The Role of CDFIs in Addressing the Subprime Mortgage Market: A Case Analysis of New England

Carla Dickstein, Ph.D.
Coastal Enterprises, Inc.

Laura Buxbaum
Coastal Enterprises, Inc.

Hannah Thomas
Brandeis University

Kimberly McLaughlin
McLaughlin Financial Group

October 2008

This research was funded by a grant from the CDFI Fund, under Prime Contract GS-10F-0086K, Task Order TPD-ARC-07-K-00057. The views expressed here are those of the authors and do not necessarily represent the views of The CDFI Fund.

Table of Contents

Appendices

List of Charts

List of Tables

Acknowledgements

We would like to thank the CDFI Fund for making this research possible through their support. Chris Herbert, Meryl Finkel, and Jill Khadduri of Abt Associates and Jim Greer from the CDFI Fund all provided very helpful comments and suggestions on the paper, and Eliza Kean at Abt Associates was a pleasure to work with on the administration side. We would also like to thank the many people interviewed for this project who gave generously of their time and insights and provided us with data on their products and programs. The authors especially want to thank Ellen Seidman and Jim Campen for their input during all phases of the research, and their helpful comments and edits on various drafts. All views expressed are those of the authors and do not necessarily reflect the views of the CDFI Fund.

Abstract

The implosion of the subprime mortgage market creates potential opportunities for community development financial institutions (CDFIs). This paper focuses on the roles that CDFIs and other nonprofits in New England are currently playing to address the foreclosure crisis and to prevent predatory lending practices and foreclosures in the future. The paper then asks how these organizations can expand their current roles in residential mortgage finance, and what other roles they need to play to achieve a larger impact than what they have had to date.

We find that New England CDFIs have shown success in preventing predatory lending and foreclosures by financing or counseling clients, but on a relatively small scale. They have potential to achieve a larger scale of impact if they succeed in negotiating bulk purchases of mortgages or properties for refinancing or reuse in targeted communities. For some CDFIs, an expanded brokerage role can also be effective in reaching a wider market than CDFIs currently serve. But where CDFIs have already demonstrated an ability to achieve larger-scale impacts, and where they have the most potential in the future, is in engaging at some level in policy work that changes the availability of responsible mortgage products and counseling services, and/or changes the regulation of the mortgage market and foreclosure process. The major opportunities for the CDFI Fund are to (1) provide CDFIs with more niche refinance products to assist homeowners facing foreclosure; (2) expand resources and local capacity to develop community revitalization strategies; and (3) build CDFIs' capacity to engage in policy work.

Executive Summary

Introduction

The implosion of the subprime mortgage industry has affected all aspects of the finance system domestically and internationally. Subprime loans that were once considered a promising option for people with imperfect credit to access the American dream of homeownership have resulted in a nightmare for many homeowners who are stuck in mortgages they cannot afford. As the subprime market grew so did predatory lending practices—in which borrowers were sold mortgages with terms and at prices they could not afford and frequently did not understand—and foreclosures.[1]

In this paper we focus on the roles that CDFIs can play to address the current mortgage foreclosure crisis and to prevent predatory lending practices and foreclosures in the future. Of particular interest is whether CDFIs can expand their role in residential mortgage finance and especially in refinance products. We explore these options in a context in which—at both the regional New England and national levels—retail mortgage lending and consumer lending represent a small part of the CDFI industry's loan and equity investments originated.

Methodology

We purposively sampled 17 of the total of 31 New England non-venture capital CDFIs and similar nonprofit organizations that provide mortgages[2] in urban or rural areas or both. We included non-CDFI mortgage lenders and housing counseling organizations to gain more examples of the potential roles for CDFIs in providing products and services that respond to the current crisis or aim to prevent a repetition. We used case study analysis to capture both quantitative and qualitative data on CDFIs' current products and services, as well as on new products and strategies. In order to gain a better understanding of the markets and policy environment in which CDFIs operate, we interviewed 20 New England and national stakeholders and experts. We also reviewed nine organizations and agencies, offering mortgage products and services to CDFIs and their clients that might provide some flexibility in underwriting homeowners at risk of

[1] See Remarks by Federal Reserve Governor Edward M. Gramlich at Texas Association of Bank Counsel 27th Annual Convention, South Padres Island , TX October 9, 2003, http://www.federalreserve.gov/boarddocs/speeches/2003/20031009/default.htm

[2] These organizations included 12 certified CDFIs, and five other community based organizations (CBOs) that were not CDFIs but were engaged in supporting low-income homeowners through counseling and/or providing access to mortgage financing. Of the 12 CDFIs, two were credit unions, two were also Community Development Corporations (CDCs), and two were NeighborWorks Organizations (NWOs), affiliated with NeighborWorks America (NWA). The five CBOS that were not CDFIs were NWOs. Six of the organizations served mainly rural markets. Two were currently not engaged in mortgage finance although they considered a broker role. For the purposes of this paper, we refer to them collectively as "CDFIs" unless otherwise specified.

foreclosure. The sources of these products and services included government-sponsored enterprises (GSEs), federal government agencies, state housing finance agencies, and nonprofits.

The New England Context for Subprime Lending and Foreclosures

Foreclosure rates in New England have been increasing steadily since 2004, following national patterns. Although the rate of loans in foreclosure in New England was lower than the U.S. rate in the fourth quarter of 2007, New England had over 35,000 loans in foreclosure, with over 22,000 (62 percent) of these accounted for by subprime loans.[3] Rhode Island leads New England in the rate of loans in foreclosures, and Vermont has the lowest rate (both in New England and in national ratings). Similarly, Rhode Island had the greatest percentage of subprime loans per 1,000 housing units (27.2 percent), and Vermont the lowest (9.7 percent).[4]

Southern New England has significant pockets of high foreclosures, particularly in poor inner-city areas in Boston, Lawrence, and Providence that have large minority and immigrant populations. Foreclosures are more dispersed in rural states. In these rural states, foreclosures have less-visible impact on communities, but despite small numbers, the losses still affect communities' property taxes and in some cases property values.

For New England homeowners at risk of foreclosure, several refinance products are available that can assist borrowers with less than perfect credit who need flexible underwriting. However, the refinance products work best for borrowers who are not yet in foreclosure, but who have missed a couple of payments due to temporary life events or because of a rate adjustment that makes the mortgage unaffordable at the new rate. These borrowers often need a second, subsidized mortgage to cover arrearages, lack of equity, and closing costs; in some cases they need to refinance a mortgage that is "underwater" in that the mortgage balance exceeds the property value. But in these cases the total loan amounts would often have a combined loan to value (CLTV) ratio over 100 percent, and so would be difficult to finance or sell on the secondary market.

Roles That New England CDFIs Play in Addressing Predatory Lending and Foreclosures

The primary roles that CDFIs now play are providing mortgage financing and providing housing counseling. CDFIs originate some first mortgages (and package or broker others for conventional lenders), but predominantly they provide gap financing products such as second mortgages or soft second mortgages, and rescue funds that repair credit.

---

[3] *National Delinquency Survey from the Mortgage Bankers Association Q4 2007*. The survey covers approximately 85 percent of more than 50 million outstanding loans in the housing market. It covers first-lien mortgages on one- to four-unit residential properties. Thus the absolute numbers are understated. "Loans in foreclosure" are loans where foreclosure proceedings have been initiated but not completed.

[4] See New York Federal Reserve's calculations of rates of subprime loans per 1,000 units from the FirstAmerican, Loan Performance data, June 2008, http://www.newyorkfed.org/mortgagemaps/.

NeighborWorks Organizations (NWOs) are most active in brokering and packaging mortgages, largely through Neighborhood Housing Services of America. In addition, two CDFIs are licensed brokers, but they are not yet originating loans on any scale.

Twelve of the 17 CDFIs interviewed offer a range of housing counseling and foreclosure prevention programs, but they have been forced to focus more of their attention on preventing and dealing with foreclosures rather than helping first-time homebuyers. The NWOs are working with the National Hope Hotline, which triages calls and refers clients needing additional assistance to local counselors. After a slow start, these organizations have had more success recently in accessing loan servicers who will do repayment plans and in some cases loan modifications, but they are overwhelmed with the increased numbers of foreclosures. Increasingly, CDFIs are focusing on stabilizing neighborhoods and reusing foreclosed properties, rather than focusing solely on assisting individual homeowners facing foreclosures. Finally, most CDFIs are engaged in policy and advocacy work at some level, primarily through state and national intermediary organizations.

Expansion of CDFI Roles: Some Possibilities

An Alternative to Predatory Lending in the Home Mortgage Lending Area

CDFIs cannot expand their lending role easily without access to far more capital than they currently have at a price that enables them to achieve a sufficient spread to cover operating costs, including required reserves. Even depositories such as the credit unions are limited by member deposits or their ability to raise secondary equity capital to leverage more lending capital. The mortgage broker role has a lower barrier to entry, but is not attractive to many CDFIs unless they can offer a unique product that differentiates them from bank partners. If CDFIs offer only gap financing products that banks do not provide, they limit their ability to operate at any scale that is an alternative to predatory lending and can have an impact on the mortgage market. However, while CDFI financing activities are not of sufficient scale to influence the market, they can enable CDFIs to become insiders in the industry, giving them more expertise and leverage to influence both public and private policies designed to curb predatory lending and raise industry lending standards.

Refinance Distressed Subprime Loans and/or Assist Borrowers Who Were Subject to Predatory Lending and/or Facing Foreclosure

CDFIs simply do not have the capital or subsidies to refinance distressed homeowners. Nor are the refinance products that are available addressing the problems most borrowers face with their credit and collateral. There is clearly a need for second mortgages—preferably soft or silent—to supplement FHA Secure loans or for any of the products that allow the CLTV to go over 100 percent.

Out of frustration with the products available, a number of the CDFIs interviewed strongly expressed the need to expand rescue loans designed to "catch up" a borrower who has had a temporary setback: second mortgages that may have the effect of bringing a CLTV over 100 percent and in some cases as high as 120 percent; and first-lien refinance loans in cases when no other product is available. CDFIs' years of experience and knowledge in their communities give them a niche in their ability to assess which distressed borrowers to refinance. Based on conservative estimates these CDFIs have provided of the number of clients who could benefit from these products[5], and of the number of subprime borrowers 30 days past due or in foreclosure, we estimate that New England alone could use anywhere from $311 million for second-mortgage loans to almost $1.2 billion in capital if first-lien refinances are included. These estimates cover about a third of the almost 70,000 subprime borrowers estimated to be past due on their mortgages. Even if this scale of capital were available, CDFIs would be unlikely to develop sufficient capacity quickly to do this volume of lending.

CDFIs are also testing strategies to do bulk purchases of mortgages or foreclosed properties at a steep discount, and then finance new buyers or refinance existing homeowners with a principal writedown so that the mortgage is affordable. CDFIs are exploring financing options under which the homeowner would share equity appreciation with the lender and/or CDFI at the time the property is sold or refinanced. The theory of these products is that the homeowner will have an incentive to maintain the property and otherwise take homeownership responsibilities, but windfall profits that could arise from a turnaround of the housing market are shared with those who made the homeownership sustainable. While the discount-purchase-and-writedown approach makes more sense than putting homeowners into mortgages with high CLTVs, it is difficult to implement in a world in which most loans at issue were securitized. This approach will need federal or state funding to subsidize upfront acquisition and development costs, and to provide some guarantee for purchasers of the loans. The recently passed Housing and Economic Recovery Act (HERA) of 2008 provides neighborhood stabilization funds that can be used for this purpose. The funding, however, would go directly to cities and states, which would either have to buy properties themselves or grant funds to CDFIs for these purposes.

Other Roles to Address the Foreclosure Crisis and Build More-Sustainable Homeownership

CDFIs have limited leverage to affect foreclosures and sustainable homeownership solely through a financing role. If they are going to have an impact on any scale, they need to combine their financing capacity with effective pre- and post-counseling, foreclosure prevention counseling, legal partnerships, policy work, and community stabilization efforts.

Although we heard from CDFIs that their pre- and post-purchase counseling services, in conjunction with appropriate, affordable mortgages, have been instrumental in keeping homeowners current in their mortgages, we do not have sufficient data to verify the impact of the counseling and associated loan programs. Counselors also said they are most successful doing a repayment plan or loan modification when they can reach people early, and when the cause of foreclosure is primarily a life event or an interest rate reset.

---

[5] We assumed 10 percent of borrowers (6,920) would benefit from rescue funds at an average of $5,000 each; 20 percent (13,840) would benefit from second mortgages at an average of $20,000; and 3,460 would benefit from a refinance first position loan at an average of $250,000. Some of the borrowers may receive more than one of these loans.

They have more trouble helping borrowers who were in a mortgage that was unaffordable from the start, or who now owe more than their home is worth. Counselors know available loan products and can often prepare a borrower for refinancing if the borrower meets the product guidelines. But most borrowers CDFIs are seeing cannot meet the guidelines for the limited refinancing products on the market, so counselors have little leverage to help them refinance or restructure the loan. Some counselors are working with legal assistance organizations, which sometimes have greater leverage to obtain a loan restructuring, especially if they can find illegal lending practices.

CDFIs are now including reuse of foreclosed properties among their options, as they see a limited impact among other strategies to prevent foreclosures, especially for homeowners in unaffordable mortgages. This neighborhood and community revitalization strategy is particularly well suited to CDFIs that finance Community Development Corporations (CDCs) or land trusts or are undertaking development work themselves. This strategy holds most promise in targeted neighborhoods with a critical mass of foreclosed properties. Nonetheless, CDFIs also will face considerable challenges acquiring properties, especially if they attempt bulk purchases at steep discounts. Without government subsidy or extremely discounted prices, it will be risky for CDFIs to acquire and sell the properties directly in a declining housing market.

One proposal (from NeighborWorks America and other partners) is to use New Market Tax Credits (NMTC) as an existing resource to create the subsidies needed for a reuse strategy. However, the tax recapture provisions limit individual CDFIs' ability to use the credit effectively for this purpose. Eighty-five percent of the investment must stay in the project for seven years, or roll over into new qualified investments within a year. It would likely take a national organization like NeighborWorks, with a large enough market to insure the investment could roll over, to successfully use the NMTC tool. If the NMTC program is tapped to supplement HERA, foreclosures could easily eat up what is already an oversubscribed program. Larger appropriations for NMTC will be needed to ensure that the original economic development purpose of the program is intact.

CDFIs need to play a greater policy role at both the state and federal level if they are to address foreclosures and sustainable homeownership on any scale. This public policy role has the greatest leverage to prevent predatory practices, and can enable CDFIs to effectively leverage their on-the-ground knowledge. CDFIs have the greatest opportunity to prevent foreclosures at the state level. State policies primarily can slow down foreclosures and make the process more transparent. Some states are looking at accountability legislation that would require servicers to report foreclosure filings and loss mitigation activities, or to identify an individual with whom to negotiate, which could make it easier for counselors or attorneys to do a loan workout. States are also passing legislation requiring that lenders take possession of and responsibility for foreclosed properties and that contact information be available for new owners of foreclosed properties. All of these laws add time and costs to the process, which may create more incentives to restructure loans for existing homeowners.

In addition, most innovation in antipredatory lending policies has occurred at the state level. State laws that strengthen regulation of non-bank lenders have been an important deterrent to predatory lending practices and have become the model for current national legislation addressing predatory lending. For example, New England organizations have already participated in passing state antipredatory lending legislation on a number of levels, as participants in state antipredatory lending task forces, as part of existing coalitions, and as the organizer of a new coalition.[6] The Center for Responsible Lending (CRL), Self-Help Credit Union's subsidiary, is one of the premier organizations in the country that provides research and engages in advocacy on antipredatory lending policy. It is a resource and potential partner.

But federal policy can easily preempt stronger state policies. At the federal level, it is currently much tougher for any CDFI or intermediary organization to influence debates over antipredatory lending or foreclosure prevention legislation. A local CDFI needs to partner with national trade associations or expert organizations such as CRL to have any leverage.

There are significant capacity issues that can hamper increased CDFI engagement in policy. Large CDFIs with large net fund balances are more likely to have the financial capacity and flexibility to engage in policy work, but even large CDFIs have been limited in how far they can cross-subsidize the work without grant support. Policy work requires alignment with organizational missions and priorities in order to get full board and staff support. This can be difficult to obtain with respect to policy work that targets regulation of the financial sector, as many CDFIs depend on strong partnerships with the financial services industry to fund loans and investments and to raise capital.

Recommendations

New England CDFIs have succeeded in preventing predatory lending and foreclosures by financing or counseling clients on a one-by-one basis, but their success is on a relatively small scale. They have potential to achieve greater impact going forward if they succeed in negotiating bulk purchases of mortgages or properties for refinancing or reuse in targeted communities. However, there are significant barriers to accessing mortgages that are discounted on a voluntary basis, or to having the necessary capital and expertise to compete with private investors and purchase foreclosed properties. We also see some potential for expanding CDFIs' role as mortgage brokers, but the appeal will be limited unless CDFIs are already engaged in consumer mortgage financing or perceive a strong need in their communities for financing. However, CDFIs have already demonstrated an ability to achieve larger-scale impacts by engaging at some level in policy work that changes the availability of responsible mortgage products and counseling services, and/or changes the regulation of the mortgage market and foreclosure process. We see this as the CDFI strategy that is most likely to have an impact on a large scale.

[6] Four states have antipredatory lending laws: Maine, Massachusetts, and Rhode Island, and Connecticut.

In summary, the major opportunities that we see for the CDFI Fund to enhance the capacity of CDFIs to deal with both the current and potential future predatory lending and foreclosure issues are to provide flexible operating and equity grants to: (1) enable CDFIs to develop and fund more niche finance products to assist homeowners facing foreclosure; (2) expand local capacity to develop community revitalization strategies; and (3) build CDFIs' capacity to engage in policy and advocacy work. The CDFI Fund can leverage its funding and enhance CDFIs' capacity and effectiveness by facilitating partnerships among large and small CDFIs, trade organizations, and intermediaries.

Introduction

The implosion of the subprime mortgage industry in the United States has affected all aspects of the finance system domestically and internationally. Many industry experts and academics believe this is the most significant credit crisis since World War II (Schwarts and Creswell 2008). It continues to affect borrowers, communities, housing markets, and the long-term stability of the economy. Subprime loans that were once considered a promising option for people with imperfect credit to access the American dream of homeownership have resulted in a nightmare for many homeowners caught in mortgages they cannot afford. The Center for Responsible Lending (CRL;2007) projected that these loans will result in a *net loss* of homeownership.[7]

The subprime market grew rapidly over the past decade, representing about 20 percent of loans originated in 2006 (Haggerty and Simon 2007, citing *Inside Mortgage Finance*). Subprime loans are more expensive than prime loans, ostensibly to compensate lenders for the added risks imposed by borrowers who are less likely to repay their loans. As the subprime market grew, so did predatory lending (Gramlich 2003). Not all subprime loans are predatory. While there is no common definition of a predatory loan, there are several general practices that are widely accepted as predatory, particularly when bundled in one loan: excessive points and fees, excessive total broker compensation, abusive prepayment penalties that are sizable and/or extend for a long period, mandatory arbitration clauses, refinancing loans without a net tangible benefit to the borrower (e.g., "loan flipping"), and steering borrowers to credit that is unnecessarily expensive (Dickstein et al. 2006). In the last few years, hybrid adjustable-rate mortgages (ARMs) with a fixed rate for 2 or 3 years and adjustable rate for 28 or 27 years (2-28s and 3-27s), and nonconventional mortgages (e.g., interest rate only, negative amortization) have escalated in the subprime market. Foreclosures started in the first quarter 2008 were disproportionately concentrated in both subprime and prime ARMs.[8] These types of mortgages, while not predatory per se, can become predatory when they have the characteristics listed above, or are originated based on asset values and not the ability to repay the mortgage. These ARMS set homeowners up to fail, especially when combined with low teaser rates and onerous prepayment penalties. First, ARM borrowers may be at the edge of their capacity to manage the monthly rate even at the initial rate, meaning that any income-reducing life event, such as disability, unemployment, or divorce, can force them to attempt to refinance or sell. Second, even if their income is stable, rate adjustments, especially adjustments from an artificially low teaser rate, can similarly make the loan unaffordable.

Homeowners who need to refinance out of a bad mortgage face two major problems. First, the credit market, especially for subprime loans, has tightened up very substantially.

[7] Many subprime loans are refinancing existing homes or financing second homes and do not contribute to a gain in homeownership. The net loss of homeownership in subprime loans made between 1998 and 2006 is projected to reach almost one million families.

[8] The Mortgage Bankers Association (2008, 1) reports that, "while subprime ARMs represent 6 percent of the loans outstanding, they represented 39 percent of the foreclosures started during the first quarter. Prime ARMs represent 15 percent of the loans outstanding, but 23 percent of the foreclosures started."

Lenders have, in general, stopped offering unsafe and predatory products, but they have also virtually shut down lending on any terms to those with less than perfect credit.[9] Second, house prices have declined—precipitously in many markets—and homeowners find themselves "underwater," with a mortgage greater than what their house is worth, meaning refinancing is difficult if not impossible.

Fannie Mae and Freddie Mac have gradually increased liquidity in the prime market, in part through reduced capital requirements and in part through a temporary increase in loan limits (*Mortgage News Daily* 2008)[10], but the market remains frozen for many borrowers that do not meet new tighter underwriting standards. The result is that many families are facing foreclosure. A study by the Federal Reserve Bank of Boston (Gerardi et al. 2007) estimates that approximately 18 percent of subprime borrowers will experience foreclosure within 12 years of purchasing their home. CRL conservatively estimates that one in five mortgages originated in 2005-06 at the height of subprime lending will end up in foreclosure (Schloemer et al. 2006). Fitch Ratings have downgraded their ratings of residential mortgage-backed securities, and estimated that over 40 percent of subprime mortgages originated in the fourth quarter 2006 will end up in foreclosure (Costello n. d., cited in Center for Responsible Lending 2008).

Tightening credit and foreclosures are having a severe impact on the marginal neighborhoods and financially vulnerable families that Community Development Finance Institutions (CDFIs) serve. This, in turn, negatively affects those CDFIs, including both those involved directly with home finance or affordable housing and those who have been primarily business lenders. Foreclosures of subprime mortgages are high in the communities where CDFIs invest, especially in urban areas, severely straining these neighborhoods and threatening the investments CDFIs have made in them in the form of rental housing, commercial real estate, and small businesses. And even as market conditions make it more difficult for predatory lenders to make subprime mortgages, new methods of predation are appearing that affect CDFIs' constituents.[11]

In this paper we focus on the roles that CDFIs are currently playing as well as those that they could play to address the current mortgage foreclosure crisis and to prevent predatory lending practices and foreclosures in the future. Of particular interest is whether CDFIs can expand their role in residential mortgage finance and especially in refinance products. At the national level, retail mortgage lending and consumer lending

---

[9] Lenders have raised credit requirements (Federal Reserve Board 2008); home equity lines of credit are difficult to find and can be eliminated at the whim of the lender (Tedeschiny 2008); and private mortgage insurers have restricted coverage of loans in certain markets (MGIC 2008).

[10] In August 2008 they were expected to scale back mortgage purchases (Sloan 2008).

[11] One example is foreclosure rescue scammers who offer to pay the mortgage of homeowners in foreclosure in exchange for the title or mortgage interest in the home. Homeowners stay in the home but if they miss a payment, they lose their home as well as any equity they have in the property (Tripoli and Renuart 2005).

represent a very small part of the CDFI industry's lending. Between 2003 and 2005, 10 percent of CDFI loans and equity investments were for purchase of a primary residence. In addition, 1.2 percent of loans were for home improvement and 7.3 percent were for personal consumer loans, which included credit repair (U.S. Department of Treasury, CDFI Fund 2007, 33).

We draw on the experience of CDFIs and other nonprofit housing organizations in New England that are engaged, in a variety of ways, in addressing foreclosures and predatory lending practices (particularly in the subprime mortgage market). We find that CDFIs' roles in finance and counseling, which have been their traditional roles, are still important but are not sufficient to address the current foreclosure crisis or to prevent predatory lending in the future. CDFIs lack the scale of capital or subsidy needed to address these issues. CDFIs may be able to achieve greater impact if they can devise community strategies to purchase and refinance mortgages or foreclosed properties in bulk at discounted purchase prices. CDFIs could then assist homeowners or new buyers by helping them find affordable mortgages, including those at a reduced rate and soft or silent second mortgages. However, to mobilize the resources necessary to implement their strategies on any scale and to create a regulatory structure that can prevent future abuses in the mortgage market, CDFIs need to play a greater role in shaping policy—statutory and regulatory—at both the state and federal level.

Although the initial focus of this paper has been on how CDFIs and other New England nonprofits could help the individual consumer, over the course of the research we have paid increasing attention to ways of assisting communities affected by foreclosures. As the severity of the foreclosure and financial crisis deepens, the ground shifts constantly. Intervention strategies become insufficient or outdated and public policies are redesigned. With this moving landscape, this paper can capture only a snapshot of what New England CDFIs are doing, and of the changing context in which they operate.

Research Design

Approach

We have used a case study method to analyze CDFIs and other community-based organizations (CBOs) in New England engaged in mortgage lending and other mortgage services. New England covers the states of Maine (ME), New Hampshire (NH), Vermont (VT), Massachusetts (MA), Rhode Island (RI), and Connecticut (CT), which offer a concentrated focus on urban and rural CDFIs and nonprofits of different types, sizes, capacities, and experiences in mortgage lending. The regional focus provides varying contexts to look at the severity of the foreclosure crisis and market decline, and it offers potential for collaboration within states and across the region that could enhance the value and impact of recommendations going forward. Case study analysis enables us to capture both quantitative and qualitative data on the organizations' existing roles in addressing predatory lending and foreclosures, and on how they formulate strategies and develop new products in response to the mortgage crisis. Specifically, the research addresses the following questions.

- What roles have CDFIs played in addressing predatory mortgage lending and foreclosures in the New England region?
- How can CDFIs increase their roles in providing alternatives to predatory lending in the home mortgage lending area?
- To what extent can CDFIs refinance distressed subprime loans and/or assist borrowers who were subject to predatory lending and/or facing foreclosure?
- What other roles do CDFIs need to play to address the foreclosure crisis and build more-sustainable homeownership going forward?

This paper is structured as follows. We first look at foreclosures and mortgage lending in New England, including flexible mortgage products already available, as a context for CDFIs' work and potential areas to expand their roles. We then describe what roles CDFIs and other CBOs have played in addressing predatory mortgage lending and foreclosures in the New England region. These roles include financing, housing counseling, and policy and legal intervention. Based on their current roles and on opportunities they and other stakeholders have identified, we present our recommendations concerning how they can expand their roles to address predatory lending and foreclosures. The final section summarizes our conclusions and recommendations.

Data Sources

New England Organizational Interviews and Organizational Data

We purposively sampled (Kerlinger 1986) 17 of the total 31 New England non-venture-capital CDFIs and other nonprofit mortgage lenders either currently offering or considering offering mortgage products. We included non-CDFI mortgage lenders and housing counseling organizations to gain more examples of the scope of potential roles for CDFIs to provide products and services. We gave priority to organizations offering refinance products for distressed loans and/or assisting borrowers who were subject to predatory loans in the New England region. Six organizations selected are in MA, which had a high projected foreclosure rate in New England and a diverse group of organizations addressing the problem. These organizations included 12 certified CDFIs, and five other CBOs that were not CDFIs but were engaged in supporting low-income homeowners through counseling and/or providing access to mortgage financing. Of the 12 CDFIs, two were credit unions, two were also Community Development Corporations (CDCs) and two were NeighborWorks Organizations (NWOs), affiliated with NeighborWorks America (NWA). The five CBOS that were not CDFIs were NWOs. Six of the organizations served mainly rural markets. Two were currently not engaged in mortgage finance although they considered a broker role. For the purposes of this paper, we refer to the 17 organizations collectively as "CDFIs" unless otherwise specified. (See Appendix A for a list and type of organizations and individuals interviewed.)

Organizational case studies were used to address all our research questions. We conducted interviews, by telephone or in person, with some combination of the organization's director, the director of mortgage lending, and the director of counseling, depending on the scope of the organization's work.[12] Interviews were semi-structured, using interview guides included in Appendix B. We were specifically interested in describing organizational capacity, loan products and systems, sources of capital, homeownership, education and counseling programs, market competition, the policy and regulatory environment, as well as other roles that CDFIs play. We also collected data on program scale and outcomes but were unable to get consistent data for all organizations.[13]

National and New England Stakeholder Interviews

We conducted interviews with 20 stakeholders in state and national organizations who could provide additional insights about CDFIs' existing roles and their potential to undertake expanded roles. These included interviews with regulators, advocates, members of the financial services industry, and other experts to corroborate facts or perceptions coming out of CDFI interviews and document market and policy trends. (See Appendix A for list of stakeholders.)

Secondary Data on Foreclosure and Economic Trends

In order to provide some context of the foreclosure problem in New England, we used the First American LoanPerformance (LP) data base for December 2007 in order to look at loan characteristics of owner-occupied, first-lien, one- to four-unit, subprime loan properties.[14] In addition we used data from the Mortgage Banker's Association's *National Delinquency Survey, Fourth Quarter 2007 (*Mortgage Bankers Association 2007) for first-lien prime and subprime loans on one- to four-unit buildings that were in delinquency or in foreclosure.[15] We also collected reports and data on the housing and mortgage markets, the state and regional economy, and relevant policy initiatives for each New England state.

---

[12] We were not able in every case to interview all relevant staff in each organization selected. Nor were we always able to get complete interviews given time constraints of staff.

[13] Data were either incomplete or not reported in consistent categories across all organizations. We attempted to supplement data collected directly from the organizations with 2006 institution-level and transaction-level data from the CDFI Fund's Community Investment Impact System (CIIS) data base, in order to look at the volume of loans originated and loan performance. However, only CDFIs that are awarded grants are required to report, thus leaving out a number of CDFIs in our sample. Of the transactions that were reported in 2006, 67 percent were identified by state, and only 212 home purchase loans were recorded, mostly in Vermont. Furthermore, the data capture outstanding loans by each year and not loan originations. We were able to collect limited 2006 data on individual CDFIs in our sample who reported to the CDFI Data Project (http://www.opportunityfinance.net/industry/industry_sub2.aspx?id=236 and were willing to share their information publicly.

[14] The LP data base covers 70 percent of securitized subprime loans. The authors have calculated percentages using the Federal Reserve Board estimates based on data from First American LoanPerformance, December, 2007. However, because the LP data base has 70 percent coverage, our percentages calculated under-report the total number of subprime loans.

[15] The survey covers approximately 85 percent of more than 50 million outstanding loans in the housing market, of which almost 6 million are subprime loans. The mortgages are one- to four-unit, first-lien residential properties. The survey covers only loans in the foreclosure process and not loans foreclosed. Also, the data cannot determine which loans may have changed status by the end of the quarter.

Information on Flexible Mortgage Products
We assessed flexible loan products and loan services from 10 organizations through interviews and written documents (see Appendix A for list of interviews). We included descriptions of only nine organizations' products from federal and state government, Government Sponsored Entities (GSEs), Housing Finance Agencies (HFAs), and nonprofit organizations in Appendix C. One organization's product was still in the design stage and was not included.

The New England Context for Foreclosures and Mortgage Lending

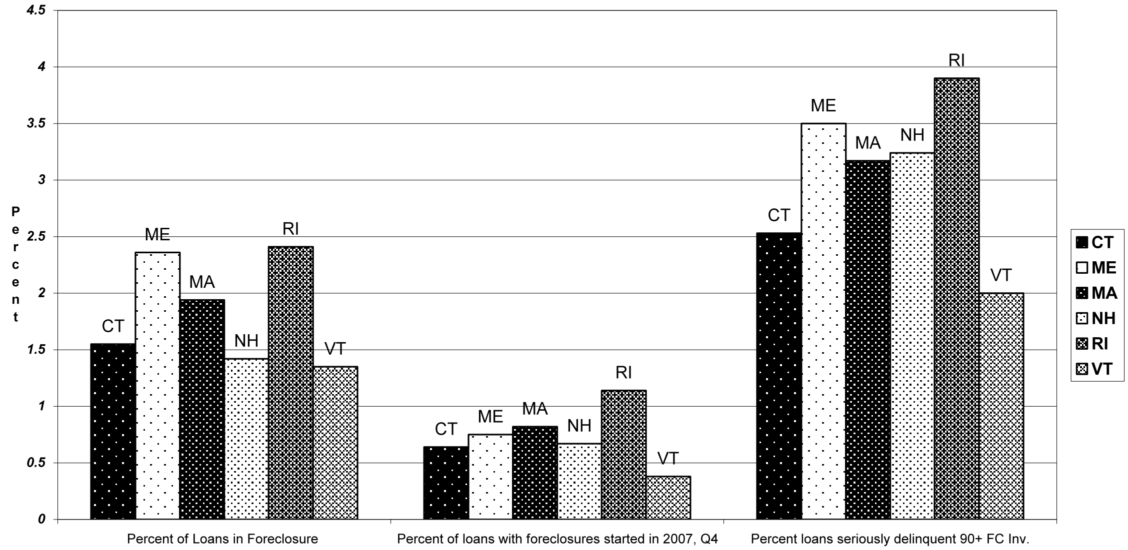
Foreclosure and Economic Trends

Foreclosure rates in New England have been increasing steadily since 2004 following national patterns (Borgos et al. 2007). While New England's rate of loans in foreclosure[16] (1.8 percent) in the fourth quarter 2007 is lower than the U.S. rate (2.0 percent), as shown in Chart 1, New England has over 35,000 loans in foreclosure, with over 22,000 (62 percent) of these cases in subprime loans.[17] Chart 1 also shows that RI leads the New England states in the rate of total loans in foreclosure, foreclosures started in the quarter, and seriously delinquent properties.

[16] "Loans in foreclosure" mean loans where foreclosure proceedings have been initiated but not completed. As Borgos et al. (2007, p.1) point out, this is a better measure of financial distress because borrowers facing foreclosure may opt to sell their property at a loss before a foreclosure is completed.

[17] Numbers of loans in foreclosure and subprime loans are the authors' calculation based on Mortgage Bankers Association (2007) data for fourth quarter, 2007.

Chart 1: Loans in Foreclosure and Seriously Delinquent[a] in New England States, December 2007



Source: *National Delinquency Survey* from the Mortgage Bankers Association, Q407 (Data as of December 31, 2007), first lien mortgages on one-to-four-unit residential properties.

[a] Seriously delinquent loans include loans 90 days past due and loans in foreclosure.

Southern New England has significant pockets of high foreclosures, particularly in poor inner-city areas such as those in Boston, Lawrence, and Providence that have large minority and immigrant populations. [18] New England's 6,600 Real-Estate-Owned. (REO) units constitute 4.7 percent of outstanding subprime mortgages on owner-occupied units, which is about the national average. The highest percentages are in RI and MA (First American LoanPerformance 2007). Foreclosures are more dispersed in rural states, without the visible impact on communities, but the losses still affect communities' property taxes and in some cases property values despite their small numbers (Majority Staff of the Joint Economic Committee 2007).

Reasons that have been given for increases in foreclosures include falling house prices (Gerardi et al. 2007)[19]; growth in subprime loans[20]; high loan-to-value (LTV) ratios[21];

---

[18] Borgos et al. (2007, 5-7) note that the rate of foreclosures in the poorest areas in Massachusetts has been widening compared to other communities. They look at the number of High APR Loans (HALs) in these communities that are at least 3 percent above U.S. Treasury yield for a first-lien loan and 5 percent above for a second-lien loan. They show that these HALs (a proxy for subprime loans) are strongly correlated with high foreclosure rates, but determine that higher foreclosure rates are more closely associated with higher-cost lending than with high levels of poverty. Campen (2008, i) also shows that the share of HALs was much greater in neighborhoods with lower income levels and higher percentages of minority residents than in other neighborhoods in Boston, Greater Boston, and statewide.

[19] Gerardi et al. (2007) conclude in their study of MA's subprime mortgages, homeownership, and foreclosures that house price appreciation is the main driver behind increased foreclosures. The proposed reason in the paper is that homeowners will opt for foreclosure if house prices are depreciating and there is negative equity in the house. They conclude that "negative equity is a necessary but not sufficient condition for default because selling dominates defaulting if a borrower has positive equity" (3).

and ARMs with the potential for payment shocks when rates readjust.[22] At the end of the first quarter of 2008, the Office of Federal Housing Enterprise Oversight's housing price index had declined in all states except ME and VT, which have had an increase of 2.3 percent and 1.8 percent respectively. All states that reported data on housing sales[23] also saw declines in sales in the first quarter of 2008 from the previous year; yet the New England region's decline is less than the national drop of 22 percent in sales (Federal Reserve Bank of Boston 2008a).

Subprime loans are an important part of the mortgage market in New England, although they represent a smaller share than in the U.S. mortgage market. High Annual Percentage Rate (APR) Loans (HALs),[24] one measure that has been used for subprime loans,[25] had significant market share in New England in first-lien, owner-occupied originations in 2006, ranging from 19.1 percent in NH to 27.6 percent in RI.[26] New England's average rate of 23.1 percent compares with a 26.9 percent national rate (Avery et al. 2007, 82). Subprime loans per 1,000 housing units also show that in June 2008, VT had the lowest percentage at 9.7 percent and RI the highest at 27.2 percent (Federal Reserve Bank of New York 2008) as indicated in Chart 2.

---

[20] The changing composition of loans affects foreclosures, specifically the growing share of subprime loans, which reached up to 30 percent of outstanding loans in the U.S. (Borgos et al. 2007, 3).

[21] According to the LP data at the end of 2007, 30 percent of New England first-lien subprime owner-occupied loans had LTV ratios over 90 percent. Subprime loans also had high cashouts when loans were refinanced (57 percent), which often can increase the LTV ratio, and second-lien loans (20 percent), which contribute to high combined loan to value (CLTV) ratios.

[22] The LP data measure the number of variable rate mortgages, which include ARMs. Sixty-seven percent of subprime first-lien owner-occupied loans were variable rate loans, above the national average of 59 percent. MA and RI had the highest percentages, at 70 percent and 68 percent respectively, and ME had the lowest at 55 percent.

[23]New Hampshire did not report data.

[24] See note 3.

[25] There is no one accepted definition of a subprime loan. The use of HALs as a proxy for subprime loans is a consistent method, but can include some loans that may be classified as Alt-A rather than subprime. Loans have also been classified as subprime if they were made by a lender who is classified as subprime on HUD"s annual list of subprime lender and manufactured home lenders. (http://www.huduser.org/datasets/manu.html . See Tetreault and Verrelli (2008, 5) for a discussion of various methods of determining subprime loans.

[26] Data are collected under the 2006 Home Mortgage Disclosure Act. (Federal Financial Institutions Examination Council, http://www.ffiec.gov/hmda/reporter.htm.) The types of loans included in the calculation are conventional and government purchase, refinance, and home improvement loans. Manufactured housing loans are not included.

The share of subprime loans per state is also consistent with the relative foreclosure rates in these states. The LP data show two-thirds (93,100) of first-lien, owner-occupied subprime mortgages are variable-rate mortgages.

Subprime loans have always had higher foreclosure rates then prime loans, but in the last few years, high combined loan-to-value (CLTVs) ratios and adjustable-rate mortgages (ARMS) have also increased their risk of foreclosure, especially where housing prices have declined. Homeowners who miss payments also have more difficulty refinancing.[27] While ARMS have had a greater increase in foreclosure starts than have fixed-rate mortgages (Mortgage Bankers Association 2008), interest rate resets appear to have played a minor role in foreclosures. The Federal Reserve Bank of Boston (Foote, Christopher and Ann Eggleston. 2008, 7-8) has shown that subprime borrowers in CT, RI, and MA who defaulted on their mortgages tended to do so *before* a rate reset. ARMs are particularly vulnerable to foreclosure when they have other risk factors. In addition to the ARM, borrowers typically took out second "piggy back" loans with higher interest rates than the first subprime mortgage.[28]

[27]According to the LP data, borrowers in New England missed a payment on 52 percent of subprime loans in the 12 months prior to December 31, 2007. Sometimes borrowers catch up or are refinanced.

[28] The LP data show that about 12 percent of variable rate loans in New England combine a high (over 90 percent) loan-to-value (LTV) ratio with a low credit score of the borrower (under 620). (First American Loan Performance 2007.)

The New England region has signs of economic stress that also might affect the rate of foreclosures, such as tightening credit[29] and an increase in the unemployment rate in all states in May 2008 compared to the previous year. In May 2008 four states reported reductions in general fund revenues,[30] with VT reporting a 27 percent reduction (Federal Reserve Bank of Boston 2008a). All states projected budget deficits.[31] Additionally, the cost of food and gas is increasing, which is also having an impact on household budgets and straining the economy (Cruitsinger and Aversa 2008).

Availability of Flexible Mortgage Products

CDFIs typically offer various loan products in conjunction with other lenders' products (e.g., second mortgages), or they originate or package loan products that other lenders offer. Thus, the types of loan products that are available in the market are critical for CDFIs' ability to prevent foreclosures or offer an attractive alternative product to that of predatory lenders.

We reviewed several mortgage products available in New England through the following: Fannie Mae and Freddie Mac; the federal government including the U.S. Department of Housing and Urban Development (HUD), Federal Housing Administration's FHA Secure and Hope for Homeowners programs and Rural Development (RD) programs; state housing finance (HFAs) in CT, RI, and MA; and nonprofit organizations such as Neighborhood Housing Services of America (NHSA), Neighborhood Assistance Corporation of America (NACA), and Opportunity Mortgage Network (OMN). NHSA in particular has been a critical secondary market lender and direct lender for many NWOs in our sample, who partner with them on many levels: as direct lenders, correspondent lenders, brokers, or mortgage packagers. (See Appendix C for an overview of the products and characteristics.)

These products incorporate several features to mitigate risk and default—through underwriting requirements, counseling requirements, and servicing that encourages loss mitigation and helps provide time to cure a loan. They can assist borrowers with less than perfect credit (or no credit) who need flexible underwriting. However, the refinance products frequently need a second, subsidized mortgage that can bring the CLTV ratio over 100 percent to cover arrearages and closing costs, or in some cases refinance a mortgage that already exceeds a 100 percent LTV ratio. Fannie Mae has recently launched a streamlined refinance option that allows an LTV ratio up to 120 percent for borrowers whose loans are already in Fannie Mae's portfolio and who are "underwater," but they must be current in their mortgage.

---

[29] In addition to secondary market lenders who have restricted purchases of subprime loans (Federal Reserve Board 2008), mortgage insurance companies have also tightened coverage (MGIC Bulletin, May 8, 2008;). http://www.mgic.com/pdfs/MGIC_Bulletin_May_02_2008_Final.pdf..

[30] Data were not available for ME and RI.

[31] Deficits ranged from 4 percent of budget to over 11 percent in Rhode Island. Connecticut had projected deficits but not an amount. See Center for Budget Policy and Priorities *http://www.cbpp.org/1-15-08sfp.pdf*

Most products that we reviewed work best for borrowers who are not yet in foreclosure but who have missed a couple of payments due to temporary life events or because of a rate adjustment that makes the mortgage unaffordable at the new rate. These products cannot address the significant numbers of borrowers who cannot afford their mortgages and whose mortgage and arrearage exceed the value of the property. NACA is the only organization that we reviewed that says it has been successful in reducing the mortgage amount to a level that the owner can afford (Swidley 2007). NACA works directly with borrowers and servicers; its products are not available to other CDFIs.

IV. What Roles Have CDFIS Played in Addressing Predatory Mortgage Lending and Foreclosures in the New England Region?

CDFIs are addressing predatory mortgage lending and foreclosures in New England. through several roles: financing, housing counseling, legal strategies, and policy. We describe these roles below and review outcome data where available.

Financing Roles

CDFI financing roles include acting as: lenders who directly lend their own capital, brokers who originate mortgages but do not finance them, and packagers who deliver a ready borrower to a lender, such as housing counselors who often act as "shadow underwriters" for their clients, but neither hold a broker's license nor take a loan application.

Direct Lending

More CDFIs have raised capital for second mortgages or unsecured niche loans than for first-lien products as described below in table 1 and table 2

Table 1. Organizations Offering First-Lien Mortgage Products 2006-2008

Organization	Type	Capital Source	First-Lien Products Offered	Volume of Loans Reported by $, # [a]
Nuestra Communidad (Nuestra)	CDFI NWO	Not reported (NR)	Purchase Refinance	Occasional loans—try not to use their own capital unless no other option
Winthrop Federal Credit Union (Winthrop)	CDFI	Deposits Secondary capital[b]	Purchase Refinance (limited) FHA	FY06: $3,476,417 (17) FY07: $1,366,800 (9)
Community Concepts	CDFI NWO	Old revolving loan funds	Purchase Refinance	FY06: $1,367,000 FY07: $1,421,000 FY08: $ 351,000 Totals include some seconds.
MaineStream Finance (MaineStream)	CDFI	Local bank pool	Purchase Refinance	FY06: 29 loans[e] FY08: $2,241,000 loans outstanding (91)
New Hampshire Community Loan Fund (New Hampshire)	CDFI	CDFI Fund equity investments—grew net fund balance used for loan pool	Purchase, Refinance Home Equity (HE) Replacement Make only MH loans	FY06: $3,552,714 (78) FY08: $2,610,008 (53) About half of the loans are refinance. FY08: $2 million (50) projected
Opportunities Federal Credit Union (Opportunities)	CDFI	Deposits Secondary capital[b]	Purchase Refinance Home Improvement (HI) FHA Manufactured Housing (MH)	Since 1989, $82 million, $10.7 MH[c]
West Elmwood Housing Development Corporation (West Elmwood)	CDFI NWO	NeighborWorks America (NWA) CDFI Fund Equity Equivalent Investments[e] (EQ2s)	Purchase Refinance	FY08: $78,000 (4) FY07: $24,000 (1) FY08: (Q1-2) $370,000 (3)

[a] Not all case organizations reported, and some did not report for all years.
[b] Capital from various credit union intermediaries and the CDFI Fund.
[c] Data are from Opportunities' (2008) website.
[d] Data reported to CDFI Data Project.
[e] An EQ2 is a rolling long-term loan with indefinite maturity that has many features of equity.

First-lien Products

As table 1 shows, seven CDFIs—two credit unions and five loan funds—offer first-lien mortgage products but on a relatively small scale. Winthrop Federal Credit Union (Winthrop) in MA and New Hampshire Community Loan Fund (the Loan Fund) reported the highest annual volume of first-lien mortgages, a volume of approximately $3.5 million each in 2006.[32]

Opportunities Credit Union (Opportunities) in VT and Winthrop offer first-lien mortgages primarily for home purchase. Credit unions raise capital internally from members' deposits and equity shares, and also raise secondary capital from various credit union intermediaries and the CDFI Fund. Without equity capital, it is difficult for these organizations to leverage their funds and grow. Because they are regulated institutions, they take limited risk even with first-lien mortgages.[33] Winthrop has a $15 million mortgage portfolio and offers a full range of products. However, in recent years it has not pursued the mortgage market because it has not been able to compete with mortgage brokers. Its volume of mortgages varies each year. In 2007 it financed nine mortgages at almost $1.5 million, down from $3.5 million in 2006. Opportunities (2008) has financed $82 million in mortgages since its startup in 1989, and $10.7 million in manufactured housing (MH) mortgages, thus providing an alternative to the subprime loans that have dominated the manufactured housing sector. It has between $12 and $14 million in mortgages outstanding, with $22 million sold on the secondary market.

About a third of Opportunities' loans are refinances, but it rarely refinances borrowers at risk of foreclosure. Opportunities will refinance a borrower who has equity in the house and is behind in payments because of a life event, such as an illness or divorce, which can be solved with a repayment plan. These loans need seasoning and are held in portfolio for 12 months and then sold. However, it cannot make other high risk loans until these loans are sold. In the past, it has been able to work with people to build or reestablish credit,[34] but it is finding more people coming in with severely impaired credit as a result of credit card debt, making it much harder to qualify them for a loan.

Five loan funds―West Elmwood Housing Development Corporation (West Elmwood) in Rhode Island, MaineStream Finance (MaineStream) and Community Concepts in Maine, and the Loan Fund and Nuestra Communidad Development Corporation (Nuestra) in Boston—have also offered first mortgages. West Elmwood has capitalized its loans

---

[32] Not all CDFIs reported annual originations for these years.

[33] According to Joe Clark, President of Winthrop Federal Credit Union, the National Credit Union Association wants to see a 60 percent LTV ratio on a mortgage and only 40 percent of the credit union's portfolio in real estate (Interview, January 10, 2008).

[34] One method was a tracker loan that puts money from the loan into a borrower's savings account so that the borrower can pay back the loan and build credit or pay down negotiated settlements on bills.

through a pool from NWA, the CDFI Fund, and equity equivalent investments (EQ2s)[35] from Fleet (now Bank of America), and MaineStream through local banks' investment in a loan pool initially capitalized at $5 million. MaineStream must pay its investors back on the first $2.2 million of the pool, and will not be able to lend until it finds new investors to bring the pool back up to $5 million, the amount it considers sustainable.[36] Nuestra offers first-lien mortgages when other sources are not available. The Loan Fund only does MH loans in resident-owned communities (ROCs). This work has changed the mortgage market in the MH sector, an important part of affordable housing finance in rural areas. Like Opportunities, the Loan Fund has become an alternative to subprime lenders (see box).

New Hampshire Community Loan Fund
Single-Family Lending Program for
Resident-Owned Manufactured Housing

Since 1984, the Loan Fund has financed 84 cooperatively-owned MH communities or Resident-Owned Communities (ROC). In 2002, after almost 20 years of targeted work in the ROC market segment of the MH industry, the Loan Fund pioneered financing fixed-rate, long-term mortgage loan products for the ROC-MH industry as an alternative to the subprime loans that comprised 85 percent of the "land-lease" market. MH homebuyers could get mortgages elsewhere, but these mortgages had characteristics of personal property loans at rates from 3 to 12 percent above conventional residential rates and terms of 10-12 years (New Hampshire Community Loan Fund 2008). The Loan Fund was able to launch the single-family program only after it had received an equity investment from the CDFI Fund in 1998. The investment allowed the Loan Fund to grow its loan fund for cooperative MHC loans, leverage more capital, and eventually make sufficient profit that it could invest in a single-family lending program. More than half its loans are in refinances or home equity loans.

The Loan Fund has changed the market for MH financing by bringing conventional lenders into the industry. First, it qualified owners of manufactured (or "mobile") homes for the NH Housing Finance Authority's (NHHFA's) first-time homeowner program, although as of April 2008 the program was no longer available for MH residents in three counties with declining markets; NHHFA's private mortgage insurer stopped insuring MH as an investment class in these counties. Local banks then came into the market once they saw that the loans performed well. Now Fannie

[35] An EQ2 is a rolling long-term loan with indefinite maturity that has many features of equity. It is an equity investment on the balance sheet of the investor.

[36] The original lenders will buy back part of the pool but are setting tough criteria for buying back loans; for instance, they will not purchase loans with more than two late payments in the past year.

Mae has agreed to make its product available to two banks in New Hampshire through a $10 million pilot project. Lenders contract with NHCLF to get Fannie Mae approvals. The Loan Fund will still finance those homeowners whom the banks find less creditworthy.

In 2008 the Loan Fund had a pool of $8 million loans outstanding, and it projects for FY2008 offering $2 million in 50 loans. Its yearly volume of loans has declined in part due to increased private sector financing in MH loans. The Loan Fund has had no defaults in six years and now has one deed in lieu of foreclosure due to job loss.

Second-lien and Other Products

Five organizations are offering second-lien mortgages and/or soft or silent second mortgages to help first-time homebuyers with downpayment and closing costs and allow them to borrow up to 100 percent LTV and sometimes a higher LTV. These CDFI products provide an affordable mortgage to low-wealth individuals who otherwise would not be able to own a home at reasonable terms, and they help homeowners in difficulty repair their credit or access necessary rehabilitation loans without depleting assets. Soft second mortgages, which are usually federally funded through HOME[37] or the HUD American Dream Downpayment Initiative (ADDI), [38] have very flexible repayment requirements and are like grants. They revolve slowly and cannot grow without more infusion of capital. NW Greater Manchester (Manchester) is one of the largest ADDI lenders in the region, with $1.4 to $1.5 invested per year.

Some organizations are using rescue funds in flexible ways to help borrowers avoid foreclosure. For example, National Housing Services (NHS) of New Haven (New Haven) and West Elmwood Housing Development Corporation (West Elmwood) are bringing borrowers current on mortgage, tax, and insurance arrears, or subsidizing existing high interest rate mortgages for a period of time to help borrowers who have had a temporary financial setback (illness, temporary reduction in work hours) but could otherwise afford the existing mortgage. These loans then enable borrowers to qualify for a refinance loan. The loans are paid back upon refinance; if refinancing is not an option, they may be deferred or forgiven. A rescue loan can also help a homebuyer get a loan modification. Many servicers are looking for the homebuyer to make an investment into the transaction, but most do not have the money to do so.

---

[37]The HOME program at HUD is implemented through state and local governments, which have a great deal of flexibility in designing and managing their HOME programs. See http://www.hud.gov/offices/cpd/affordablehousing/programs/home/contacts/

[38] See http://www.hud.gov/offices/cpd/affordablehousing/programs/home/addi/.

Three organizations offer repair/rehabilitation loans, which help homeowners save on energy and maintenance costs, increase their savings, and participate in post-purchase and financial fitness education. These loans are one means to prevent cash-out refinances and asset depletion.

Table 2 describes the CDFIs and the roles they play.

Table 2: Organizations Offering Second-Lien Mortgages and Other Loan Products

Organization	Type	Products Offered	Source of Capital	Volume of Loans Reported
HDF	CDFI	Purchase	Government Programs	FY06: $543,000 (73) FY07: $605,823 (95) 2008: $716,797 (82)
NHS New Haven	NWO	Rescue	$50,000 rescue fund from NW - fines from Countrywide	FY08: Q1 - $17,000 (4) Add loans
Urban Edge	NWO	Repair	NR	NR
Nuestra	CDFI	Seconds Rehab/repair Rescue	City of Boston (downpayment assistance) MA (soft seconds)	FY06: $1.139 million (11) FY07: $186,500 (3) Substantial decrease in FY06 and FY07 from previous years.
Winthrop	CDFI	HELOC	Deposits Secondary capital	FY06 and FY07: $4,034,601 (172)
MaineStream		Seconds Repair/HI	HUD-MADI (Maine American Dream Initiative) soft seconds CDFI Fund-HI	NA NA
New Hampshire	CDFI	Rescue	$150,000 bank grant	FY07: $42,260 (5)
Manchester	NWO	Seconds	Bank pool	FY06: $1.5m (40) FY07: $1.4m (37) FY08: Q1- $150,000 (6)
Opportunities	CDFI	Home equity Rescue	Deposits Secondary capital	NR
West Elmwood	CDFI NWO	Rescue Repair Purchase	$50,000 rescue fund-fines from Countrywide NHSA	FY06: $34,443 (4) $11,236 (2 rescue) $23,207 (2 repair) FY07: $20,236 (3) $ 5,236 (1 rescue) $15,000(2 repair) FY08: $50,000 (1 repair)

Mortgage Broker /Correspondent Lender

CDFIs are playing roles as brokers who originate loans for outside lenders, as well as correspondent lenders who close loans in their name but simultaneously sell them to the lender. CDFIs are originating loans for NHSA, local bank pools, and other government programs. Table 3 below describes CDFIs that are playing these roles.

Table 3: Organizations Working as Mortgage Brokers and Correspondent Lenders

Organization	Type	NW Affiliate?	Secondary Market Product Originating	Purchase, Refinance Reverse Mortgage	Total Volume
HDF	Correspondent lender		Local bank pool	Purchase	FY 06: All $4,298,297 (119) SM $3,884,920 (95) FY07: All $7.798,768 (188) SM $6.032,499 FY08: (4/30) All $5,667,807 (130) SM $4.842,908 (104)
New Haven	Correspondent lender	Pending application	NHSA		NA
Urban Edge	Correspondent lender	Pending application	NHSA		NA
Nuestra	Correspondent lender	Pending application	NHSA		NA
Boston Community Capital (BCC)/Aura Mortgage	Broker	No	Conforming fixed rate products Occasional ARMs	Mostly purchase	10 loans (Nov 2007-May 2008)
Community Concepts	Correspondent lender	Yes	NHSA MSHA Bank pools	Home repair Home equity (fixed rates)	No NHSA yet Numbers aggregated with first lien mortgages
MaineStream	Broker	No	Freedom Financial	Reverse mortgage	FY07: 5 Reverse mortgage
Manchester	Correspondent lender (recently approved)	Yes	NHSA	Purchase	NA
Opportunities	NI	No	Fannie Mae VHFA	Purchase	NR
West Elmwood	Correspondent lender	Pending application	NHSA		NA

The Housing Development Fund (HDF) in Connecticut is the largest correspondent lender providing second mortgages. In Fiscal Year (FY) 2007 it originated 188 home purchase loans at $7.7 million. Over $6 million of these mortgages were originated through local banks that have put up $25.5 million for a SmartMove program.[39]

Three NWOs are currently originating products such as Fannie Mae's, My Community Mortgage (MC) product, and second mortgages through NHSA. They are offering primarily home purchase loans with occasional refinances. Some NWOs that have offered NHSA products said that the interest rates on these products were not currently competitive and that they are no longer brokering the products. NWOs have also found it difficult to qualify borrowers for NHSA loans if the borrowers have missed any payments in the past year. NHSA requires 12 months of no missed payments. However, New Haven, Urban Edge, and Nuestra have reapplied as correspondent lenders. New Haven thinks the products will again be competitive, now that interest rates are rising. [40]

Two CDFIs that are not NWOs are also playing a broker role, MaineStream Finance and Boston Community Capital (BCC). BCC started Aura Mortgage Advisors (Aura) with the goal of developing a profitable mortgage business that could compete with private sector brokers and lenders. Both MaineStream and Aura are members of Opportunity Mortgage Network (OMN), a mortgage platform established by the CDFI trade organization, Opportunity Finance Network (OFN; see Appendix C). Aura joined OMN in order to have access to flexible underwriting through NHSA, as well as access to OMN's marketing infrastructure and counseling support through Community Counseling Services of Atlanta. However, neither organization has yet originated loans through OMN. MaineStream initially did not find OMN's products competitive, and OMN was not yet licensed in MA as of the interview with BCC. With the turmoil in both credit and housing markets, Aura has made few loans at all to date, but has hopes of offering more refinances in conjunction with a BCC pilot project that would purchase homes at risk of foreclosure in bulk, and refinance distressed homeowners into affordable mortgages (see box).

---

[39] Loans are made at 3 percent for 20 years. HDF makes money on the origination fees. SmartMove has neither suffered a loss to date nor has there been a completed foreclosure since the program began in 2004.

[40] See Appendix C for description of NHSA's products.

Boston Community Capital/Aura Mortgage Advisors

Mortgage Broker and Refinance Initiatives

Aura Mortgage Advisors, an affiliate of Boston Community Capital, was established in 2006 in order to provide responsible mortgage products to the growing immigrant population in Massachusetts and to provide an alternative to predatory lenders. Capital requirements determined that it would play a broker rather than lender role.

Aura's model is to compete with market-based pricing as a trusted advisor and set a high standard for private sector brokers to emulate. Aura works with wholesalers and uses conforming fixed-rate products; its policy bars the use of no- income, no-verification, stated-income, or stated-asset loans. It also pays brokers salaries instead of commissions in order to prevent incentives for inappropriate loans. It requires pre-purchase counseling from a local NWO. Aura has developed four wholesale relationships. However, 93 percent of the loans it sees do not qualify because of weak equity, inadequate income, or poor credit. Aura has originated 10 loans from November 2007 through May 2008.

BCC hopes that Aura will play a greater role in refinancing borrowers facing foreclosure if a pilot project launched in the summer of 2008 is successful. BCC is working with the Massachusetts Office of Consumer Affairs & Business Regulation, U.S. Congressman Barney Frank's office, and others to make bulk discounted purchases of mortgages from national lenders *prior* to foreclosure, and then refinance the existing homeowner with an affordable mortgage. Aura Advisors would write a first mortgage at reduced principal that conforms to traditional Fannie Mae or Freddie Mac underwriting and sell the first mortgage loan to them or a similar purchaser. It would also write a second mortgage for the remainder of the debt at zero percent interest rate with zero amortization, and require some sharing of the proceeds, if any, with the borrower at the time the loan was refinanced or at resale. Thus, the homeowner would have some incentive to maintain the property but would not receive a total windfall.

Currently, BCC is in discussions with the state to bring lenders to the table and possibly provide a guarantee of first losses if needed for the purchasers of the first mortgage. It is also in the process of negotiating an agreement with a national lender to review a portion of its loan portfolio in certain communities. Even though lenders could avoid substantial costs of foreclosure estimated as high as $59,000 (Borgos et al. 2007, 10, citing Forcardi

2002), second-mortgage holders are unlikely to benefit and may be an impediment to the process. BCC may need to pursue foreclosure of the mortgages that it purchases in order to eliminate the second-mortgage holder.

BCC is prepared to use its own capital to launch the program and start buying properties if no other funding is available. It has consciously built its capital base and net fund balance so that it can respond to changing market needs.

Mortgage Packagers

The mortgage packager delivers loan-ready buyers to various lenders or brokers. This has been a dominant role for many NWOs but did not surface as a major activity for organizations interviewed in our sample. This may be because housing counselors do informal packaging but were not asked explicitly whether they played this role. They help prepare clients for loans and make referrals to lenders but do not take a mortgage application. For example, West Elmwood and Manchester have formal arrangements to package loans for their state housing finance agencies and local agencies. Others such as Urban Edge and HDF make informal referrals of loan-ready clients to banks. Coastal Enterprises, Inc.'s (CEI's) housing counselor has assessed whether a client qualifies for RD financing, and in a limited number of cases has helped a client prepare the documentation needed for a loan application.

Table 4: Organizations Working as Mortgage Packagers

Organization	Lender
HDF	Informal referrals to banks
Urban Edge	Informal referrals to banks
Homeownership Center of Worcester (Worcester)	Informal referrals to MassHousing's home improvement programs, City of Worcester American Dream Down Payment Assistance, Worcester Lead Abatement Program Affordable HomeOwnership programs from CDC (Oak Hill, East Side, Main South and WCHR)
CEI	Informal referral to USDA Rural Development
Community Concepts	USDA Rural Development Direct Loans
NW Greater Manchester	NHHFA
West Elmwood	RIH

Note: Data are not available on dollar amounts of loans packaged.

Performance

Of the 10 CDFIs that lend directly, nine reported low numbers of foreclosures if any at all; the other organization did not provide data. Two, however, reported increases in delinquency rates over the past year. CDFIs have also used their rescue funds to keep a mortgage current while they restructure the mortgage, thus reducing delinquency rates.

The reported performance of New England CDFIs is consistent with NHSA's analysis of their first-lien mortgages that NWOs and other CDFIs originate. These loans have outperformed both prime and subprime mortgages in the last quarter of 2007 in terms of delinquencies, loans in foreclosure, and loans that are REO.[41] Empirical studies for this volume (Wolff and Ratcliffe, Mayer and Temkin) also reach preliminary conclusions that CDFIs perform well particularly in comparison to FHA and subprime loans.[42]

Housing Counseling Role

Housing counseling and home purchase education are important elements in a CDFI's toolbox. Twelve organizations in our sample provide housing counseling, including pre- and post-purchase, foreclosure, and loss mitigation counseling. (See Table D.1 in Appendix D.) In our interviews, counselors placed most weight on foreclosure counseling and spent less time talking about the role of homebuyer education in preventing predatory mortgage lending or foreclosures. This is likely due to organizational funding and priorities for foreclosure prevention.

Pre-and Post-Purchase Homeownership Education and Counseling

Homeownership education is a part of homeownership programming at all of the 12 sample organizations. Organizations usually provide pre-purchase education classes. Their underlying theory of change is that education can prevent prospective homebuyers from getting into bad mortgages by giving the borrower knowledge about the home-buying and mortgage process, screening out individuals who are not ready to purchase, and directing class participants to bank partners. A typical pre-purchase homeownership class is taught by a range of experts in the home buying industry, such as appraisers, mortgage brokers, and lawyers, who provide advice on the home-buying process. These classes can be held over a series of weeks or during a one-day, eight-hour intensive class. Many organizations use some form of standardized curriculum, often from their state-wide coalition, or other city or state agency.

---

[41] NHSA compared its own performance data to data from Mortgage Banker Association, National Delinquency Survey, 4th quarter 2007. Email from Brian Cosgrove, President, Just Price Solution of NHSA, June 2, 2008.

[42] Wolff and Ratcliffe (78-79) find that CDFI delinquency rates on first-lien loans may be high but they are less likely to reach serious delinquency or foreclosure compared to FHA or subprime loans, which are the appropriate comparison for the level of risk of CDFI loans. Delinquency rates on second-lien loans were considerably lower than on first mortgages. Mayer and Temkin (61) also show that CDFI delinquency rates outperform all loans, FHA Single Family loans, and subprime loans as of December 31, 2007. Both studies note that their findings are preliminary due to the limited number of CDFIs that provided complete transaction-level data for CIIS reporting.

Some organizations require that borrowers in their financing programs take post-purchase education classes. Post-purchase education can help prevent foreclosures and predatory mortgage lending by helping people understand when to refinance or how to budget better and protect their economic resources. Nine organizations offer some form of post-purchase education. Many have difficulty getting people to come to the classes. Turnout for the classes, when reported, was low (around five participants to a class). A few organizations offer incentives to come to the class. For example, Urban Edge offers a class run by Massachusetts Affordable Housing Association that provides discounts on insurance for attending the post-purchase class. Other organizations give out Home Depot discounts or vouchers to encourage attendance.

Reported Outcomes of Pre- and Post-Purchase Education

Few organizations are collecting data that assess whether pre- and post-purchase education helps people get into good mortgages. Most organizations collect data on the numbers of participants attending classes but do not have the time and resources to do follow-up data collection. Counselors usually do not know what happens to clients unless their organizations also finance them. CDFIs reported that their counseling services in conjunction with appropriate, affordable mortgages were effective in keeping homeowners current in their mortgages. They also provided mainly anecdotal information that they did not see pre-purchase clients come back in for delinquency counseling, and that default rates in their portfolios were low. One homeownership education person at Lawrence Community Works (Lawrence) said that mortgage brokers and lenders were steering people away from nonprofits offering homeownership education and counseling, suggesting that they recognized how education and counseling could prevent people from taking out loans from their own institutions. At the same time counselors said they were not always effective in convincing borrowers to wait and repair their credit before purchasing a home if borrowers knew they could get immediate financing from subprime lenders. The literature on this topic is also inconclusive, but suggests that there are benefits to borrowers going through homeownership education.[43]

Foreclosure Counseling/Loss Mitigation

Foreclosure counseling, or loss mitigation, is a way to help prevent foreclosure, particularly if a counselor can work with a homeowner early. All 12 organizations provided some form of foreclosure counseling as follows:

- **Negotiation with servicer—**All organizations which do foreclosure counseling do some negotiation with servicers on the following: repayment plans (payment schedule is modified to repay arrears); loan modifications (loan terms are modified permanently, such as reductions in interest and or principal); refinancing (the loan is refinanced); short sales (the house is sold for less than the mortgage);

[43] Pittman (2008) finds that borrowers in Atlanta who use formal social capital (which includes homeownership education) are more likely to have a lower-cost loan. Mallach (2001) in a review of studies found mixed evidence of positive impacts from homeownership education counseling and classes.

and deed in lieu of foreclosure (the borrower turns the claim to the property over to the lender without a foreclosure process taking place).

- **Advice and referrals—**Not all individuals who call in and are in foreclosure need assistance in negotiating with the servicer. In these cases, the counselor provides advice, responds to specific questions, and makes referrals to CDFIs and other lenders who might be able to refinance the mortgage or help the borrower make the loan current. Counselors indicated that they are not consistently knowledgeable about available mortgage products.
- **Budgeting—**Most counselors provide some form of budget analysis and suggest means to reduce expenditures or increase income.
- **Preliminary financing evaluation—**Counselors initially evaluate a loan modification or a refinance request. This is usually an informal service that enables the loan to get modified or underwritten more quickly.
- **Emotional support—**Most counselors provide some kind of emotional support for their clients. Different agencies took this on to a greater or lesser degree. Opportunities and HDF both explicitly recognized the importance of facilitating emotional transitions from denial to acceptance of the reality of loss. .

. .

Foreclosure counseling is difficult and draining work. Counselors consistently spoke of the enormous time required to assist clients with budgeting, prepare a realistic assessment of their financial capacity, and help them with a loan workout or refinance. Their ability to do loan modifications in particular was hampered by the complexity of how mortgages were structured and sold to investors, as well as the financial disincentives for servicers to restructure mortgages.[44]

[44] Innovation in the mortgage industry has produced complex mortgage-backed securities that comprise different classes of securities, called tranches, that have different levels of credit risk and cash-flow streams. Eggert (2007, 290-291) refers to "tranche warfare" as one of the structural barriers to loan modifications. He gives the example that cash-flows from one mortgage (e.g. principal, interest, pre-payment penalties) are allocated to different tranches and sold to investors with different appetites for risk. However, if a loan goes into default or foreclosure, these investors do not all have the same interests to restructure the loan. For example, an interest rate reduction would benefit a tranche that is paid out of principal repayments, but would hurt a tranche that is paid out of interest payments. Thus, the structure of securitization pits different interests against each other, raises the threat of lawsuits, and stymies loan modifications. Other barriers to modifications include the lack of incentive of servicers and lack of staff capacity to restructure mortgages, as well as the expense. Many servicing contracts do not cover these costs so that servicers may not have self-interest to modify loans even if their contracts permit it. See Eggert (2007) for a full analysis of the barriers.

Urban Edge's Experience in Foreclosure Counseling

Urban Edge is a CDC serving Boston, primarily clients in Dorchester, Roxbury, and Jamaica Plain. It was founded in 1974 in response to redlining in its communities and has a long history of working on access to credit and housing.

It runs a series of homeownership programs that provide a continuum of services including homeownership education classes, financial fitness seminars, pre-purchase counseling and foreclosure counseling. The foreclosure counseling program is a fairly recent addition that started in 2007. When Urban Edge responded to the City of Boston's request for proposals for foreclosure counselors, it anticipated 70 cases in one year. Instead it had 162 cases, well beyond its capacity. Urban Edge receives clients from word of mouth, referrals from the city of Boston, walk-ins, and NeighborWorks hotline referrals. Of the 40 cases closed in 2006-2007, 37 had successful outcomes and the other three clients went into foreclosure.

A successful case takes considerable time. Staff need to do a budget, pull a credit report, obtain bank statements and pay stubs, find the right person in a servicing company and then wait to speak to the person, and eventually negotiate with the servicer. There are many pitfalls along the way if it is not done correctly. The process has moved more quickly recently because Urban Edge is giving servicers information in a format they want, and servicers are responding more to outside pressure.

Urban Edge is developing systems and procedures to increase the efficiency of the program, but has difficulty keeping up with the caseload or doing follow-up with many foreclosure clients. Counselors have followed up if the outcome from counseling is a temporary situation. For example, they worked with a school teacher to get a loan modification to demonstrate a repayment history, and then will follow up to help her get into a better loan product.

Use of the Hope Hotline

Seven organizations (all NWOs) are participating in the national HOPE Hotline, which is sponsored by the Hope Now Alliance and administered by the Homeownership Preservation Foundation. The alliance, made up of counselors, servicers, investors, and other stakeholders in the mortgage market, reaches out to homeowners in distress and provides counseling services so that homeowners can stay in their homes. Homeowners who call the national hotline speak with a counselor who will determine what to do with the individual case. The counselor may provide advice on the telephone or refer the person to a local HOPE hotline affiliate, which will then contact the client to do counseling in person. The local agency is paid for each successful outcome.[45] Counselors report that the hotline has been helpful in providing access to decision-makers in servicing organizations, outreach, and triaging calls.

Access to Decision-makers: The Hope Hotline has provided counselors with a list of decision-makers to contact in the servicing organizations. However, this list changes frequently, and a counselor needs to stay current. Only a few counselors mentioned the contact list explicitly, but when they did, they emphasized the helpfulness of such information. Several of the counselors spoke about the importance of sharing contact names and numbers between counselors and organizations.

Outreach: The Hope Now Alliance has mailed letters to borrowers 120 days before their loans reset in order to encourage intervention before a borrower becomes delinquent. In addition a number of local outreach strategies have been used. Boston has used billboard and poster advertising, as well as mailing postcards to individuals who had loans with the top five foreclosing subprime lenders.[46] Woonsocket, RI, has sent information on the city's foreclosure prevention services enclosed in its water and sewer mailings. And the NHHFA and New Hampshire Bankers Association have paid for television ads. Other organizations have relied on word of mouth, marketing to their existing clientele, and advertising through community papers.

Triaging Calls: NWA has encouraged affiliates and other counseling organizations to triage clients by requiring that home owners first attend a workshop on the foreclosure process given by various experts in the industry. If an individual still needs counseling, then a one-on-one appointment is scheduled. Several organizations felt the triage process helped them manage information, increase efficiencies, and increase the numbers of clients coming through their doors.

Challenges Working with the Hope Hotline

Counselors also reported a number of problems working with the hotline:

---

[45] A successful outcome is defined as (1) a loan modification or repayment plan that is accepted by the servicer and the homeowner makes one payment according to terms of the agreement; (2) short/pre-foreclosure sale accepted by the servicer; (3) deed-in-lieu of foreclosure; (4) successful loan reinstatement; or (5) loan payoff through sale or refinance. NWOs, as well as non-network organizations that participate in the Hope Hotline through specific state collaboration, are eligible to receive a $1,500 bonus for each successful outcome. The outcomes pool is funded through the NeighborWorks Center for Foreclosure Solutions and through additional funds from state agencies for state-specific coalitions. Email correspondence, John Snyder, NWA, August 11, 2008.

[46] This is based on the understanding that borrowers in financial stress are less likely to open an envelope. However, if the information is on a postcard, then they do not have to open the envelope to access it, and are more likely to see the information.

- **Lack of capacity**: Four counselors reported not having sufficient capacity to cope with the numbers of foreclosures coming through their doors.[47] A number of counselors are turning people away as a result of too high volume.
- **Additional burden for borrower**: Borrowers who call an NWA affiliate directly are required to call the HOPE Hotline and then ask for an NWA counselor so that client information first goes through the HOPE Hotline system. Counselors reported that this was acting as a deterrent to already stressed and confused borrowers.
- **Different definitions of successful outcomes**: Bankruptcy is not included as a successful counseling outcome and does not warrant a $1,500 bonus. Some organizations interviewed, however, do consider this a positive outcome.
- **Limited agency involvement:** HUD-certified counseling agencies that are not NWOs are not included on the hotline referral list unless the HUD intermediary organization agrees to serve as the oversight for quality control.

Counseling and Legal Networks
To further increase their impact on preventing foreclosures and predatory lending, many organizations have formed networks with other counseling agencies and legal assistance organizations that enable counselors to assist each other in handling cases or provide information on working with specific servicers. CEI and HDF created formal partnerships with legal assistance organizations to help them identify illegal loan terms and provide legal assistance to housing counseling clients. Attorneys can have more leverage in negotiating a loan modification if there is the threat of a lawsuit. HDF has helped establish a pro bono network of attorneys working on predatory lending and foreclosures. The city of Boston has also established a legal services referral network that counseling organizations can access.

Reported Outcomes on Foreclosure Prevention
Counselors have reported success in refinances and loan workouts, including some loan modifications as well as repayment plans. Only one organization specifically said that it was successful in getting a principal writedown, but if others have been successful with writedowns, they likely report this as a loan modification. However, counselors interviewed indicated that principal writedowns were rare. Not all CDFIs reported outcome data on foreclosure counseling programs for 2007 and 2008[48] separately. Their total counseling numbers, including foreclosure counseling, totaled 3,133 clients in all types of one-on-one counseling and workshops. Based on escalating numbers of foreclosure clients reported so far in 2008, CDFIs in New England will likely see at least twice as many cases in 2008 as they did in 2007. Even so, the scale of activity and outcomes are small relative to the numbers of foreclosures and the demand for

[47] NW Blackstone River Valley, NHS of New Haven, NW Greater Manchester, and Urban Edge in Massachusetts all raised issues of capacity to meet demand for services. Even Coastal Enterprises, Inc., which is not linked to the hotline, is overwhelmed with calls.

[48] We received 2008 data from only six CDFIs. In some cases CDFIs reported data in early 2008 or did not yet have 2008 numbers.

foreclosure assistance. The small scale reflects limited staff capacity and the amount of work required for successful outcomes, and, as already noted, the difficulty of getting servicers to modify loans for homebuyers who are underwater in their mortgages.

Policy and Legal Role

Organizations interviewed also affect public and private policies through advocacy and legal intervention. Policy work enables these organizations to have an impact on predatory lending and foreclosures that can achieve significant scale. At the same time, the strength that they bring to policy work is their experience as practitioners and their knowledge of the community (Rubin et al. forthcoming.). To change policy, CDFIs partner with a variety of organizations including trade organizations and nonprofit intermediaries,[49] government agencies, and other nonprofit and private sector interests.

Policy work includes a continuum of roles: 1) research that enhances CDFIs' expertise and status on a particular issue; 2) media outreach that educates the public on how these issues impact the community; 3) participation in government task forces that make policy recommendations; 4) education and coalition building with diverse stakeholders and interest groups to reach a common policy agenda; 5) a lobbying strategy to pass legislation; and 6) legal cases that enforce policy. Eleven of the organizations reported some involvement in policy work related to predatory lending and foreclosures. We describe their work in greater detail in each state.

New England CDFIs' Involvement in State Policy

Massachusetts

Masschusetts' CDFIs have been engaged in policy at multiple levels. The nonprofit community development finance sector in Massachusetts is very dense, with a rich history and strong networks promoting fair access to credit. All the groups we interviewed are current members of the Citizens Housing and Planning Association (CHAPA) and three groups were members of Massachusetts Association of CDCs (MACDC)—both of which do state-level policy work on behalf of their members. Nuestra, Lawrence, Urban Edge, and BCC all mentioned working in collaboration with state and city agencies to provide information regarding their experiences in the community and advocating for policy changes. CDFIs worked with policy makers formally through the State Foreclosure Prevention Working Group, or more informally through conversations. For example, Lawrence was involved in early discussions with the MA banking commissioner and attorney general to encourage them to take action on the growing foreclosure crisis. Aura Mortgage's president worked with the state banking association to adopt a set of lending principles. Most recently, CDFIs were involved in broader efforts to pass various pieces of mortgage regulation legislation and foreclosure legislation including developing a refinance product for the state housing finance agency,

---

[49] These include OFN for CDFI s, the National NeighborWorks Association (NNA) for NWOs, and National Community Reinvestment Coalition (NCRC), a national advocacy organization and CRL.

MassHousing. CDFIs have also been working with cities across Massachusetts to develop a coordinated response to the increase in foreclosures (Tetreault and Verrilli 2008).[50]

Connecticut

New Haven has been involved in the statewide foreclosure prevention task force. As a result of the task force work, the Connecticut Housing Finance Agency (CHFA) developed a refinance product. Antipredatory mortgage lending legislation passed in 2008, but CDFIs in our sample were not directly involved in the coalition that advocated for this legislation.

New Hampshire

No antipredatory mortgage lending or foreclosure legislation has been passed in NH, but the state banking agency has been holding sessions to listen to consumers' needs around foreclosure. The Loan Fund advocated for administrative policy changes at NHHFA that extended eligibility of its first-time homebuyer (FTHB) loans for MH residents in ROCs.

Rhode Island

Both West Elmwood and NeighborWorks Blackstone River (Blackstone) are members of the statewide Housing Network of Rhode Island, which helped pass RI's antipredatory lending law in 2006. The organizations testified on the bill and reached out to residents to testify. West Elmwood also provided data and feedback in the development of a state-level report on foreclosures in RI (Legislative Commission to Study Predatory Mortgage Lending 2006).

Maine

Maine has a rich nonprofit sector for its size but has only a few CDFIs. No statewide organization provides legislative support on fair lending and foreclosure policy issues. CEI stepped in to form the Homeownership Protection Act (HOPA) coalition that helped pass the state's antipredatory lending legislation in 2007 and testified on foreclosure scam legislation in 2008. MaineStream and Community Concepts both participated in the coalition (see box).

---

[50] State policies have included antipredatory mortgage lending legislation passed in 2005, as well as rulemaking in 2008 from the Attorney General that has strengthened the initial legislation; foreclosure legislation in 2007, which included the creation of a refinance product at MassHousing; the ban of foreclosure rescue schemes in 2007; and funding for housing counseling programs in 2008.

CEI's Leadership in Passing Maine's Anti-Predatory Lending Legislation

CEI played a leadership role in passing anti-predatory legislation in Maine in 2007. CEI does not do consumer lending but it does have a housing-counseling program. Its counselor began to see indications of predatory lending in the loan documents of clients and also an increase in the number of clients facing foreclosure. CEI coauthored a report with CRL[51] on Maine's subprime mortgage market and predatory-lending practices, which it used to gain media coverage on the issue and educate policy makers and other stakeholders (Dickstein et al. 2006). It then organized the HOPA Coalition, a diverse group of 33 stakeholders (including CDFIs, MaineStream Finance, and Community Concepts' trade organization, the Maine Association for Community Action Programs) to advocate for an antipredatory lending bill, and got the Speaker of the Maine House of Representatives (a former CEI intern) to sponsor the bill. CRL continued to provide expertise during the legislative process, and the bill passed unanimously in 2007. CEI again mobilized the coalition to testify in the rule-making process, which helped prevent a weakening of some key pieces of the legislation. The coalition is adding new members and formulating a state legislative agenda for the next year, but also anticipates playing a role in federal policy with various national partners.

Vermont

Vermont has had a limited amount of identified predatory mortgage lending although foreclosures are increasing. In 2004 the governor and the Vermont Responsible Lending Initiative launched a campaign to educate consumers about predatory lending, which may have helped prevent predatory lending abuses. VT CDFIs did not report involvement with this initiative. Opportunities has done work on federal housing policy, which involved developing partnerships with national organizations and federal agencies such as HUD, but it was not specifically addressing predatory lending or foreclosures.

Legal Intervention

Except for partnerships with attorneys working on foreclosures, CDFIs have not focused on legal intervention strategies to prevent foreclosures. BCC considered a public nuisance[52] lawsuit in certain neighborhoods that have been hit hard with foreclosures similar to the model used in the city of Cleveland (Magg 2008), but felt it would be

[51] See Dickstein et al. (2006).
[52] A public nuisance is "an unreasonable interference with a right common to the general public such as health, safety, peace and comfort of the general public." Restatement of the Law, Second, Torts § 821B, cited in Engel (2005, 45).

difficult to establish legal standing for such a case. Even cities find it tricky to establish standing in these cases depending upon what conditions states place on bringing these claims (Engel 2005). Furthermore, while public nuisance suits are not difficult to prove on a case-by-case basis, they are expensive. As class-action suits they are cost-effective, but it is difficult to prove a collective public hazard.

Capacity Needed to Undertake Policy and Legal Work

Policy work to address predatory lending and foreclosures requires expertise, resources, and organizational support to do the work. Some expertise can be outsourced, but there needs to be a knowledgeable point person in the leadership organization who can manage relationships with external consultants, lobbyists, or other intermediary organizations, and be the public voice on the issue. For organizations working primarily through intermediaries, the intermediaries conduct the bulk of the work and bring constituent organizations in for critical hearings or meetings with relevant policy makers. If a CDFI takes the lead in policy work, the resources needed are considerable. Even large CDFIs with large net-fund balances and financial flexibility have been limited in how far they can cross-subsidize the work without grant support.[53]

Finally, policy work requires alignment with organizational mission and priorities in order to get full board and staff support. It has to be part of an organization's theory of change in terms of how it achieves impact. Even so, policy work that targets regulation of the financial sector can be problematic, particularly if CDFIs are dependent on strong partnerships with the financial industry for co-lending and capitalizing their loan and investment products.

Expansion of CDFI Roles: Findings and Recommendations

Based on the experiences of New England CDFIs, we assess what CDFIs can do to increase their roles as an alternative to predatory mortgage lending and in refinancing distressed borrowers, as well as other roles that would prevent foreclosures and encourage sustainable homeownership. We also offer recommendations concerning what resources or incentives CDFIs would need to expand their roles.

How can CDFIs increase their role as an alternative to predatory lending in the home mortgage lending area?

CDFIs have shown they can make and service loans that are alternatives to predatory lending. They understand that delinquencies among lower-income borrowers, who are highly vulnerable to life events that lead them to miss payments, may be high, but that these delinquencies do not necessarily lead to foreclosures when the CDFI works with

[53] For example, CEI's predatory lending research and advocacy work cost over $250,000. About 25 percent of the cost was covered by grants targeted for this work. In order to continue the work, it will need additional grant funding.

borrowers to cure the loan. However, CDFIs have not yet shown that they can achieve lending on a large scale

The tightening of the subprime market has created opportunities for CDFIs to expand their roles in residential mortgage finance, if they can access capital and/or mortgage products. Few CDFIs, including credit unions, have access to adequate capital to play a direct lending role on any scale. For CDFI loan funds, the liability associated with being the mortgage holder is an unnecessary risk. They are subject to both credit and interest rate risk and cannot easily replace capital lost to writedowns. Even Boston Community Capital, which is well capitalized, chose to enter the mortgage market through an affiliate mortgage company rather than lend directly, because of capital requirements.

Yet the broker role also has challenges for CDFIs if they want to create a business that can provide a competitive product at any scale that can impact the mortgage market. Most CDFIs are originating available products such as Fannie Mae's My Community Mortgage, which is widely available, and second mortgages through NHSA. NHSA products permit some flexibility in underwriting, but they have been difficult for CDFIs to use in the current market, although, according to some CDFIs, that may be changing.

Some CDFIs are reluctant to play a broker role if they cannot offer unique products that differentiate them in the marketplace; otherwise they are competing with their bank partners.[54] These CDFIs are seeking products that fill gaps in the market, such as a second mortgage that might bring a CLTV to well over 100 percent. It is difficult for a CDFI to find these unique products unless it creates them. But if CDFIs maintain this gap-financing approach, they will have difficulty reaching any scale of lending. A second approach, which only BCC has taken, is to compete with the private sector rather than offer niche products. However, in the current market, it has had difficulty qualifying borrowers, especially as a new entrant in the market.

Both approaches require housing counseling in order to minimize defaults and foreclosures. It is conceivable that a CDFI could use part of a standard 2 percent brokerage fee to cover housing counseling costs, but this will eat into any profits that CDFIs might hope to make from a brokerage business. Part of OMN's mortgage platform is to provide CDFIs with centralized counseling services. Yet much of the value in counseling comes from face-to-face interaction that builds trust, something that is lost in large-scale telephone counseling models.

It is unlikely that a brokerage role in itself without suitable mortgage products will enable CDFIs to play an alternative role to predatory lending. There is some potential for expanding CDFIs' role as mortgage brokers, but the appeal will be limited unless CDFIs are already engaged in consumer mortgage financing or perceive a strong need in their communities to provide access to financing. However, an insider role in the industry could give CDFIs more expertise and leverage to influence both public and private

[54] Competition with banks was an issue for both Vermont Community Loan Fund and CEI, which considered becoming brokers through the OMN mortgage platform.

policies designed to curb predatory lending and raise industry lending standards. The CDFI Fund could design incentives and scoring priorities on funding applications that encourage CDFIs to play a consumer lending role or expand their existing role.

To what extent can CDFIs refinance distressed subprime loans and/or assist borrowers who were subject to predatory lending and/or facing foreclosure?

Limited Refinancing Options

CDFIs currently play a very limited role in refinancing existing borrowers facing foreclosure. The organizations in our sample are primarily originating existing refinance products, providing second mortgages for existing products, or making borrowers loan-ready and referring them to lenders. To the extent that homeowners can meet the underwriting guidelines of existing products, CDFIs' knowledge of these products, as well as requirements that CDFIs place on borrowers for pre- and post- counseling, can enhance the suitability of products for borrowers and sustain homeownership.

The refinancing products currently available to CDFIs serve a relatively small number of borrowers at risk of foreclosure, and cannot address borrowers who are in "upside down" mortgages that they cannot afford without a principal or interest rate writedown. The principal writedown/shared equity model that Boston Community Capital is piloting to refinance homeowners could potentially achieve some scale, but there are considerable barriers getting lenders to restructure the mortgage so that it is affordable either for the existing homeowner or a new buyer. BCC's financial and real estate expertise, along with its ability to bring in significant partners, is promising. Yet even, the State of Ohio, which had greater market power than BCC and its partners, and higher levels of distress than Boston, was unable to force principal writedowns. [55]

The new Hope for Homeowners program created in the Housing and Economic Recovery Act (HERA) of 2008 seeks to address this problem. FHA will insure up to $300 billion of fixed rate, 30-year mortgages that are written down to 90 percent of fair market value (see Appendix C). Given the problems already discussed in restructuring mortgages that have been securitized, it is not at all apparent how this program, which is voluntary on the part of lenders and borrowers, will be effective.

Even with the Hope for Homeowners program, other products and options will likely be important. Many of the CDFIs and others interviewed strongly expressed the need for rescue-loan second mortgages, and, in some cases, first-lien refinance mortgages so they can make direct loans to borrowers in trouble.[56] Counselors and lending officers report

---

[55] Conversation with Uriah King at CRL, who worked with the Ohio Foreclosure Prevention Task Force, January 15, 2008.

[56] This view was not universally shared. Nusestra's Lionel Romain felt that one 100 percent refinance product is less risky for the borrower than first- and second- lien products (Email, August 8, 2008). Elyse Cherry, President of BCC, was wary of underwriting any loans with CLTVs at or greater than 100 percent. Thus, she is more focused on a principal writedown (Interview, December 10, 2007).

that 10 to 20 percent of their clients could benefit from rescue loans (typically for $5,000 or less) that can help them make their mortgages current.

Lenders and counselors see a need for second mortgages that could bring a CLTV over 100 percent and in some cases as high as 120 percent. While such loans may be the only option to help people facing foreclosure keep their homes in declining markets, they also raises serious questions about whether this approach inflates prices, prolongs foreclosure risk, and causes community destabilization down the road. Much depends on what happens to housing prices, and many people do not think we have seen the bottom of the market. But there may be a minority of homeowners who can make the monthly payments and ride out the housing cycle. West Elmwood and others are willing to take the risk on the second mortgage, but would need a combination of additional capital and lenders willing to partner with them on these loans. These second mortgages would typically range from $10,000 to $20,000; organizations estimate that 20 percent to 30 percent of their clients could benefit. This number could grow if more first-mortgage products were available to combine with these second mortgages.

Finally, CDFIs would also like the option of offering first mortgages for refinancing if no other option is available. [57] They believe that they have a good understanding of the borrowers and the risks involved, and with required intensive counseling could make many good refinance loans that existing lenders are not willing to make (see NACA, Appendix C). Some CDFIs would be willing to go as high as 120 percent LTV. Amounts needed vary widely in the region, but the average loan amount would be about $250,000.[58] A refinance product would help approximately 5 percent of their clients.

Capital Needed for New Products

We provide a rough estimate of program costs, based on conservative estimates of market demand and average costs of loans from five CDFIs located in each New England state except for Vermont. (See table 5 below.) We assumed that grant money would be needed to add counseling and lending capacity. The spread on loan repayments is unlikely to cover the costs of rescue and soft second-mortgage loans, which may not be paid back for some time, if ever. We have not attempted to estimate loan repayments on first mortgages that would reduce the total capital outlay.

---

[57] Nuestra's Executive Director, Evelyn Friedman estimated that their need for capital was as high as $28-$29 million per year to address the scale of foreclosures in the communities they serve (Interview, November 2007).

[58] Most houses available in urban areas of southern New England, where foreclosures are concentrated, are duplexes and triplexes. Nuestra estimated an average price of $350,000 in communities they serve in Boston.

Table 5: Estimated Financing and Operating Grants for Loan Products for New England CDFIs

Type of Loan	Estimated Market	Total Cost	# of loans	Total Cost without Refinance Product	# of Loans without Refinance Product
Rescue Loans	69,263 [a] x 10% x $5000	$34,631,500	6,926	$34,600,000	6,926
Second mortgages	69,263 x 20% x $20,000	$277,052,000	13,852	$276,800,000	13,852
Refinance	69,263 borrowers x 5% x $250,000	$865,787,500	3,463		
Operating Grants	40 organizations x $200,000 (over three years)	$8,000,000		$8,000,000	
Total		$1,185,471,000	24,241	$319,683,500	20,778

Source: Authors' calculations using Federal Reserve Board estimates based on data from First American LoanPerformance (2007) and estimates from sample CDFIs.

[a] The number represents subprime mortgages that are 30 days or more past due and in foreclosure (48,484) in 2007, fourth quarter. Because the LP database represents only 70 percent of subprime mortgages, the authors have extrapolated to the full population (48,484/.70) to reach a total number of 69,263 homeowners.

The estimated cost of a program just for New England is close to $1.2 billion, representing over 24,000 loans. A homeowner may have more than one loan. This is almost four times the level of funds that New England states are estimated to receive for redevelopment of foreclosed properties under HERA.[59] If only second mortgages and rescue loans are capitalized and not first mortgages, the cost would be approximately $311.4 million, representing almost 21,000 loans. This also assumes 40 CDFIs are willing and able to provide financing at an average of $30 million per organization over three years. Only HDF in Connecticut is currently making loans at this scale. A pilot program could start with a much lower level of funding, especially if it is for second mortgages and rescue loans.

[59] Center for American Progress estimates that New England states will receive almost $300 million from the new legislation for neighborhood stabilization, not refinancing existing homeowners. See http://www.americanprogress.org/issues/2008/07/housing_bill.html (last accessed August 8, 2008).

Given the limits of other options, the CDFI Fund should create a small grants program that can capitalize these niche loan products to refinance borrowers facing foreclosures. A grant program that targets capital and subsidies to these experienced organizations so that they can provide second-mortgage loans and pre- and post-counseling support is worth the investment even though they will only be able to assist a limited number of homeowners. NWA already makes these types of grants to its affiliates, but it behooves the CDFI Fund to provide additional resources to build the capacity of CDFIs that it already certifies. The CDFI Fund should consider whether any of the housing- related requirements that NWA already has for certification should be grafted onto its certification reporting structure. It also may find that it would be more efficient to contract with NWA to distribute funds to CDFIs that are not NWOs rather than to do it in-house.

What other roles do CDFIs need to play to address the foreclosure crisis and build more-sustainable homeownership going forward?

CDFIs have limited leverage to affect foreclosures and sustainable homeownership solely through a financing role. They need to combine their financing capacity with effective housing counseling, legal and organizing strategies, community revitalization, and policy work if they are going to have an impact on any scale.

Housing Counseling

Pre- and post- purchase housing counseling programs are an important component of encouraging sustaining home ownership and are receiving even more recognition and resources in the design of housing refinance programs in HERA. However, counseling in itself is insufficient to sustain home ownership. Strong regulations that guarantee appropriate mortgage products are essential, as discussed below.

Foreclosure prevention counseling appears to be most successful when counselors can reach people early and when the cause of foreclosure is primarily a life event rather than an unaffordable mortgage. It is more likely that under these circumstances homeowners can get a repayment plan that will allow them to stay in their home. However, if the mortgage is unaffordable, a repayment plan will simply delay a default.[60] Homeowners who are in unaffordable, high LTV loans need reductions in principal or substantial interest-rate reductions. Access through the HOPE Now Coalition to decision-makers who can restructure loans appears to be improving. In May 2008, servicers provided workouts to 170,000 at-risk borrowers, which included 100,000 repayment plans and 70,000 loan modifications (Hope Now 2008). However, it is not known from these numbers whether the repayment plans are appropriate workouts for borrowers' needs, or

[60] Brinkman (2008) found that 29 percent of all homeowners who received a repayment plan, and 40 percent of homeowners in subprime ARMs, who were in foreclosure in the third quarter of 2007, had failed a previous repayment plan.

whether restructured loans are keeping pace with the number of foreclosure starts, which increased nationally in the first quarter of 2008 (Mortgage Bankers Association 2008).[61]

Funding for counseling responds to cyclical needs and does not build long-term institutional capacity. Organizations have difficulty ramping up capacity for counseling, and then maintaining those positions and the knowledge gained with limited ongoing government, foundation, and bank funding. To build up the scale of counseling—both to help people avoid or successfully emerge from foreclosure—and to generate successful new homeowners, CDFIs need a stable, dedicated source of funds that can sustain pre- and post-purchase classes and in-depth, one-to-one counseling. Ongoing support for counseling should be a continued priority and a focus for CDFI trade organizations and the CDFI Fund as well as for banks and nonbank lenders.

Legal and Organizing Strategies

Legal and organizing interventions have potential to bring investors and servicers to the table to restructure mortgages. These can be effective but they are also extremely time-consuming and resource-intensive. Legal methods have been used to stall foreclosures. For example, if servicers cannot produce the mortgage documents, CDFIs may be able to challenge the legality of foreclosure, as has been done successfully in a number of states that have judicial approval (Morgenson 2007; Efrati 2008). The strategy is to buy more time for the homeowner and make the process sufficiently onerous for the lender and servicer that they have an incentive to restructure. Referrals have also been made to bankruptcy attorneys to slow the foreclosure process. But a homeowner is still at risk of foreclosure without change to the bankruptcy law.[62] CDFIs can also help instigate

[61] From October 2007 through January 2008, the increase in the numbers of borrowers in loss mitigation was matched by the increase in delinquencies so that 7 out of 10 seriously delinquent borrowers were still not being served (State Foreclosure Prevention Working Group 2007).

[62] A bill before Congress in 2008 that would have given bankruptcy judges the ability to restructure mortgages on primary residences as they do for other assets like second homes did not pass. Bankruptcy would not eliminate the risk of foreclosure but would enable judges to enforce restructuring of the loan in cases where that makes sense due to the circumstances of the loan origination and the borrower's current circumstances.

Some of the key arguments from the Mortgage Bankers Association (Kittle 2008) against such legislation are (1) it would encourage debtors not to pay their contractual mortgage obligations; (2) it would increase risk significantly for home lenders, investors, and loan services in the future and on existing portfolios; (3) mortgage lenders would pass the increased costs of risk on to borrowers; and (4) bankruptcy filings would skyrocket. A counter viewpoint from Mark Zandi (2008) of Moody's Economy.com is that, given the enormous public costs of the foreclosure crisis and limited means to intervene to assist homeowners facing foreclosure, restructuring loans through bankruptcy is the easiest and most effective tool that will help people stay in their homes. Zandi has testified that there is no evidence that secondary markets will be affected by the law after an adjustment period, as has been true of other consumer loans under Chapter 13 protection. Nor is it likely to create further abuses by mortgage borrowers, since bankruptcy is already a painful process.

lawsuits by providing attorneys general with victims of predatory lending or foreclosure or with research documenting illegal practices.[63]

Organizing to put pressure on companies to refinance or restructure loans can range from researching lending and servicing patterns to publicize in the media to picketing company headquarters and executives' homes as NACA has done (see Appendix C). NACA has been very effective with confrontational campaigns in urban areas to get Bank of America, Citigroup, and Countrywide to provide below-market rate refinance products. However, NACA's model is difficult for CDFIs to replicate, in part because CDFIs are partners with financial institutions and are dependent on them for funding and other types of support (e.g., board and loan committee participation).

Community Revitalization Strategies

A number of organizations, funders, and policy makers are now focusing on reuse of foreclosed properties among their options as they see limited impact of other strategies to prevent foreclosures, especially for homeowners in unaffordable mortgages. They are attempting to acquire foreclosed properties in REO and selling to qualified first-time homebuyers. These strategies are still in the development stage, but present opportunities for CDFIs to play a financing role for CDCs or other nonprofits with development expertise to acquire, rehabilitate, and sell properties. They can also play a financial management role to orchestrate acquisition of REO homes and bargain with lenders and servicers directly. Organizations such as Urban Edge, Lawrence, and Manchester have started to look at acquiring REO properties. West Elmwood has raised an acquisition fund from the Local Initiatives Support Corporation (LISC) and is learning from experienced developers how to buy foreclosed properties.

A recently formed statewide coalition in Rhode Island, which includes NWA, the Housing Network of Rhode Island (the state association of CDCs), and the Rhode Island Statewide Land Trust, is proposing to use New Markets Tax Credits (NMTC)[64] as an incentive for lenders to sell REO properties at discounted prices.[65] The coalition is designing the Rhode Island Rebuilding Equity and Ownership (RIREO) initiative to do bulk purchase of REO homes as well as homes currently in foreclosure, with these homes to be placed into the land trust's portfolio and resold to low-income homebuyers under a

[63] Attorneys General have launched class action suits, which have more clout but take huge resources and time on a limited numbers of cases. Recent examples are predatory lending class action suits against Ameriquest and Household and Beneficial Finance Corporation.

[64]The New Markets Tax Credit (NMTC) program, established by Congress in December 2000, expanded the availability of credit, investment capital, and financial services in distressed urban and rural communities. The NMTC initiative is designed to mobilize up to $15 billion in development capital based on a direct federal income tax credit of 39 percent spread over seven years.

[65] A similar effort is underway in the Merrimack Valley in MA. Lawrence is partnering with the Coalition for a Better Acre (also a CDC and NWO) to form a new regional CDC that would undertake reuse projects.

shared equity model (Davis 2006).[66] They hope to use the NMTC as leverage for lenders with REO properties to invest, sell those properties for cents on the dollar, and recoup some of those losses via the NMTC. Starting with a demonstration project of 10 properties, the coalition plans to expand within the next few years to purchase, rehabilitate, and resell over 1,000 units over the seven-year tax credit eligibility period. The initiative relies heavily on the housing development and management capacity of its CDC members.

NWA and other organizations that are looking at the NMTC to help fund reuse strategies must be prepared to deal with the recapture provision of the tax credit. Eighty-five percent of the investment must stay in the project for seven years, or roll over into new qualified investments within a year. If defaults occurred, the NMTC allocatee would need a sufficient market to reinvest quickly. The NMTC is a good fit for a national organization like NWA with affiliates in many markets and with long-term expertise in reuse techniques. The ability to get a series of NMTC allocations for this purpose is an additional significant hurdle. Foreclosures could easily eat up what is already an oversubscribed program. Larger appropriations for NMTC will be needed to ensure that the original economic development purpose of the program is intact.

Reuse strategies are a good fit for CDFIs' roles and experience. Nonetheless, CDFIs face considerable challenges accessing properties and raising sufficient capital to achieve the scale necessary for such a strategy to be effective, particularly in inner-city neighborhoods. Properties that sit vacant often need rehabilitation, which can exceed the market value at which a property can be sold, particularly in declining housing markets. Developers need to know which properties can feasibly be rehabilitated and sold before purchasing the property. CDFIs should also expect sizable upfront costs (unpaid taxes, utility bills) and legal and appraisal bills, and delays in clearing title, which can take 9-12 months (Dallis 2008).

To be effective, these efforts will require a volume of properties to do the rehabilitation work efficiently and to put sufficient numbers of housing units back on the market to revitalize neighborhoods. They need private/public partnerships that include lenders; nonprofits; city, state, and federal governments; and local, regional, and national funders. The strategy works best in targeted neighborhoods with a critical mass of foreclosed properties. Nevertheless, some more rural CDFIs are considering this approach, including CEI and Manchester, but some investigation will be needed to determine whether there are clusters of foreclosed and REO properties, which would be needed for this approach to work.

---

[66] In shared equity models, homeowners get to keep only a portion of the appreciation of the house's value. This model permits a land trust to make a house affordable for a new homebuyer. The coalition has funding commitments from NWA, The United Way of RI, and RHI, and is soliciting funds for the demonstration project from a number of other sources. It expects its planning and design work will help access additional funding that will be available from the Neighborhood Stabilization Fund in HERA.

Acquisition of properties on any scale is difficult, and particularly so if CDFIs are looking for steep discounts through bulk purchases. If the property is unlisted, the CDFI must identify the lender; the lenders in such cases can be opaque trusts that have bought the loan as part of a mortgage-backed security. Even if the property is REO and listed with a broker, there can be stiff competition for the property from developers experienced in REOs. It is difficult to sidestep a broker and negotiate directly with a lender, although some banks with REOs are working with CDFIs and nonprofits as part of meeting their Community Reinvestment Act (CRA) obligation (Dallis 2008).

CDFIs will need low-cost capital to buy properties, and steep subsidies to rehabilitate them so they are affordable to new homeowners. Without government subsidy or extremely discounted prices, it will be risky for CDFIs to acquire and sell the properties, particularly in a declining housing market. CDFIs have a good opportunity to access funding through HERA, which will allocate almost $4 billion in Community Development Block Grant funds to states and localities in order to rehabilitate foreclosed properties and sell to qualified homebuyers. According to one estimate, New England would receive $300 million (Center for American Progress 2008).

The CDFI Fund should encourage CDFIs that become expert in community revitalization strategies to assist other CDFIs in pursuing similar strategies. They may also be in the position to negotiate on behalf of other CDFIs for principal reductions on mortgages, or for purchase of properties from lenders with whom they are already working. Rural communities have not been as proactive as urban areas in dealing with foreclosures. Thus, the CDFI Fund may have to stimulate the development of rural networks to address the problems.

Policy

CDFIs will achieve the greatest impact in affecting the mortgage market and achieving scale through a more active policy role. Most innovation in antipredatory lending policies has happened at the state level. State laws that strengthen regulation of non-bank lenders have been an important deterrent to predatory lending practices, such as extended prepayment penalties, balloon payments, and excessive interest rates (Quercia et al. 2004, Wi and Ernst 2006), and have become the model for national legislation addressing predatory lending. But federal policy can easily preempt stronger state policies. New England organizations have already participated in passing state antipredatory lending legislation[67] on a number of levels, as individual organizations, as part of existing coalitions, and as the organizer of new coalitions. CRL, a subsidiary of Self-Help Credit Union (a CDFI), is one of the premier organizations in the country that provides research and advocates for antipredatory lending policies. It is a resource and potential partner for local CDFIs, as are the National Community Reinvestment Coalition and the National Consumer Law Center.

At the federal level, it is currently much tougher for any CDFI or intermediary organization to influence debates over antipredatory lending legislation. Industry interest

[67] Four states have antipredatory lending laws: Maine, Massachusetts, Rhode Island, and Connecticut.

groups are powerful, and not all the national advocates agree on a strategy. A local CDFI needs to partner with national trade associations or experts to have any leverage. CDFIs always have the option to educate their Congressional delegation on best practices and preferred legislation, but playing a strategic role that gets results requires both substantive expertise and hands-on knowledge of Congress.

Similarly, CDFIs have the greatest opportunity to influence policies to prevent foreclosures at the state level. State policies primarily can slow down foreclosures, add costs, and make the process more transparent, which may create more incentives to restructure loans for existing homeowners. Statutes providing judicial foreclosure processes, a right to cure a loan, and extending redemption periods to pay off arrearages, can delay the foreclosure process. At the same time some lenders, particularly in small markets, may choose to pull out. Other state policy initiatives that have passed around the country variously require servicers to report foreclosure filings and loss mitigation activities, or identify an individual with whom to negotiate a loan workout; require lenders to take possession of and responsibility for foreclosed properties and provide their contact information; and/or prevent equity stripping through foreclosure scams.[68]

Given how time- and resource-intensive the work is, only the largest CDFIs are likely to play a leadership role. Smaller CDFIs still play a critical role in participating in coalitions and bringing their issues, experiences, and credibility to the table. If CDFIs are to participate more actively in policy—which we think should be a priority—then CDFIs will need flexible operating grants and equity grants from the CDFI Fund to grow and create the space for policy and advocacy work. Even smaller CDFIs need flexibility to participate in coalition work. CDFIs' policy work can be much enhanced and made more efficient by actively facilitating partnerships among large and small CDFIs, trade organizations, and intermediaries. Finally, CDFIs need to be engaged in the larger policy issues, but at the same time mind the store. Balancing policy with practice is critical given the fluidity of the present market and policy environment.

Conclusion

New England CDFIs have shown success in preventing predatory lending and foreclosures by financing or counseling clients, but on a relatively small scale. They have potential to achieve a larger scale of impact if they succeed in negotiating bulk purchases of mortgages or properties for refinancing or reuse in targeted communities. For some CDFIs an expanded brokerage role can also be effective in reaching a wider market than CDFIs currently serve. But where CDFIs have already demonstrated an ability to achieve larger-scale impacts—and where they have the most potential in the future—is by engaging at some level in policy work that changes the availability of responsible mortgage products and counseling services, and/or changes the regulation of the mortgage market and foreclosure process.

---

[68] While laws addressing foreclosure scams may not necessarily prevent foreclosures, they can prevent exploitation of people who still have equity in their homes.

The major opportunities that we see for the CDFI Fund are to (1) provide CDFIs with more niche refinance products to assist homeowners facing foreclosure; (2) expand resources and local capacity to develop community revitalization strategies; and (3) build CDFIs' capacity to engage in policy work. Realistically, the momentum locally as well as at the state and federal level is away from a primary focus on helping individual consumers deal with foreclosures, and towards strategies to reuse foreclosed properties and save communities. While CDFIs should continue to focus on helping homeowners avoid foreclosure and stay in their homes whenever possible, they are well positioned through their own capabilities and existing relationships with other organizations to take on this revitalization role through capitalization and financial management strategies to purchase and reuse REO properties.

Author Biographies

Carla Dickstein Ph.D., is Senior Vice-President for Research and Policy Development at Coastal Enterprises, Inc. (CEI), a CDFI based in Wiscasset, Maine. In 2006 she co-authored a report *Predatory Mortgages in Maine* that led to passage of Maine's strong anti-predatory lending law passed in June 2007. She has also written on community development, worker cooperatives, sustainable development and measurement and impact of CDFIs. Her current policy and research work focuses on public and private sector actions needed to address the foreclosure crisis. Prior to coming to CEI she was on the faculty at West Virginia University's Regional Research Institute and the West Virginia University Extension Service. She holds a B.A. from Smith College, a Masters in Planning from the University of Minnesota, and a Ph.D. in City and Regional Planning from the University of Pennsylvania.

Hannah Thomas is a pre-doctoral student and the Oskowitz Fellow at the Heller School at Brandeis University. Her research interest is the role debt can play in wealth for low-income individuals. As a Rappaport Fellow, she conducted a research study for the City of Boston in 2007 on why people end up in foreclosure. Ms. Thomas was also coauthor of the report on predatory lending in Maine in her previous position as Research Associate at Coastal Enterprises, Inc. She holds an MA Geography (First Class Honors) from St. Johns' College, University of Cambridge.

References

Avery, Robert B., Kenneth P. Brevoort, and Glenn B. Canner. 2007. "The 2006 HMDA Data*."* *Federal Reserve Bulletin* 93 (December): A73-A109. http://federalreserve.gov/pubs/bulletin/2007/pdf/hmda06final.pdf Last accessed August 15, 2008.

Borgos, Ricardo, Prabal Charabarti, and Julia Reade. 2007. *Understanding Foreclosures in Massachusetts.* Boston: Federal Reserve Bank of Boston, Discussion Paper 07-1.

Brinkman, Jay. 2008. *An Examination of Mortgage Foreclosures: Modifications, Repayment Plans and other Loss Mitigation Activities in the Third Quarter of 2007.* Mortgage Bankers Association, January 2007.

Campen, James. 2008. *Changing Patterns XIV: Mortgage Lending to Traditionally Underserved Borrowers & Neighborhoods in Boston, Greater Boston and Massachusetts, 2006. A Report Prepared for the Massachusetts Community & Banking Council.* Boston: Mauricio Gaston Institute for Latino community Development and Public Policy, University of Massachusetts/Boston.

CDFI Data Project. Opportunities Finance Network. (http://www.opportunityfinance.net/industry/industry_sub2.aspx?id=236

Center for American Progress. 2008. "Analysis of state funding from Housing & Economic Recovery Bill of 2008." http://www.americanprogress.org/issues/2008/07/housing_bill.html

Center for Budget Policy and Priorities. 2008. "29 States Faced Total Budget Shortfall of at Least $48 Billion in 2009." Washington, D.C. http://www.cbpp.org/1-15-08sfp.htm.

Center for Responsible Lending. 2007. *Subprime Lending: A Net Drain on Homeownership.* Center for Responsible Lending Issue Paper No.14. March 27.

_______.2008. "Solution to Housing Crisis Requires Adjusting Loans to Fair Market Value through Court-Supervised Modifications." CRL Brief. April, 2008.

Connecticut Housing Finance Agency. Mortgage products. www.chfa.org

Costello, Glenn. n.d. distributed week of February 25, 2008. "Update on U.S. RMBS: Performance, Expectations, Criteria, Fitch Ratings." 17-18. Cited in Center for Responsible Lending (2008, 1).

Cruitsinger, Martin, and Jeannine Aversa. 2008. "Downturn Gains Steam as Inflation Roars Ahead." *Associated Press*. July 15, 2008. http://biz.yahoo.com/ap/080715/economy.html

Dallis, Joan. 2008. "Your Home Counts. HSBC's Pilot Home Disposition Program." Presentation at Federal Reserve Bank of San Francisco conference: Stabilizing Communities: Addressing the Negative Impacts of Foreclosure. Los Angeles, July 15 , 2008. http://www.frbsf.org/community/resources/2008/0715/Dallis.pdf

Davis, John Emmeus. 2006. *Shared Equity: The Changing Landscape of Resale-Restricted, Owner-Occupied Housing.* Montclair, NJ: The National Housing Institute.

Dickstein, Carla, Hannah Thomas and Uriah King. 2006. *Predatory Mortgages in Maine: Recent Trends and the Persistence of Abusive Lending Practices in the Subprime Mortgage Market.* Coastal Enterprises, Inc. and Center for Responsible Lending.

Efrati, Amir. 2008. "Some Judges Stiffen Foreclosure Standards. *Online Wall Street Journal*, July 26, 2008. http://online.wsj.com/article_print/SB121702560817186051.html

Eggert, Kurt. (2007) "Comment on Michael A. Stegman et al. Preventive Servicing Is Good for Business and Affordable Homeownership Policy: What Prevents Loan Modifications?" *Housing Policy Debate* 18 (2): 279-97.

Engel, Kathleen. 2005. *Do Cities Have Standing? Redressing the Externalities of Predatory Lending.* Research Paper No. 05-114. Cleveland: Cleveland State University, October 2005.

Fannie Mae. Mortgage products. https://www.efanniemae.com/home/index.jsp

Federal Financial Institutions Examination Council. Home Mortgage Disclosure Act (HMDA) data. http://www.ffiec.gov/hmda/reporter.htm

Federal Reserve Bank of Boston. 2008a. *New England Indicators*. July 2008. http://www.bos.frb.org/economic/neei/back/2008/jul08.pdf

________. 2008b. "Mortgage Relief Initiative Expands and Evolves." Press Release, June 5, 2008.

Federal Reserve Bank of New York. 2008. "Housing Count per 1000 Units of Housing." New York: Federal Reserve Bank of New York, June 2008.

Federal Reserve Board. 2008. *Senior Loan Officer Opinion Survey on Bank Lending Practices. 2008*. April 2008.

http://www.federalreserve.gov/boarddocs/SnloanSurvey/200805/ Last accessed July 26, 2008.

First American Loan Performance.2007. *Overview of Loan Performance Data.* http://www.bos.frb.org/commdev/foreclosures/LP%20Overview.pdf Last accessed August 18, 2008.

Foote, Christopher and Ann Eggleston. 2008. "Subprime Outcomes: Turmoil in the Mortgage Market." Boston: Federal Reserve Bank of Boston. http://www.bos.frb.org/about/ar/ar2007/essay.pdf

Forcardi, Craig. 2002. *Servicing Default Management: An Overview of the Process and Underlying Technology. TowerGroup Research Note No. 033-13c.*, cited in Borgos et al. 2007. 10.

Freddie Mac. Mortgage products. http://www.freddiemac.com/sell/expmkts/affprod.htm%20 Last accessed August 18, 2008.

Gerardi, Kris, A. H. Shapiro, and Paul S. Willen. 2007. *Subprime Outcomes: Risky Mortgages, Homeownership Experiences and Foreclosures*. Working Paper No. 07-15. Boston: Federal Reserve Bank of Boston.

Gramlich, Edward M. 2003. Remarks by Federal Reserve Governor at Texas Association of Bank Counsel 27th Annual Convention, South Padres Island, Texas. http://www.federalreserve.gov/boarddocs/speeches/2003/20031009/default.htm. Last accessed June 1, 2008.

Haggerty, James and Ruth Simon. 2007. "Lenders Broaden Clamp Down on Risky Mortgages." *Wall Street Journal*. August 3, 2007.

HERA. 2008. The Housing and Economic Recovery Act of 2008. http://www.govtrack.us/congress/billtext.xpd?bill=h110-3221 Last accessed August 24, 2008.

Hope Now. 2008. Press Release. http://www.hopenow.com/upload/press_release/files/June%202008%20Data%20Release.pdf. July 30, 2008. Last accessed August 18, 2008.

Kerlinger, F. N. 1986 *Foundations of Behavioral Research*. 3rd ed: Holt, Rinehart and Winston.

Kittle, David G. 2008. Chairman-Elect, Mortgage Bankers Association, before the Subcommittee on Commercial and Administrative Law, Committee on Judiciary, United States House of Representatives. Hearing on "Growing Mortgage

Foreclosure Crisis: Identifying Solutions and Dispelling Myths." January 29, 2008.

Legislative Commission to Study Predatory Mortgage Lending. 2006. *Legislative Commission to Study Predatory Mortgage Lending. Findings and Recommendations.* Report Submitted to the Rhode Island General Assembly.

Li , Wei and Keith S. Ernst. 2006. *The Best Value in the Subprime Market. State Predatory Lending Reforms.* Center for Responsible Lending. February 23.

Magg, Christopher. 2008. "Cleveland Sues Lenders Over Subprime Mortgages." *New York Times*, January 12, 2008. http://www.nytimes.com/2008/01/12/us/12cleveland.htmlLast accessed August 15, 2008.

Majority Staff of the Joint Economic Committee. 2007. *The Subprime Lending Crisis: The Economic Impact on Wealth, Property, Values and Tax Revenues, and How We Got Here.* Report and Recommendations by the Majority Staff of the Joint Economic Committee, Senator Charles E. Schumer, Rep. Carolyn B. Maloney, Vice Chair. Washington DC: US Senate.

Mallach, Alan. 2001. *Homeownership Education and Counseling: Issues in Research and Definition.* Federal Reserve Bank of Philadelphia.

MassHousing. Mortgage product. www.masshousing.com Last accessed August 15, 2008.

Mayer, Neil, and Kenneth Temkin. Forthcoming. "An Analysis of Successful CDFI Mortgage Lending Strategies in Six Cities." Washington DC: U.S. Department of Treasury.

MGIC 2008. Private mortgage insurance restrictions. http://www.cu.mgic.com/guides/restrictedmarkets.html.

Morgenson, Gretchen. 2007. "Foreclosure Hit a Snag for Lenders." *New York Times*, November 15, 2007. http://www.nytimes.com/2007/11/15/business/15lend.html?ei=5124&e, n=edfdca8937b762a2&ex=1352869200&adxnnl=1&partner=permalink&exprod=permalink&adxnnlx=1218651392-BcoKbxYadQZrPf+HyZYNBg

Mortgage Bankers Association. 2007. *National Delinquency Survey from the Mortgage Bankers Association Q42007*. Washington DC. June 5, 2008.

________. 2008. "Delinquencies and Foreclosure Increase in Latest MBA National Delinquency Survey." Press Release. Mortgage Bankers Association, March 6, 2008.http://www.mortgagebankers.org/NewsandMedia/PressCenter/62936.htm.

Mortgage News Daily. 2008. "OFHEO Lowers Capital Requirements for GSEs to Improve Market Liquidity." March 19. http://www.mortgagenewsdaily.com/print/?p=EJFL

NACA. Mortgage programs. "http://www.boston.com/bostonglobe/magazine/articles/2007/12/30/guarding_the_house?mode=PF.

Neighborhood Housing Services of America. Mortgage programs. http://www.nhsaonline.org/NHSA/NHSA_loan_products.html

New Hampshire Community Loan Fund. 2008. Manufactured Housing Park Program Cooperative Home Loan Program (CHLP). http://www.nhclf.org/programs/housing/mhpp/chlp.html

New York Federal Reserve. 2008. "Subprime Loans per 1000 Housing Units." New York Federal Reserve Board estimates based on First American LoanPerformance. http://www.newyorkfed.org/mortgagemaps/ Last accessed August 18, 2008.

Opportunity Mortgage Network. Mortgage Platform. http://www.opportunityfinance.net/financing/finance_main.aspx?id=52 Last accessed August 18.

Opportunities Federal Credit Union.2008 Impact Statement. http://www.oppsvt.org/PageContent.aspx?itemid=52,

Pittman, Cassi. 2008. *The Use of Social Capital in Borrower Decision-Making.* Joint Center for Housing Studies of Harvard University and Neighborworks America.

Quercia, Roberto G., Michael Stegman, and Walter R. Davis. 2004. "Assessing the Impact of North Carolina's Predatory Lending Law." *Housing Policy Debate* 15 (3): 573-600.

Restatement of the Law, Second, Torts § 821B. Cited in Engel (2005, 45).

Rubin, Julia, John Caskey, Carla Dickstein, and Sean Zeilenbach. Forthcoming. "Assessing the Impact of Community Development Loan Funds." Washington DC: Department of Treasury, Community Development Finance Institutions Fund.

Schloemer, Ellen, Keith Wei Li, Keith Ernst, and Kathleen Keest. 2006. *Losing Ground: Foreclosures in the Subprime Market and their Cost to Homeowners*. Center for Responsible Lending.

Schwarts, Nelson D., and Julie Creswell. 2008. "What Created This Monster?" *New York Times*, March 23, 2008.

Sloan, Steven. 2008. "Fed Survey Highlights Bank-GSE Disconnect." *American Banker*, August 12, 2008.

State Foreclosure Prevention Working Group. 2008. *Analysis of Subprime Mortgage Servicing Performance: Data Report No. 2.* Massachusetts Division of Bank , Massachusetts Attorney General.

Swidey, Neil. 2007. "Guarding the House." *Boston Globe*, December 30. http://www.boston.com/bostonglobe/magazine/articles/2007/12/30/guarding_the_house?mode=PF

Tedeschiny, Bob. 2008. "Shrinking Lines of Credit." *New York Times*, June 8, 2008.

Temple-West, Patrick. 2008. "Housing Bill Lifts Every State's PAB Cap." T*he Bond Buyer.* July 25, 2008. http://www.bondbuyer.com/article.html?id=20080724ZI76L6YW

Tetreault, Jana, and Ann Verrilli. 2008. *CHAPA Briefing Paper: Addressing the Foreclosure Crisis: State and Federal Initiatives in Massachusetts.* Citizens' Housing and Planning Association.

Tripoli, Steve and Elizabeth Renuart. 2005. *Dreams Foreclosed: The Rampant Theft of Americans' Homes Through Equity-Stripping Foreclosure 'Rescue' Scams.* National Consumer Law Center.

U.S. Department of Agriculture. Rural Development. Rural Housing Direct Program. http://www.rurdev.usda.gov/rhs/sfh/brief_rhdirect.htm

________Guarantee Program. http://www.rurdev.usda.gov/rhs/sfh/GSFH_Information/Common/quick_guide.htm Last accessed Agusut 18, 2008.

U.S. Department of Housing and Urban Development.2008. "HUD's Annual List of Subprime Lender and Manufactured Home Lenders." http://www.huduser.org/datasets/manu.html Last accessed August 18, 2008.

________American Dream Downpayment Initiative Program at HUD. http://www.hud.gov/offices/cpd/affordablehousing/programs/home/addi/ Last accessed August 18, 2008.

________ FHA Hope for Homeowners. FHA Hope for Homeowners. **http://www.hud.gov/fha/home080730.cfm**

_________ FHA Secure. FHA Secure. **http://www.hud.gov/news/fhasecure.cfm Last**

accessed July 30, 2008.

———.The HOME program at HUD. http://www.hud.gov/offices/cpd/affordablehousing/programs/home/contacts/ Last accessed August 18, 2008.

.

U.S. Department of Treasury, CDFI Fund. 2007. *Three Year Trend Analysis of Community Investment Impact System Institutional Level Report Data FY 2003-2005.* Prepared by Financial Strategies & Research Office of Program and Policy. December 2007.

Wolff, Sarah, and Janneke Ratcliffe. Forthcoming. "The Role of CDFIs in Home Ownership Finance." Washington DC: U.S. Department of Treasury.

Zandi, Mark. 2008. Chief Economist and Co-Founder, Moody's Economy.com, before the House Subcommittee on Commercial and Administrative Law Hearing on "The Growing Mortgage Foreclosure Crisis: Identifying Solutions and Dispelling Myths." January 29, 2008.

Appendix A: List of Interviews

Organizational Interviews

Connecticut

Housing Development Fund - CDFI
Joan Carty, President and CEO
Melvina Peters Homebuyer Education Coordinator

Neighborhood Housing Services of New Haven - NWO
James Paley, Executive Director
Bridgette Russell, Managing Director, Homeownership Center

Rhode Island

West Elmwood Housing Development Corporation
CDFI, NWO
Sharon Conard-Wells, Executive Director
Jared Rhodes, Agency Deputy Director

NeighborWorks Blackstone River Valley - NWO
Joe Garlick, Executive Director
Felicia Diaz, Homeownership Center Director

Massachusetts

Urban Edge – CDC, NWO
Mossik Hacobian, Executive Director
Bob Credle, Director of Community Support, Urban Edge

Nuestra Communidad Development Corporation - CDFI, NWO, CDC
Evelyn Friedman, Executive Director
Penelope Pelton, Director of Counseling
Lionel Romain, Director, Homeownership Center

Boston Community Capital - CDFI
Elyse Cherry, President
DeWitt Jones, Managed Assets President and
EVP, Sustainability Initiative
Richard Olsen, former President, Aura Mortage

Winthrop Federal Credit Union - CDFI
Joe Clark, President

Homeownership Center of Worcester- NWO
(in partnership with Oak Hill CDC – CDFI)
Fran Parquette, Director of the Homeownership Center of Worcester

John Weaver, Homeowner Counselor, Homeownership Center of Worcester

Lawrence Community Works - NWO, CDC
Kristen Harol, Consultant and member of founding staff
Juan Bonilla, Housing Counselor

New Hampshire

NeighborWorks Greater Manchester (NH) - NWO
Robert Tourigny, Executive Director
Kellie Ann Coffey, Homeownership Manager
Alaine Devine, Homeowner Lending Manager

New Hampshire Community Loan Fund - CDFI
Julianna Eades, President
Ulrike Graham, Program Manager, Cooperative Home Loan Program
Paul Bradley, Director, ROC USA

Maine
Coastal Enterprises, Inc. - CDFI, CDC
Ronald Phillips, President
Michael Finnegan, Senior Vice President and Senior Loan and Investment Officer
Jill Lorum, Housing Counselor

Community Concepts - CDFI, NWO
Ron Knott, Associate Director of Homeownership and Lending
Dennis Lajoie, Director of Homeownership and lending

MaineStream Finance - CDFI
Kevin Washburn, Executive Director

Vermont

Opportunities Credit Union - CDFI
Cheryl Fatnassi, Chief Operating Officer
Stephanie Struble, Credit Counselor

Vermont Community Loan Fund - CDFI
Will Belongia, Director of Finance

Stakeholder Interviews

Anthony Armstrong, President, Maine Home Mortgage
Jonathan Baird, Policy Director, New Hampshire Legal Assistance
Erin Boggs, Project Director, Connecticut Fair Housing Center
Jeff Burnham, Community Development Manager, TD BankNorth, Portland, Maine

Prabal Chakrabarti, Deputy Director, Community Affairs Department, Federal Reserve Bank of Boston
Linda Conti, Assistant Attorney General, State of Maine
Debbie Goldstein, Executive Vice President Center for Responsible Lending
Aaron Gornstein, Executive Director, CHAPA
LaRayne Hebert, New England District Director, NWA
Coleen Hernandez, President and Executive Director, Home Ownership Preservation Foundation
Gerard Little, President, New Hampshire Bankers Association
Will Lund, Superintendent, Bureau of Consumer Credit Regulation, State of Maine
George McCarthy, Senior Program Officer, Development Finance and Economic Security, Ford Foundation
Ray Neirinckx, Housing Resources Coordinator, Office of Homeownership, Office of Community Development & Technical Assistance, RI Housing Resources Commission
Sharon Probst, Assistant Vice-President, Community Development Officer, TD Bank North, Maine
Chet Randall, Staff Attorney, Pine Tree Legal Assistance, Maine
Ira Rheingold, Executive Director, National Association of Consumer Advocates
Josh Silver, Vice-President of Research and Policy, NCRC
Margot Saunders, Of Counsel, National Consumer Law Center
Jeanne Tracey, Director, Community Housing Land Trust of RI

Flexible Mortgage Product Interviews

FHA Secure
Jim Beavers, Deputy Director
Mike Levine, Deputy Director, Philadelphia Homeownership Center, HUD

RD
Celine Skinner, Area Specialist, Single Family Housing
Veronica Iannetta, Area Specialist, Guaranteed Single Family Housing

MassHousing
Peter Milewski, Director of Mortgage Insurance Fund

CHFA
Carol DeRosa, Administrator, Residential Mortgage Programs, Community and Program Development & Marketing, Connecticut Housing Finance Agency

RHI
Cathleen Panniccia, Director of Homeownership and Administration
Elaine Hebert Assistant Director of Homeownership (HelpCenter activities)
Annette Bourne, Assistant Director of Policy.

NHHFA

Liz Lemiux, New Hampshire Housing Finance Agency

MSHA
Adam Krea, Deputy Director

VHFA
John Fairbanks, Vermont Housing Finance Agency

NHSA and Just Price Solutions
Ernest Baskette, Sr. VP for Business Development, Neighborhood Housing Services of America
John Brunson, Chief Operations Officer, Just Price Solutions, Division of Neighborhood Housing Services America (NHSA)
Brian Cosgrove, President, Just Price Solutions

NACA
Bruce Marks, Chief Executive Officer

OMN
Tanya McInness, Vice President, Financial Services, Opportunity Mortgage Network

Appendix B: Interview Guides

The following interview guides are for the President/Executive Director, Finance Director, and Counseling Director of sample CDFI organizations and for key contacts providing flexible mortgage products. We did not prepare a specific guide for other stakeholder interviews, since the purpose of each interview varied according to the subject matter.

Interview Guide for President/Executive Director

I. BACKGROUND QUESTIONS

1. How long have you worked at ______ and in what capacities?

2. What are the issues you are dealing with in your community on home ownership?

3. What is the nature of foreclosures in your community/state?

Probes:

- Delinquency and foreclosure rates now and projected
- Populations and places with biggest impact
- Major causes

Is there research/information on your community/state that documents foreclosures and their impact? (Skip question if we have information.)

4. What is the nature of predatory lending in your community/state?

Probes:

- Describe scope, types of practices, targeted populations
- Is there research/information on your community/state that documents predatory lending practices? (skip question if we have information)

For MA, RI, how has your anti-predatory lending law affected predatory lending practices? (NOTE: *We are asking this question for another view point even if we have other documentation.*)

- Is there research/information that documents the impact of the law? (Skip question if we have information.)

5. How has your organization approached these issues?

Probes:

- What are you doing, when did you begin to address them and why?

- How do your products or services address foreclosures or predatory lending?

- How does what you're doing now differs from what you were doing (e.g., homeownership counseling) two years ago?

Additional Probes:
1. If ___ primarily provides gap financing, how does that affect your ability to respond to subprime lending and foreclosures?

2. Does ___ think that a response to subprime means reaching out to more moderate income (or higher income) clients? If so, have you done anything along these lines? For purchase? For refis?

3. Are you able to use any of your competitive advantages as a community based organization to grow the mortgage lending business? If so, how? If not, why not/

4. Have you found that absent subsidies, you can't compete? Have you found a lack of scale a problem in not being able to compete?

II. QUESTIONS ON FINANCIAL PRODUCTS AND SERVICES

What financial products and services do you offer to address predatory lending and foreclosures?

Mortgage products (purchase, refi, second, soft second)
HELOCs (Home Equity Lines of Credit)

- Correspondent Lender
- Secondary market lender
- Loan servicing (for your products, other lenders)?
- Other

Which products do you offer directly?

Which products do you package for other lenders?
(e.g., Fannie Mae, Freddie Mac, NHS)

Who is the target market for these products?

2. **What are the sources of capital and subsidies for these products and services?**

3. **What is the competition for your products and services?**

4. **Are you partnering with other organizations to provide products or services? Please describe.**

5. **What capacity and expertise are needed for ____to do this work?**

   Is your expertise through in-house staff or consultants?

   Do you have sufficient capacity to meet the demand for products and services?

6. **How have these services and activities changed over time?**

   How was the decision made to offer or expand these services/activities?

7. **Does your organization have a code of ethics and system of controls to make sure that the organization operates in the consumer's best interest, and guards against conflicts of interest?** Please describe.

What are they? Have conflicts occurred?

7. **Who would be the best person in your organization to provide more details on your financial products and services? (*NOTE: Ask this question if it is not covered in initial e-mail or phone call.)***

Is it possible to get your most recent data on the scope and performance of your programs/activities?

- # and $ of loans, delinquencies, foreclosures (current, projected), profit/spread, borrower characteristics

Probes:

1. If the organization primarily provides gap financing, how does that affect their ability to respond to subprime lending and foreclosures?

2. Do these orgs think that a response to subprime means reaching out to more moderate income (or higher income) clients? If so, have they done anything along these lines? For purchase? For refis?

3. Are they able to use any of their competitive advantages to grow the mortgage lending business? If so, how? If not, why not/

4. Have they found that absent subsidies, they can't compete? Have they found a lack of scale a problem in not being able to compete?

III. OTHER PRODUCTS AND SERVICES TO ADDRESS PREDATORY LENDING AND FORECLOSURES

1. **What other products and services do you offer? Who is the target market?**

- Homeownership education and counseling

- Foreclosure counseling

- Loss mitigation

- Public education – media, public service announcements, research
- Legal assistance or referral
- Research
- Advocacy for public policy changes in laws, regulations- (state, federal)
- Land banking
- Rental assistance
- Any others that address predatory lending and foreclosures

2. What are your funding sources (types of funders) for these services/activities?

3. What is your competition?

4. What capacity and expertise are needed to do this work?

Is your expertise through in-house staff or consultants?

Do you have sufficient capacity to meet the demand for these services and activities?

5. Are you partnering with other organizations to provide products or services? Please describe.

6. How have these services and activities changed over time?

How was the decision made to offer or expand these services/activities?

7. Who would be the best person in your organization to provide more details on your counseling and foreclosure and delinquency programs?

Is it possible to get your most recent data on the scope and performance of your programs/activities?

- Education/counseling volume and documented outcomes

- Other activities and outcomes

IV. OPPORTUNITIES AND CHALLENGES TO PROVIDE AND/OR EXPAND SERVICES

1. What opportunities and challenges do you face in providing or expanding these products or activities?

Probes:

- Staff resources - does demand exceeds staff capacity?
- Subsidies
- Expertise
- Conflicts of interest in policy work among board, staff, financial industry stakeholders ability to have an impact on the problem.

Additional Probes:

2. Are you considering playing other roles in addressing foreclosures and/or predatory lending? If so, what are they?

Probes:
- What are the critical issues you face in undertaking these additional roles?
- How are you positioning any additional role with what is already happening in your state?

3. Are there other state, national or local partners that you have worked with on the predatory and foreclosure issues? Who are they? In what capacity?

If relevant, ask: Could you give us their names and contact information?

V. OTHER THOUGHTS/COMMENTS

1. Do you have any other thoughts about the trends you are seeing in your community/state about foreclosures and predatory lending, and the role of CDFI/nonprofits to address them?

Probe:

- Do CDFIs have a special role to play that is different from the role of other nonprofit housing organizations?
- If organization is not a CDFI, why not?

2. Do you have thoughts on the best way to share and use the research from this project in New England?

Interview Guide for Finance Director

I. BACKGROUND QUESTIONS

1. How long have you worked at ______ and in what capacities?

2. What are the issues you are dealing with in your community on home ownership?

Is there research/information on your community/state that documents predatory lending practices? (skip question if we have information)

For MA, RI, how has your anti-predatory lending law affected predatory lending practices? (NOTE: *We are asking this question for another view point even if we have other documentation*.)

Is there research/information that documents the impact of the law? (skip question if we have information.)

3. What is the nature of foreclosures in your community/state?

Probes:
- Delinquency and foreclosure rates now and projected
- Populations and places with biggest impact
- Major causes

Is there research/information on your community/state that documents foreclosures and their impact? (skip question if we have information.)

4. How has your organization approached these issues?

Probes: What are you doing, when did you begin to address them and why?

Additional probes:

1. If ___ primarily provides gap financing, how does that affect your ability to respond to subprime lending and foreclosures?

2. Does ___ think that a response to subprime means reaching out to more moderate income (or higher income) clients? If so, have you done anything along these lines? For purchase? For refis?

3. Are you able to use any of your competitive advantages as a community based organization to grow the mortgage lending business? If so, how? If not, why not/

4. Have you found that absent subsidies, you can't compete? Have you found a lack of scale a problem in not being able to compete?

II. FINANCIAL PRODUCTS/SERVICES TO PREVENT PREDATORY LENDING AND ADDRESS MORTGAGE FORECLOSURES

1. **What financial products and services do you offer as an alternative to predatory lenders or to address the mortgage foreclosure crisis?**

- Mortgage products (purchase, refi, second, soft second, fixed, variable)
- Do you have a written description and a loan matrix available for each of your loan products? (if we do not already have them.)
- Correspondence Loans
  - Do you act as a correspondent lender? (close and fund loans in your name for other lenders or mortgage brokers)
  - Do you purchase loans from other originators?
  - What are the qualifications for becoming an approved originator?
  - Have you made significant changes to your qualification process?
  - Have you made significant changes to your underwriting of these loans?
- Brokered Loans:
  - Do you act as a Mortgage broker (purchase, refi) without closing or funding loan in your own name?
  - Whose products do you package/offer? (e.g., Fannie Mae, Freddie Mac, NHS, Banks, FHA)
  - What % of total loans does each product make up?
  - Have you seen significant adjustments in % over the last 24 months?, Explain.
- Other financial products (i.e. HELOCs)
- Which products do you retain in your own portfolio of loans?)
  - Do you also service these loans?
  - What is the % of loans retained? What is the % of loans serviced?
  - Are escrows for taxes, insurance, pmi and flood insurance required?

- Which products do you package for other lenders/funders?
  - Who are your lending partners for your products? (Fannie Mae, Freddie Mac, NHS, FHA, Banks, etc?)
  - Do you sell the servicing of these loans as well?
  - Do you keep in touch with borrowers on loans that someone else services? How?

- What % of loans do you sell? What % of sold loans do you service?
  - If you sell loans, do you sell them servicing releases?

  - Do you have an agreement with the buyer to contact you if the borrower is having trouble making payments?

- Are escrows for taxes, insurance, PMI and flood insurance required? Who is your target market for your loan products? (e.g., geography, population, distressed borrower)

- How long have you provided the product or service?

- What are your goals for each product or service for this fiscal year?

3. **How do you capitalize these products?**

What size loan pools do you have or can access? What are the sources?

4. **What subsidies are required for the various products? What is the source of the subsidy?**

5. **What are your underwriting standards for products that you provide directly? For products that you package for other lenders?** (e.g., suitability of loan, loan to value ratios, debt to income ratios, role of credit scores, and how credit is evaluated a), inclusion of taxes and insurance)

Do you have a maximum DTI?

6. **Do you require your borrowers to participate in housing counseling?**
   If so, please describe. (Probe: front end before origination, back end)

   If not, why not? (Probe: does someone else counsel your borrowers?)

7. **Is it possible to get your most recent data on the scope and performance of your programs/services?**

- # and $ of mortgages brokered, originated, serviced, delinquencies, foreclosures (current, projected), profit/spread
- Borrower characteristics- age, gender, income, ethnicity, credit score
- Loan characteristics- LTV, fixed, variable, term

8. What is the competition for your products and services?

9. What capacity and expertise are needed for ____to do this work?

- Is your expertise through in-house staff, consultants, or partnerships with other organizations?

- Does your state have educational requirements for your loan officers?

- Do you have sufficient capacity to meet the demand for your products and services?

10. Does your organization have a code of ethics and system of controls to make sure that the organization operates in the consumer's best interest, and guards against conflicts of interest? Please describe.

- What are they? Have conflicts occurred?

11. What challenges and opportunities do you face in providing or expanding these products or activities?

Probes:
- Staff resources- does demand exceed staff capacity?
- Subsidies for loan products
- Expertise

12. Are you currently considering offering new financial products or services? If so, what are they?

- What are the critical issues you face in offering these products or services?

- Are there specific studies or data sources that you are using to inform your decisions?

13. Do you work with other state, national or local partners on predatory lending and foreclosure issues? Who are they? In what capacity?

If relevant, ask: Could you give us their names and contact information?

III. OTHER THOUGHTS/COMMENTS

1. Do you have any other thoughts about the trends you are seeing in your community/state about predatory lending and foreclosures, and the role of CDFIs/nonprofits to address them?

Probe: Do CDFIs have a special role to play that is different from the role of other nonprofit housing organizations?

If ___ is not CDFI, why has it not become one?

2. Do you have thoughts on the best way to share and use the research from this project in New England?

Interview Guide for Housing Counselors/Homeownership Education Program

I. BACKGROUND QUESTIONS

1. How long have you worked at ______ and in what capacities?

2. What kind of housing education and counseling services do you provide?

- Home buyer education and counseling
- Predatory lending education (as part of HB ed or in separate program)
- Post-purchase education
- Post-purchase counseling
- Foreclosure and delinquency counseling (please describe)
- Other

How long has ___ provided each of these services?

II. COUNSELING PROGRAMS

Homebuyer Education and Counseling

1. Do you typically offer homebuyer education and/or counseling services? Please describe. I don't know how much detail you want to get on these programs, but there are a lot of additional details that would be useful for characterizing their approach. These include:

- **Whether clients typically receive group sessions, one on one counseling or both (and in what order). How much time is devoted to each type.**
- **Do they vary the type of services based on the clients specific needs?**
- **Whether other professionals are involved in the sessions (lenders, realtors, government reps for financial assistance programs, etc.)**

- **Is there a standard curriculum.**
- **What share of clients are receiving counseling to qualify for specific loan programs or downpayment assistance versus how many enter the program as part of the start of their efforts to become an owner.**
- **Do they offer financial education? Is that part of homebuyer program or separate?**

How many people are employed in the homebuyer program? Please describe the different roles, including how many provide counseling, education or other services.

What experience and training do these individuals have?

Is there high staff turnover?

Do you provide training for new staff? If so, please describe.

Who is the target market for these services?

Is there any link to loan products either from your own organization or your partners' organizations?

Are you a HUD-certified counseling agency? Do you have any other certifications (e.g., bankruptcy credit counseling)?

Do you have the capacity to meet the demand for services?

2. What marketing and outreach do you do to recruit participants?

3. Do you do any follow-up with participants in the counseling? Please describe.

Probe: Do you have some system for finding out about, and working with, borrowers you counseled? For your own loans? For loans others make? For loans you made and sold?

4. Do you measure outcomes in your counseling programs?

Yes ☐ No ☐ If so, please describe:

Probes:
- Method of data collection
- Follow-up period
- What is your success rate for counseling?

Delinquency and Foreclosure Counseling Services

1. **How many people are employed in the delinquency and foreclosure prevention counseling?**
   By foreclosure programs I also include foreclosure prevention programs. Can you also provide details on training and experience of staff providing delinquency and foreclosure prevention counseling?

2. **Who are your delinquency and foreclosure services provided to?** i.e. only to your portfolio products? All individuals with a mortgage in your service area?

3. **What kind of marketing and outreach do you do for your program?**

4. **Why did you get into providing delinquency and foreclosure prevention counseling?**

Probe:
- What is the local housing market like?
- Increase in clients with delinquencies and foreclosures?
- Falling housing prices?

We are now going to talk about your delinquency and foreclosure program in more detail.

5. Do you offer post-purchase education and/or counseling (counseling after the purchase of a house) which would include foreclosure prevention counseling, or other similar forms of counseling?

Education Classes: Yes ☐ No ☐ If yes, please answer the following questions:

Counseling: Yes ☐ No ☐ If yes, please answer the following questions:

Which of the following do you use for counseling? (Check all that apply, indicating primary method, if there is one)

Meet face to face	Yes ☐	No ☐
E-mail	Yes ☐	No ☐
Telephone	Yes ☐	No ☐
Web chat	Yes ☐	No ☐

Other: Please specify: ________________

Please describe the counseling process in more detail.
Is post-purchase counseling required as a condition of participating in your other homebuyer programs (e.g., downpayment assistance or lending)?

If you provide post purchase education, please describe.

Probing questions for classes:

- What is the format for these classes?
- Are there any links with banks or refinancing organizations?
- What material do you cover in the class? Can we look at this material?
- Where do you offer classes?
- What is the typical attendance?
- How many clients have gone through classes in the last year?
- How do you advertise these classes?
- What service area do you cover with these classes? Can anyone attend? Or are there eligibility requirements?
- Do you have sufficient capacity to meet the demand for services?

6. Does ___ or any other agency attempt to identify homeowners who are at risk of foreclosure in order to offer services at an early stage? Please describe.

Probes: Use public data bases, such as mortgage transaction records, real estate tax delinquencies, media outreach

7. What type of problems does your foreclosure and delinquency counseling program help people with?

For each of the problems identified, please describe the different strategies you (and your counselors) use when addressing these problems.

Problem 1:____

Problem 2:____

Problem 3:____

Problem 4:____

Problem 5:____

8. What are client circumstances that are most difficult to help resolve? What are the easiest?

Are there strategies you (and your counselors) could use to address these problems? What are they? What would it require to implement them?

Problem 1:____

Problem 2:____

Problem 3:____

Problem 4:____

Problem 5:____

*Building on the problems mentioned above, note whether the following strategies are used, and then probe with appropriate questions:

9. Do you help with work-outs?

Yes ☐ No ☐ If yes, please expand on the strategies that you use?

Probing questions here to include:

- Do you have direct contacts with servicers and/or loan companies? Which ones?

- What type of response from the servicing companies? i.e. do they help out?

- What are the characteristics of people who get workouts?
- What companies do you have most success with?
- What reasons do companies give for refusing a workout? What reasons do they give for doing a workout?
- Are there specific things that give you more or less leverage?
- What servicing companies do you most deal with?
- Have your state regulators assisted you in workouts? How?
- Have you worked with your state housing finance agency on workouts?
- What is your rate of success in managing loan work-outs?

10. Do you help clients with budgeting?

Yes ☐ No ☐ If yes, please expand on the strategies that you use?

If not covered,
a. What do you include in the budget?

b. Do you include debt and assets in looking at a family's financial situation?

c. Do you look at debt to income ratios?

11. Do you provide any kind of financial assistance?

Yes ☐ No ☐ If yes, please expand on the strategies that you use?

Probes:

- Do you provide financial help in the form of grants/loans? If so, which?
- What is the source of this funding?
- If you provide financial help, what are the details of your help?

- Amounts available per client?

- Eligibility requirements? Do these leave out a large number of clients?
  Terms and conditions?
  Limits on how many clients can be helped?

12. Do you ever refer clients to other agencies?

Yes ☐ No ☐ If yes, please expand:

Probing Questions:
- Do you ever refer counseling clients to other agencies? If so, which ones?
  - Do you provide the name and address of the agency to the client for them to make the contact? Or do you yourself make the contact with the agency?
  - What information do you share with the agency that you make referrals to?
  - Do other agencies refer clients to you? If so, which ones?

- Do you tap into any national or state networks for referrals of clients? E.g. 411, 211, NeighborWorks?

- Are you part of any state, regional or local coalitions or collaboratives?

- Do you ever refer people to legal service organizations? If so, for what kind of issues?

13. Do you either refinance loans or refer people them to someone who can refinance a mortgage?

Yes ☐ No ☐ If so, please expand:

Probe with the following questions:
- Do you offer refinance loans or is it through a partner?
- Eligibility criteria? Do they exclude a lot of clients? Are their limits in how many people can be assisted?

- What type of refinance loans do you or partner offer? i.e. what are the terms?
- What is the process for underwriting a loan?
- At what point would you choose to use a refinance loan for a client?
- How many clients have you had use a refinance loan?
- Can you describe a typical process for a counseling client in working on a refinance loan?
- What is the typical amount of time between application and approval?
- Do you link the refinance loan and the counseling in marketing materials?
- What are the challenges and opportunities in working with this product?

14. Do you follow up with clients?

Do you have any method of following up with clients after a counseling session?
Yes ☐ No ☐ If so, what are these methods?

15. Do you measure outcomes in your counseling programs?

Yes ☐ No ☐ If so, please describe:

Probing questions:
- Method of data collection
- Follow-up period
- What is your success rate for counseling?

To finish up, I'd like to talk to you about the future of the program.

16. What challenges do you see in preventing and addressing foreclosures and predatory lending in your community?

17. What opportunities do you see for helping to develop approaches for preventing and addressing foreclosures and predatory lending in your community?

III. OTHER COMMENTS

1. Is there anything else that you would like to add that we have not covered so far, and that you think would be important for me to know?

Interview Guide for Providers of Flexible Mortgage Products

I. OVERVIEW

What financial products do you provide to address mortgage foreclosures and predatory lending?

- What was the motivation of ___ to provide this product?
- What were the constraints for designing the product(s)?
- What is the market segment each product targets? (e.g., geography, population, type of distressed borrower)
- How long have you provided each product?
- What are the goals for the products this fiscal year?

DESCRIPTION OF EACH PRODUCT

1. Could you provide more in-depth description of the product(s) that you provide?

- Mortgage products (purchase, refi, second, soft second, fixed, variable)
- What is maximum term?
- What are the underwriting standards?
    - suitability of loan - is there an ethic, requirement?
  - What is the maximum loan to value?
  - Will this loan to value be sufficient to refinance their home and cover any closing costs, because the chance they have cash to refinance is slim? 100% loan to value is good with extra for closing costs is very helpful.
  - Is there a minimum borrower contribution?
  - debt to income ratios (is there a max. DTI?)
  - credit scores, and how credit is evaluated

    What is the minimum credit score?

    Will you make concessions for recent mortgage delinquency, if the borrower can show that before rate change they were current?

Do you allow for alternative credit history?

- Do you require escrowing taxes and insurance?
- Have you made significant changes to your underwriting of these loans?
- Do you have a written description and a loan matrix available for each of your loan products? (if we do not already have them.)
- Do you require credit counseling?
- Are there any special requirements to be approved to originate these loans?
- Are there maximum yield spreads to brokers?

Should be about 2% over Fannie or Freddie rate.

2. What role do you play?

- Insurer
- Lender

What % of loans do you sell? To whom?
If you sell loans, what % of sold loans do you service?
Where are they sold?

Do you sell them servicing releases?
- Do you have an agreement with the buyer to contact you if the borrower is having trouble making payments?

- Do you retain products in your own portfolio of loans?
  - Do you also service these loans?
  - What is the % of loans retained? What is the % of loans serviced?
  - Are escrows for taxes, insurance, pmi and flood insurance required?
  - Do you sell the servicing of these loans as well?
  - Do you keep in touch with borrowers on loans that someone else services? How?

- Are you a secondary market lender?
  - Do you purchase loans from other originators?
  - What are the qualifications for becoming an approved originator?
  - Have you made significant changes to your qualification process?

- Do you sell the loans? Where?

3. How do you capitalize these products?

What are the sources?

4. Are subsidies required for the various products? If so, what is the source of the subsidy?

5. Do these products require that borrowers participate in housing counseling?
If so, please describe. (Probe: front end before origination, back end)

If not, why not? (Probe: does someone else counsel your borrowers?)

6. Is it possible to get your most recent data on the scope and performance of your programs/services?

- # and $ of mortgages brokered, originated, serviced, delinquencies, foreclosures (current, projected), profit/spread
- Borrower characteristics- age, gender, income, ethnicity, credit score
- Loan characteristics- LTV, fixed, variable, term

7. What is the competition for your products?

8. What challenges and opportunities do you face in providing or expanding these products?

- What are the difficulties of using the product?
- What are your predictions of continued availability of the product?

9. Are you currently considering offering new financial products? If so, what are they?

- What are the critical issues you face in offering these products?
- Are there specific studies or data sources that you are using to inform your decisions?

V. OTHER THOUGHTS/COMMENTS

1. Do you have any other thoughts about the trends you are seeing about predatory lending and foreclosures?

2. Do you have any thoughts about what role if any CDFIs can play to address them?

Appendix C: Flexible Loan Products Available in New England

A number of mortgage products are available in New England that provide some flexibility in underwriting depending on the level of subsidy available. We were particularly interested in products that could refinance homeowners at risk of foreclosure. We reviewed purchase and refinance products that are available from the federal government (through guarantees and directly), GSEs, HFAs, and nonprofit organizations (see table C.1). Of the nine agencies and organizations that we reviewed, seven offered their own products and two nonprofits accessed products from other direct lenders. Already a number of these products have been redesigned or are being reevaluated in order to foreclosure more effectively serve homeowners facing foreclosure.

Federal Government Products

FHA Secure

At the federal level the key product designed to refinance distressed loans is FHA Secure.[69] FHA Secure insures a first-mortgage product that is sold to Ginnie Mae. The program does not have income limits, and underwriting is somewhat flexible. The program is available only to borrowers who are in non-FHA loans. Under present guidelines for refinance under FHA Secure, if the homeowner is delinquent on the mortgage, the delinquency must be due to the interest rate reset or extenuating circumstances. In addition, the borrower must show timely payments for the six months preceding the rate reset. In July 2008 the Mortgage Insurance Premium (MIP) platform under FHA Secure was amended to a risk-based model requiring higher up-front and monthly Mortgage Insurance Premiums (MIP) from borrowers with a history of delinquent mortgage payment.

FHA Secure allows unlimited subordinate financing by an outside lender. Subordinate loans combined with the new first mortgage may exceed FHA loan limits**.** Despite this flexibility, in a declining market when the homeowner's outstanding mortgage debt exceeds the home value, the existing mortgagee must agree to reduce, or write down their outstanding obligation to a level that allows the homeowner to qualify in adherence with FHA guidelines. Qualifying guidelines suggest maximum housing expenses of not more than 31 percent housing Debt-To-Income (DTI) ratio of the borrower's gross monthly income, and total housing and debt expense of not more than 43 percent DTI ratio.

FHA Secure has not had wide use in New England. In the Boston area in particular, the housing values initially exceeded the maximum amount the FHA could insure. That limit has been raised to $523,750 through at least the end of 2008 so the product can serve more people in larger loans. The Federal Reserve Bank of Boston had hoped to expand the use of FHA Secure in New England through the Mortgage Relief initiative, which it launched in December 2007 with five New England banks. As of June 2008, 50 banks were participating. The initiative's original

[69] A program of the US Department of Housing and Urban Development

plan was to target borrowers with high-rate, subprime mortgages who might be eligible for more-affordable fixed-rate mortgages. However, refinancing borrowers has been much more difficult than initially expected because of falling home prices (Federal Reserve Bank of Boston 2008b).

Hope for Homeowners

The Hope for Homeowners program is part of the HERA enacted in July of 2008. The program will insure up to $300 billion of delinquent mortgages. As of this writing, FHA has not issued guidelines for the program. The program summary below is based on the HERA (2008) legislation.

FHA will insure a delinquent mortgage balance that is refinanced into a fixed-rate mortgage amortized over 30-years. The existing mortgagee(s) must agree to voluntarily write down the balance to the lesser of an affordable new mortgage or not more than 90 percent of a current market appraisal. No subordinate refinance liens are permitted, and second liens must be released. Pre-payment penalties and fees related to default must be waived. HUD shall establish policies that will allow payment of the forgiven principal and accrued interest to existing and junior lien holders under a shared appreciation agreement. In order to qualify for a refinance, homeowners must certify they have not intentionally defaulted on the existing mortgage; they must have a Housing DTI ratio of not less than 31 percent on the existing housing expense as of March 1, 2008; and their income must be verified, including their two most recent federal tax returns or transcripts.

Rural Development (RD)

RD[70] also has a Direct refinance product, but it is limited to low-income homeowners in rural areas[71] who are under the threat of foreclosure. The Guaranteed program has more-generous income parameters but is also restricted to rural areas. It is not used widely because of eligibility restrictions. In Maine housing counselors report some success in helping borrowers qualify for RD refinances.

GSE Products

As purchasers of conforming residential home loans, GSEs create products that set the market standard. Each lender may have a negotiated seller/servicer commitment, with the respective GSEs permitting some flexibility in underwriting guidelines and loan parameters. We looked at two products from Fannie Mae: My Community Mortgage and Fannie Mae Flex, and two products from Freddie Mac: Home Possible and Home Possible Neighborhood Solutions. These products have limited flexibility to serve distressed borrowers. These refinance products are most appropriate for borrowers with relatively good credit who were steered into subprime ARMs.

FNMA has launched two new initiatives to assist borrowers who are underwater or delinquent. However, eligibility is limited to mortgages that Fannie Mae already holds in its portfolio. Beginning August 1, 2008, the FNMA Keys to Recovery initiative provides for refinancing "underwater" borrowers under a streamlined refinance product up to 120 percent of the current appraised value. Borrowers must be current on their mortgage and move from an adjustable rate to a fixed-rate product or to an adjustable-rate product that has a longer fixed-rate period. Underwriting guidelines specific to this product have not been published. FNMA is also offering the HomeSaver Advance product to catch a borrower up on delinquent mortgage payments, escrowed insurance and taxes, as well as other fees such as home owner association dues and fees. It is an unsecured note of up to $15,000 or 15 percent of the original mortgage; it is used to pay delinquent mortgages. Repayment terms: 5 percent interest amortized over 14.5 yrs; 6 months no interest no payment; $600 workout fee.

State Housing Finance Agencies

MassHousing

Under its HomeSaver program, MassHousing targets homeowners struggling to stay in their homes. Homeowners may be up to two months delinquent and have credit scores as low as 560. This product does not provide for subordinate financing. LTV may be as high as 105 percent. In addition, Mass Housing offers two conventional refinance products: one is funded by MassHousing and the other offered through FNMA. Under the MassHousing product, rather than proving unfair lending practices, homeowners now must show that straightforward underwriting would not have warranted approval of their existing loan. For a single-family home the LTV can go up to 100 percent fair market value, even when there is a cash-out refinance or second

[70] A program of US Department of Agriculture
[71] Rural is defined by USDA and often includes suburban areas.

mortgage, as long as cash is used for home improvements, for medical or education expenses, or to pay off a higher rate debt. However, this requires a credit score of 720 lenders can initiate the application prior to the borrower completing counseling, though the borrower must still participate in counseling before the loan closes. This allows for earlier qualification.

Mass Housing is now focusing on reuse of foreclosed properties. It is reaching out aggressively to create well-educated, qualified first-time homebuyers ready to buy REO properties. Short sales are needed to help effect an orderly transition and minimize the vacancy problem. It is also prepared to use its existing purchase program for this goal, working with cities and towns and state and local board of realtors.

Connecticut Housing Finance Agency (CHFA)

CHFA developed a refinance program, CT FAMLIES (Fair Alternative Mortgage Lending Initiative and Education Services), which it rolled out in December 2007. CHFA initially restricted this program to first-time homebuyers. These borrowers represented both the low- and moderate-income population served by CHFA, and approximately 3,000 of the state's subprime borrowers. By February 2008 it had removed the restriction. Its program is funded by $40 million of recycled bonds sold in the 1980s. These bonds have few restrictions on reinvestment, and enable CHFA more flexibility in financing the product. Loans are originated by one of seven approved lenders, and CHFA is working to expand that number. The agency expects to help 300 to 400 low- and moderate-income families refinance out of subprime mortgages by the end of 2008. A delinquent borrower is eligible even if the mortgage has not reset depending on the circumstances. The CLTV can go up to 102 percent with a CT Families second mortgage, but there is no maximum with an outside second mortgage. The lenders underwrite using complex manual underwriting to provide flexibility. FHA insures these loans. Originating banks or CHFA-approved servicers retain servicing of the loans, which provides borrowers with consistent access to the servicer. As of March 2008, CHFA had closed three loans and had reservations for 33, for a total of $5.5 million.

CHFA has also allocated over a million dollars to build counseling capacity in the state to handle loss mitigation. An individual or group counseling session is required either with a HUD counseling agency or an agency in the HOPE hotline network, initially or within six months of closing.

Rhode Island Housing (RIH)

RIH's refinance product, the Home Saver program, was rolled out in November 2007. The program is designed to help people looking for safe alternatives to adjustable or high-rate mortgages before they are in foreclosure. Anyone seeking financing is required to attend a face-to-face counseling session. The program will refinance borrowers who are up to two months delinquent. Currently it allows up to 110 percent CLTV, 100 percent on a first mortgage, and up to 10 percent on a second. It has signed a risk-share agreement with MGIC (Mortgage Guaranty Insurance Corp.). As a result, RIH is able to offer more-flexible underwriting criteria. The Home Saver Program is targeted to people in a high-rate mortgage or one that will adjust; it is not a rescue program for people in foreclosure.

RIH is both an investor and a lender. It originates retail loans and purchases loans from 36 participating lenders. RIH is presently funding this program with approximately $75 million of taxable bonds. Its intent is to sell these loans, at some point, to Fannie Mae or Freddie Mac under a negotiated commitment. The products are not currently saleable (currently, the GSEs will no longer purchase loans with a CLTV of more than 100 percent). RIH plans to hold the loans in its portfolio until they season with the hope of negotiating future sales to the secondary market. Since November 2007, RIH has financed seven loans totaling $1.4 million and has 25 in its pipeline, representing an additional $5.2 million.

Northern New England Housing Finance Agencies

New Hampshire Housing Finance Agency planned to make a refinance product available once federal legislation passed to enable it to use tax-exempt bonds for a refinance product.[72] Maine and Vermont currently have no plans to put out a refinance product. At one point Maine State Housing Authority (MSHA) considered a product that would take slightly more risk than a bank but would not require subsidy. Its mortgage insurance limited what products it could offer. Ultimately it decided it could not offer homeowners at risk of foreclosure a product that would do much more than what a bank could offer. Furthermore, the state, which was facing almost a $200 million budget deficit, did not want to subsidize a rescue product. Vermont, with one of the lowest foreclosure rates in the country, is not feeling the urgency to launch a refinance product.

Nonprofit Mortgage Providers' Products and Services

Neighborhood Housing Services of America (NHSA)

NHSA maintains a secondary market for NWOs and other approved nonprofit lenders outside the NeighborWorks system who have a warehouse line of credit or equity funds of their own to close and fund loans as the lender of record, prior to the sale to NHSA. These lenders tend to focus on community development lending, and often operate as CDCs. As a mortgage aggregator, NHSA provides access to the capital markets for nonprofits that are too small to become direct counterparties to Fannie Mae, Freddie Mac, and other investors outside their local markets. Because NHSA uses a variety of capital sources (e.g., social investors, Fannie Mae and the commercial capital markets) to enable it to purchase first and second mortgages, the price at which it buys these loans can vary daily, from below-market to a premium above-market rate.

NHSA's originating lenders use NHSA's unique automated alternative underwriting technology and loan programs, which enable lenders to serve individuals previously classified as non-bankable.[73] NSHA and its technology affiliate Just Price Solutions offer two basic unrestricted

---

[72] This legislation has passed as part of HERA (2008). It raises every state's private-activity bond cap by 38.6 percent through the end of the calendar year. It also permits existing homeowners who are underwater to refinance into long-term affordable loans (Temple-West 2008).

[73] In 2003 NHSA developed an automated underwriting system known as "Best Fit" to qualify its target borrowers so it could compete better in the subprime market. It is similar to Fannie Mae's Desk top Underwriting system or Freddie Mac's Loan Prospector. However, it offers details of what needs to occur in order for the borrower to be approved. The software can identify local and national grants, gifts, or subsidies that may assist borrowers with closing costs, downpayments, or soft second mortgages. Best Fit allows NHSA originating lenders to do deals for borrowers without a credit score or with a "thin file" with a small amount of credit information.

"families" of products, Emerging Markets for borrowers with thin or no credit files and My Community Mortgage for borrowers with full credit files. Both products are eligible for sale to Fannie Mae and both are available for purchase, refinance, and limited cashout refinance.

On a limited geographic and demographic basis, NHSA also offers a "refinance rescue" program for delinquent borrowers who are less than 90 days late. This program makes use of a unique Fannie Mae-eligible first mortgage and a subordinated mortgage to cover refinancing of loan balances in excess of 75 percent of the property's current value. The rescue loans, according to Brian Cosgrove, President of Just Price Solutions, are mainly being used for borrowers whose debt exceeds the current value of their property.

Historically, NHSA's originating lenders have received funds from a variety of HUD programs to make second mortgages. NHSA has been willing to purchase these loans, with recourse to the originating lenders, after they have been seasoned for at least 90 days. The recourse provision requires the seller to take back any loan that is more than 75 days delinquent and replace the loan with a similar-performing asset. To ensure the originating lender's capacity to meet this obligation, the lender is required to assign loans with balances equal to 20 percent of loans sold into a substitution account. In place of the assigned loan, the NWOs can deposit 10 percent of loan sales in cash into an account where NHSA is the beneficiary. If an individual loan is seasoned with timely payments for 24 months, the reserve against the loan is released. Alternatively, the affiliate may replace a defaulted mortgage with a current mortgage.[74]

While becoming an NHSA affiliate could be an opportunity for CDFIs to access NHSA's secondary markets, the initial net worth requirement may be a barrier if they choose to be a direct lender.[75]

Neighborhood Assistance Corporation of America (NACA)

NACA combines aggressive advocacy and community organizing with its role as an alternative mortgage lender in order to give homeowners access to affordable credit and help stabilize communities. It has amassed $10 billion in commitments from major lenders such as Bank of America, Citigroup and Countrywide, for refinancing borrowers facing foreclosures as well as providing purchase mortgages. NACA acts as a correspondent lender but has also wrapped acounseling and budgeting requirement into its loan commitment, so that borrowers can get an

---

[74] Interview, Ernest Baskette, Senior Vice President, NSHA, October 22, 2007. This substitution provision is a requirement of NHSA's portfolio investors. NHSA has finance the purchase of the second-mortgage product through social investors of NHSA, who are largely private companies such as State Farm Insurance, which recently invested a $100 million. According to Charles Tansey, of NeighborWorks America a similar recourse-with-reserve program enables NHSA to purchase some non-conforming first mortgages that cannot be sold to Fannie Mae (email, April 10, 2008).

[75] Interview with Dick Jones, COO of Boston Community Capital. NHSA has its own CDFI affiliate (NHSA-CDFI) which, according to Cosgrove, some CDCs use to access favorable funding for affordable housing developments without having to become a CDFI themselves.

affordable 30 year, fixed-rate mortgage at one percent below prime with no Private Mortgage Insurance (PMI) for either purchasing or refinancing a house. NACA has also developed a sophisticated automated underwriting system and a very good preparation system. Perfect credit is not required. However, to qualify for a refinance loan, a borrower must have a predatory interest rate or unaffordable terms. The interest rate on the current mortgage must be 10 percent or greater or considered predatory (i.e., loans that have a teaser rate but will become high-rate when they reset). NACA can negotiate both a reduced interest rate and a principal writedown with the lenders to bring a mortgage down to an affordable level. It retains the current mortgage for 24 months.

In exchange for below-market rates and limited fees, NACA requires borrowers to become a NACA member and participate five times a year in actions or activities that support the NACA mission. Homeowners must remain as owner occupants for as long as they retain the NACA mortgage. And they must pay into a reserve fund that insures the loan pool.. They pay $50 per month for five years (and for 10 years for loans over $200,000). If homeowners default, NACA works with them and may access the reserve fund until they become current. This acts as an asset cushion for the homeowner. CEO Bruce Marks has found that people want to pay, and says its default rates are low. The product is intended to give homeowners a tangible stake in their community.

At this time NACA has New England offices only in Massachusetts and Connecticut, but has potential to expand offices where there is substantial community support. Community groups can apply for an office and access to loans.

Opportunity Mortgage Network (OMN)

OMN, a division of the CDFI trade organization, OFN, is a mortgage platform that provides CDFIs with the infrastructure, tools, products, and financial literacy curricula to originate mortgages efficiently and serve CDFIs' traditional markets: low and moderate income individuals, minorities, and immigrants. Its correspondent lender is Clearinghouse CDFI in California, which, as of this writing, was licensed in Connecticut, Maine, and Vermont. OMN has both large and small CDFIs, with experience ranging from minimal to 25 years in the industry. A few originators are new to consumer mortgage lending. OMN has 14 CDFIs that have signed network agreements to originate mortgages in 16 states. Of these, seven are located in New England.[76]

OMN presently offers four products: Opportunity One Stop, which is the same as Fannie Mae's MCM; Opportunity Extra Credit from Just Price Solutions, a product for people with no credit or less than perfect credit; NHF Access, for purchase transactions only, offering a limited downpayment, CLTV to 105 percent, and amortization up to 40-years; and HomeRun, a CitiMortgage product for purchase and rate/term refinances permitting a single-family LTV/CLTV of 100/105 percent with no mortgage insurance and a minimum credit score of 620.

---

[76] These include Boston Community Capital, RCAP Solutions (Gardiner, MA), Worcester Community Housing Resources, Hartford Community Loan Fund, MaineStream Finance, Opportunities Credit Union (Burlington, VT), and Vermont Community Loan Fund.

OMN's competitive advantage or value proposition is the support and training it can offer CDFIs, particularly smaller ones that are new to mortgage lending. It is providing training, industry software for originations, underwriting and loan review, pre- and post- purchase foreclosure mitigation and counseling, marketing, and lead generation. However, the extra support comes at a price. OMN offers members below-market fees for origination (e.g., 1.25 point + $150 per loan for processing fee) compared with the two-point standard broker fee. CDFIs can access the same products that OMN offers at a lower rate without going through the OMN platform. If the extra costs are passed on to borrowers, then CDFIs may be uncompetitive. CDFIs need to evaluate the benefits and costs of the platform according to their capacities and markets.

Table C.1 Flexible Loan Products Available in New England

	States Served	Finance Role	Type of Loan	Type of Borrower Served	LTV / CLTV
FEDERAL GOVERNMENT					
Federal Housing Administration (FHA) **FHA Hope for Homeowners**[a] http://www.hud.gov/fha/home080730.cfm Effective Date: October 1, 2008	All	Guarantor	Refinance Outstanding balance voluntarily written down by mortgagee(s)	Owner-occupant	90% maximum (max.) No subordinate financing New mortgage to max. qualified loan amount
FHA Secure http://www.hud.gov/news/fhasecure.cfm Present initiative offered through December 2008	All	Guarantor	Refinance 30-year fixed Hybrid ARMs 3/1 and 5/1[b]	1-4 family Owner-occupant borrower with non-FHA loans Fixed mortgages must not be delinquent	Loan-to-Value (LTV) - 97.75 AV <$50,000 to 98.75 AV >$50,000. No max. CLTV when second mortgage is used to satisfy balance of existing first mortgage, closing costs, arrearages, including tax and insurance.
Rural Housing - RD (USDA) **DIRECT** http://www.rurdev.usda.gov/rhs/sfh/brief_rhdirect.htm	All	Lender Servicer	Purchase Refinance Fixed rate 33-38 years Rate as low as 1% based upon "Very Low" and "Low" income limits as defined by USDA Possible recapture[c]	Single-family Owner-occupant Under threat of foreclosure Requires repairs of $5,000 or more Divorce requires refinance Meets income limits Lives in rural areas only (as defined by USDA)	100% + Guarantee fee[d] May include closing costs, if supported by AV

Source: Organization websites as well as staff interviews.

[a] The description of the program is based on the HERA legislation. The FHA guidance letter is unavailable as of this writing.

[b] A hybrid mortgage combines fixed and adjustable rate characteristics. A 3/1 ARM is fixed for three years and then converts to a one-year adjustable rate mortgage. Similarly a 5/1 ARM converts after five years.

[c] Guarantee fee is charged by USDA for guaranteeing the mortgage.

[d] When an interest rate is subsidized to a below-market-rate, repayment of part of the subsidy may be required upon sale of, or transfer of title to, the property.

	Minimum Credit Score (C/S)	Counseling Requirement	Loan Servicer	Mortgage Underwriting	Mortgage Insurance(MI)
FEDERAL GOVERNMENT					
Federal Housing Administration (FHA) **FHA Hope for Homeowners** http://www.hud.gov/fha/home080730.cfm Effective Date: October 1, 2008	Unknown- FHA guidance unavailable at the time of this printing	Unknown	HUD	Must have 31% housing ratio[e] on existing mortgage	Unknown
FHA Secure http://www.hud.gov/news/fhasecure.cfm Present initiative offered through December 2008	None	Not required	Lender serviced- subject to sale	Automated Underwriting (AU)/Manual Underwriting (MU) Ratios 31/43[f] If mortgage delinquent, existing mortgage must be ARM, must have been paid as agreed for 6 mos. prior to rate adjustment. Must demonstrate delinquency is result of rate adjustment or extenuating circumstances/life event.	Up-Front Mortgage Insurance Premium (MIP) of Current mortgage (1.5% paid at closing) + monthly MIP (.50% of loan amount divided into monthly payments) Up-front MIP of delinquent mortgage 2.25 + Monthly MIP at .55% of loan amount
Rural Development - RD (USDA) **DIRECT** http://www.rurdev.usda.gov/rhs/sfh/brief_rhdirect.htm	None	Required	RD	AU/MU Ratios: 29-33/41 Housing ratio range depends on income; can go to 33 housing ratio if interest rate is subsidized.	Purchase: 2.0% Guarantee fee No monthly MIP Refinance: .50% Guarantee fee No monthly MIP

[e] Housing ratio is total housing payment, including principal, interest, real estate tax, homeowner's insurance and association dues (PITI), divided into gross monthly income.

[f] The first ratio is the housing ratio (31). The second ratio (43) is D/I, which includes PITI plus other recurring debt and support obligations divided into gross monthly income.

	States Served	Finance Role	Type of Loan	Type of Borrower Served	LTV / CLTV
RD **GUARANTEED** http://www.rurdev.usda.gov/rhs/sfh/GSFH_Information/Common/quick_guide.htm	All	Guarantor	Purchase and refinance 30-year fixed Market rate	Single-family Owner-occupant Only refinance existing RD loan Income limits Serve rural areas (only as defined by USDA)	100% + guarantee fee May include guarantee fee in closing costs if supported by AV
GOVERNMENT SPONSORED ENTITIES					
Fannie Mae https://www.efanniemae.com/home/index.jsp **My Community Mortgage (MCM)** **Additional Products:** 1-2 Family only **Community Solutions for Community** Workers, e.g. teachers, firefighters, health care workers, military personnel **Home Choice** Borrower or occupant w/ disability Non-occupant co-borrower (C/B) permitted	All	Purchaser	Purchase and refinance Fixed rate to 40 years. Interest-only (I/O) option Hybrid 5/1; 7/1 and 10/1 ARMs (for one family only) Risk-based pricing[g] applies (= 1% above market rate)	1-4 unit Owner-occupant Income limits except in target areas May not own other RE	Conventional (Conv.) LTV: 97% - 1-2 Family 95% - 3-4 Family CLTV: 105% w/ Community second[h]; 97% w/ noncommunity second

[g] Risk-based-pricing assesses interest rates and fees for mortgage loans based upon the perceived risks connected with the credit and collateral. For FHA Secure and CT FAMILIES, see Risk Based Pricing Mortgagee Letter: http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/files/08-16ml.doc

[h] A Community Second is a second mortgage approved by Fannie Mae that can be subordinated to a Fannie Mae first mortgage.

	Minimum Credit Score (C/S)	Counseling Requirement	Loan Servicer	Mortgage Underwriting	Mortgage Insurance(MI)
RD **GUARANTEED**	None Credit waiver[i] required from lender when c/s <620	Required	Lender	AU/MU Ratios: 29/41	Purchase: 2.0% guarantee fee No monthly MIP Refinance: .50% guarantee fee No monthly MIP
GOVERNMENT-SPONSORED ENTITIES					
Fannie Mae https://www.efanniemae.com/home/index.jsp **"My Community Mortgage" (MCM)** **Additional Products:** 1-2 Family only **Community Solutions** for Community Workers, e.g. teachers, firefighters, health care workers, military personnel **Home Choice** Borrower or occupant w/ disability Non-occupant C/B permitted	640 1-2 family 680 3-4 family MU permitted Non-traditional credit - max. LTV 95% Occupant co-borrower (C/B) with no credit permitted - income use limited to 30%	Not required for single family Required for 2-4 unit	Lender serviced-subject to sale	AU and MU Single ratio: 43% Up to 30% of qualifying income may be from boarder or occupying C/B without credit history	PMI May be financed (1 family only)

[i] Credit waiver is a formal exception to credit policy.

	States Served	Finance Role	Type of Loan	Type of Borrower Served	LTV / CLTV
Fannie Mae Flex 97	All	Purchaser	Purchase and refinance Fixed rate to 40 yrs.; I/O option Hybrid 5/1; 7/1 and 10/1 ARMs Risk-based pricing may apply	1 Family Owner-occupant Income limits except in target areas May not own other RE	Conv.: LTV: 97 - 1 unit CLTV: 105% w/ Community second; 100% other subordinate financing or I/O first mortgage
Fannie Mae (2008a) Keys to Recovery	All	Purchaser	Streamlined refinance Fixed rate or Hybrid 3+ years 10-40 year term	Refinance for owner-occupant in ARM product that is held by Fannie Mae Must be current on existing mortgage(s)	LTV to 120%
Fannie Mae (2008b) HomeSaver Advance	All	Purchaser	Unsecured note up to $15,000 or 15% of original mortgage Used to pay delinquent mortgage PITI, escrow advances, HOA dues, limited fees and costs. 5% int. rate; amortized over 14.5 yrs; no interest, no pymt for 6 mos	Delinquent owner-occupant of Fannie Mae-held mortgage $600 workout fee	Not applicable
Freddie Mac http://www.freddiemac.com/sell/expmkts/affprod.html%20Last%20accessed%20August%2018 **Home Possible 97/100**		Purchaser	Purchase and refinance Fixed rate to 40 years; Hybrid 5/1; 7/1 and 10/1 ARMs Risk-based pricing may apply.	1-4 units Owner-occupant Income limits except in target areas	Conv.: LTV: 100% 1 family 95% 2-4 family CLTV: 105% 1 family 100% 2-4 family Affordable or RD leveraged second[j] only
Freddie Mac Home Possible 97/100 **Neighborhood Solution**	CLTV > 97% Requires 700	Required	Lender serviced - subject to sale	AU - Must be submitted to loan processor Manual UW permitted based on LP findings permitting nontraditional credit	PMI

				Single ratio: 45%	

[J] An affordable second is a second mortgage approved by Freddie Mac that can be subordinated to a Freddie Mac first.

	Minimum Credit Score (C/S)	Counseling Requirement	Loan Servicer	Mortgage Underwriting	Mortgage Insurance(MI)
Fannie Mae Flex 97	None noted AU only Must receive/ approve eligible AU finding	Not required	Lender serviced-subject to sale	AU only Must receive "Approve" or "Refer w/Caution"	PMI
Fannie Mae (2008a) Keys to Recovery	Unknown	Unknown	Lender-serviced	MU	Unknown
Fannie Mae (2008b) HomeSaver Advance	No information (NI)	NI	NI	None	NI
Freddie Mac http://www.freddiemac.com/sell/expmkts/affprod.html%20Last%20accessed%20August%2018 **Home Possible 97/100**	CLTV > 97% Requires 700	Required	Lender serviced-subject to sale	AU Must be submitted to loan processor MU permitted Based upon loan processor findings, nontraditional credit permitted Single ratio: 43%	PMI
Freddie Mac Home Possible 97/100 **Neighborhood Solution**	CLTV > 97% Requires 700	Required	Lender serviced-subject to sale	AU Must be submitted to loan processor Manual UW permitted based upon LP findings allowing nontraditional credit Single ratio: 45%	PMI

	States Served	Finance Role	Type of Loan	Type of Borrower Served	LTV / CLTV
Housing Finance Agencies					
MassHousing www.masshousing.com **HomeSaver**	MA	Wholesale purchaser	Purchase and refinance 30-year fixed Conv. FNMA product through NCSHA,[k] MassHousing product	1-4 units Owner-occupant Income limits Most products 135% Area Median Income (AMI) Subsidized rate <80 AMI Purchase - First-time homebuyer (FTHB) HomeSaver refinance permitted only if: Unaffordable present terms or after ARM reset Not in foreclosure Mortgage not more than 60 days past due Own no other RE	Conv. FNMA and Conv. MassHousing: 100% - 1 Family 97% - 2 Family 95% - 3-4 Family FNMA first: 105% CLTV w/Community second MassHousing first permits limited program seconds; Max LTV and CLTV cannot go over 100% HomeSaver Refinance: 105% Single loan (first-lien) Single Family

[k] National Council of State Housing Agencies (NCSHA) is a national, nonprofit organization created by the nation's state housing finance agencies to assist them in increasing affordable housing opportunities.

	Minimum Credit Score (C/S)	Counseling Requirement	Loan Servicer	Mortgage Underwriting	Mortgage Insurance(MI)
Housing Finance Agencies					
MassHousing www.masshousing.com **HomeSaver**	C/S – LTV 720 – 100% 680 – 97% 620 – 95% HomeSaver: 560 1-family 580 2-family 620 3-4 Family May have delinquencies up to 60 days	Required for LTV > 95% and 2-4 family	MA Housing and some service released to originating MA lenders	AU supplemented manually Conv. Max. D/I Ratios: 41% – 100% 45% - 97% 50% - 95% 2-4 unit, non-rental ratio (without consideration of market rent): 59% - 2 family 69% - 3-4 family HomeSaver R Max. D/I: 50%	PMI - discounted for low-income borrowers

	States Served	Finance Role	Type of Loan	Type of Borrower Served	LTV / CLTV
Connecticut Housing Finance Agency (CHFA) www.chfa.org	CT	Lender	FHA; VA; RD and conv. purchase 30-year fixed	1-4 unit Owner-occupant No income limit in targeted areas CHFA Sales Price and Income Limits apply (No income limit in targeted areas)	Max. LTV: 97.75%
CT Families			Refinance FHA Secure w/CHFA Below-market rate 30-year fixed	Owner-occupant properties, 1-4 unit May not own other RE Current or delinquent per FHA Secure	Max. LTV: 97.75% Max. CLTV: 102% w/'CT Family' second No max. CLTV with outside second
NONPROFIT					
Neighborhood Housing Services of America/Just Price Solutions http://www.nhsaonline.org/NHSA/NHSA_loan_products.html	All	Retail and wholesale lender; seller/ servicer	Purchase and Refinance MCM first Just Price second 30-year fixed Same rate first and second Expanded level pricing or risk-based pricing	Income limits	LTV 80% CLTV-105% with approved Just Price Solutions second
Opportunities Mortgage Network (OMN) **http://www.opportunityfinance.net/financing/finance_main.aspx?id=52**	States with Citi-Mortgage Assessment Areas only	Provides mortgage platform for brokers and corres-pondent lenders	"HomeRun" Product from CitiBank 30-year fixed	Purchase Rate and Term Re-finance (no cash-out.) 1-2 family Owner-occupant Serves CitiMortgage Assessment Areas only 100% AMI except high cost areas	1 family- LTV - 100% CLTV - 105% (w/ FNMA approved Community second) 2 family- LTV 95% CLTV 105% (w/ FNMA approved second

	Minimum Credit Score (C/S)	Counseling Requirement	Loan Servicer	Mortgage Underwriting	Mortgage Insurance(MI)
Connecticut Housing Finance Agency (CHFA) www.chfa.org	None	Required for borrower with downpayment assistance	Owner-occupant properties, 1-4 unit May not own other RE Current or delinquent per FHA Secure	Manual Ratios: 31/43 CT Families: FHA Secure Guidelines	Required
CT Families	C/S per FHA risk-based pricing	Yes $1 mil set aside for counseling	Originating bank or CHFA-approved servicer	MU Ratios: 31/43 CT Families: FHA Secure Guidelines	Required
Rhode Island Housing (RIH) www.rhodeislandhousing.org	None	One-on-one budgeting counseling w/action plan	Self-servicing	MU1 Single ratio: 45%	Required through Mortgage Guarantee Insurance Corporation
NONPROFIT					
Neighborhood Housing Services of America/Just Price Solutions http://www.nhsaonline.org/NHSA/NHSA_loan_products.html	None Non-traditional credit acceptable	Pre- and post-purchase	NHSA or lender services depending on recourse for loan	AU recognizing alternative credit Single ratio: 49%	No PMI 105% Self-Insured
NACA www.naca.com.	None	Yes - Optional first step is workshop; One-on-one pre- and post-counseling Budget prep Ongoing thru Membership Assistance Program	Retain for 24 months	AU/MU No max. D/I ratio Character lending Home inspection required	No PMI

Opportunity Mortgage Network(OMN) http://www.opportunitymortgagenetwork.org/privacyPolicy.asp	620	Yes - Through approved counseling organization	CitiMortgage	AU/MUI 45% D/I Ratio	No

Appendix D: Housing Counseling Table

Table D.1: Types of Housing Counseling Provided by CDFIs

Organization	NW Affiliate?	Pre-purchase Homeownership (Pre-P) Education	Foreclosure Prevention (FP) Counseling	Post-Purchase (Post-P) Education	Reported Outcomes
HDF	No	FTHB education classes	Minimal; expanding at time of interview One-on-one Partnership with attorneys to provide advice	Post-P classes required for SmartMove program - served 700 over last 10 years	FY07: FTHB participants in classes (349- first class; 11- second class); 151 bought homes Post-class - 700 homebuyers over 10 years
New Haven	yes	Homeownership class One-on-one counseling Pre-purchase money empowerment class	Foreclosure and loss mitigation prog. 2007 - Nov-Dec: 32 clients 2008 Q1- 156 calls: 77 clients 11 loan modifications 4 forbearance plans 10 reinstatements 7 refis Several modifications in progress	Home maintenance Money empowerment class	FY07: FP clients (108- 76 in Nov/Dec.) FY08: Q1- FP clients (77) 11 loan modifications at least 4 forbearance plans 10 reinstatements 7 Rs Several modifications in process
Urban Edge	Yes	Homeownership classes Individual counseling	One-on-one Triage through city of Boston and NW	One-day class run by Massachusetts Affordable Housing Association	FY06-07: FP clients (162); 13 clients withdrew 40 cases closed (37 successes): 13 chapter 13 3 forbearance 3 reinstatements modifications 2 R into FHA secure products 1 R but didn't take loan 3 foreclosures
Nuestra	Yes but not using HOPE hotline	Homeownership classes	One-on-one	Proposed homebuyers club for developing loan program	FY07-08: FP clients (102) 60% success rate
Worcester	Yes	FTHB and buying homes classes, including landlord training	Partnership with four organizations to provide FP counseling and loan products	Post-P, maintenance, FP through maintenance classes	FY06: Total Clients (77) FY07: Total Clients (647)
Lawrence Community Works	Yes	Homeownership classes in Spanish and English (10 per year)	One-on-one counseling	Post-P counseling Post-P class offered new in 2007 (required to access soft second) Condo workshop	FY07: 87 total clients 44 FP clients FY08: 176 total clients 71 FP clients
Opportunities	No	Homeownership classes Predatory lending classes Credit and budgeting classes	Credit education focused on needs of individual that includes foreclosure counseling	NR	FY07: 337 clients (barely any FP calls) FY08: averaging 10 FP calls per week ; expect 500 total FP clients

Organization	NW Affiliate?	Pre-purchase Homeownership (Pre-P) Education	Foreclosure Prevention (FP) Counseling	Post-Purchase (Post-P) Education	Reported Outcomes
West Elmwood	Yes	Homeownership classes Financial fitness classes	One-on-one foreclosure counseling	NR	No interview with housing counselor.
NeighborWorks Blackstone River Valley (Blackstone)	Yes	Classes	One-to-one Homeownership connection - statewide homeownership coalition Radio show	Required for refinances Land trust participants strongly encouraged	FY06: not active in FP FY07: FP clients (87) 29 referred out (e.g. attorneys) 5 loan modifications 2 refinances 3 deeds in lieu of foreclosure 2 short sales 2 moved out 20 still active - loan mods or short sale 14 closed due to lack of contact FY08: Q1 - 37 new FP clients 3 loan modifications 13 waiting for loan mod and repayment plan approval 1 negotiating writedown and RM 1 negotiating writedown and RM
Manchester	Yes	Pre-P counseling Credit counseling Financial literacy series 4x/yr workshop FTLB workshops - 10 8-hour classes/year Predatory lending awareness workshop	One-on-one counseling FY07: 37 cases 17 brought current 2 R 7 in workout phase, 3 preforeclosure sales, 3 second mortgage. No deeds in lieu; none foreclosed. Second counselor - numbers not available	Home Keepers class offered (mostly IDA participants)	FY07: FP clients (37) 17 brought current 2 Refinances 3 Preforeclosure sales 3 second mortgage No deeds in lieu None foreclosed 7 in workout phase FY08: Q1 FP clients (22) 2 FHA Secure R 5 properties on the market 1 brought current w/ budgeting 14 still active second counselor – numbers not available
Community Concepts	Yes Homequest	FTHB classes and counseling FY06: 363	One-on-one foreclosure counseling	Post-purchase classes	FTHB clients FY06 (363) FY07 (329) FY08 (42) FP clients FY06 (17) FY07 (37) FY08 (19 - number rises every quarter)

CEI	No	Classes and one-on-one	One-on-one	Not presently offered	FY06-07: Total clients (466) Group Post-P and Pre-P (389) 77 individual counseling (77) Pre-P (13); FP (58); Landlord (6)