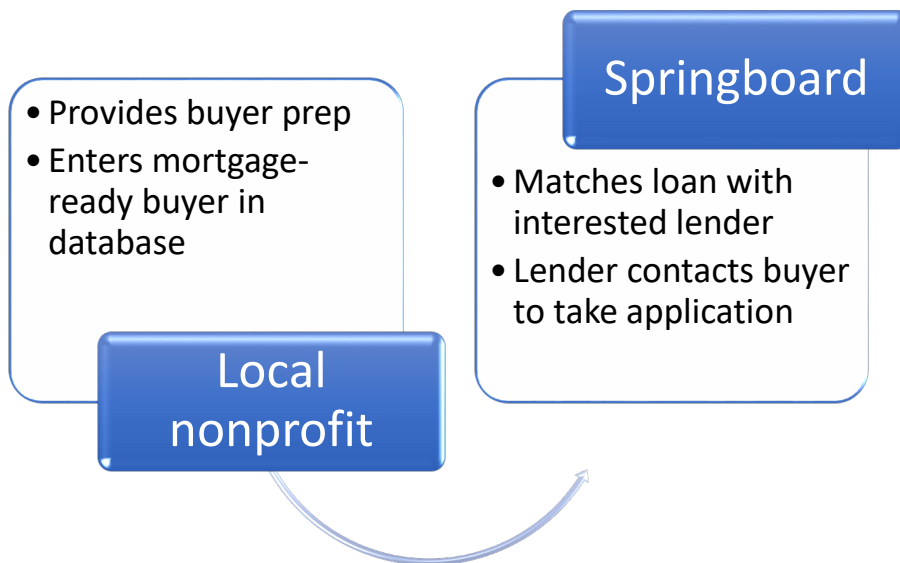
- Requires investment in operating capacity and technology
- Requires lending capital and retained earnings
- Must be licensed, experienced and already lending
- Must have experienced staff
- Must have Loan Origination Software
- Must have Quality Control (QC)
- Need access to short-term, warehouse funding capacity
- Must have servicing capability

Lunch Break



Module 9—CDFI Mortgage Lending Business Models

Springboard Home Loan



SPRINGBOARD
C D F I



homewise[®]

Local nonprofit

- Provides homebuyer prep
- Originates/processes first mortgage
- Underwrites and closes second mortgage (DPA)

Homewise

- Underwrites and closes first mortgage
- Sells to investor
- Retains servicing



Member Nonprofit

- Pays dues to FAHE
- Provides buyer prep
- Originates/processes first mortgage
- Earns 1%–2%

FAHE

- Underwrites and closes loan
- Sells loan (service released) to conduit
- Portfolio lender for
 - ⑩ Non-conforming loans
 - ⑩ Second DPAs



Local Lender

- Provides buyer prep
- Originates first mortgage as broker
- Earns 1% origination fee

MMCDC

- Processes, underwrites and closes loan
- Offers DPA
- Sells loan (service released) to conduit

Becoming Self-Sufficient Exercise

- Read the case study on page 43.
- Write your answers to the questions on page 44 in the space provided.
- Discuss your answers with your table.
- As a table, discuss possible strategies for this organization to improve its self-sufficiency ratio and agree on the top three strategies.



Reflections and Wrap- Up

- Share a reflection about what you learned today.

Day Three

- Welcome Back
- Additional Reflections
- Today's Topics
 - Mortgage Lending on Trust Land
 - Engaging Tribal Governments
 - Operationalizing Your Mortgage Lending Plan
 - Pulling Your Plan Together

Module 10—Mortgage Lending on Trust Land

Types of Trust Land

- Tribal Trust Land
- Individual Trust Land or Allotments
- Fee Simple Land

Mortgage Collateral

- Land or interest in land
 - Leasehold interest on trust land
- Improvement on land
 - Home

Mortgage Approval Requirements

- Tribe and BIA must approve lease
- BIA must approve mortgage on allotted land

Bureau of Indian Affairs

- Division of Land Title and Records
 - Oversees 18 Land Title and Records Offices (LTRO)
 - Issues Title Status Report (TSR)
 - Records mortgages on TSRs
- Division of Real Estate Services
 - Approves residential lease
 - Approves mortgages on allotted land

Hawaiian Home Lands

- Land held in trust
- Administer by state agency
 - Department of Hawaiian Home Lands

Module 11—Engaging Tribal Governments

Confederate Salish and Kootenai Tribes



<https://youtu.be/fQzZDRHX-XQ>

Tribal Leaders' Governance Role

- Enact legal infrastructure
- Ensure tribal courts provide venue for legal remedies
- Enter into agreements
- Define tribe's or TDHE's risk mitigation role in event of delinquency, default or foreclosure
 - Early intervention
 - Pre-foreclosure remedies
 - Right of first refusal
 - Loss mitigation

Strategies to Expedite Leasehold Approvals

- Enact HEART Act
 - Ho-Chunk model
- Execute 638 compact for leasing function

Module 12—Operationalizing Your Mortgage Lending Plan

Build Organizational Capacity

- People
- Technology
- Licensing
- Education
- Capital

Module 13—Pulling Your Plan Together

Pulling Your Plan Together Exercise

1. Divide into groups based on your business model:
 - a) Borrower prep
 - b) Broker
 - c) Correspondent lender
 - d) Portfolio lender
 - e) Selling mortgages to secondary market directly or through aggregator

2. Discuss questions as a group.

3. Identify three action steps.

**Thank You & Next
Steps**

