Developing Strong Native CDFI Housing Loan Products and Services

The CDFI Fund's Capacity Building Initiative

Building Native CDFIs' Sustainability and Impact II (BNCSI II)

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Module 1 – Course Overview

Native Community Development Financial Institutions (CDFIs) offer a range of financial products and services to meet client demand for capital in their target markets. Historically, Native CDFI offerings have focused primarily on microenterprises, businesses, clients who want to build or repair their credit, or consumers seeking personal loans and services. Today, as Native economies expand and prosper, the demand for housing-related loan products and services is increasing along with that economic growth.

Native people want to build, buy, and/or renovate their own homes, and there is a growing number who can afford mortgage financing to do so.

- In a 2017 assessment of American Indian, Alaska Native, and Native Hawaiian housing needs conducted by the U.S. Department of Housing and Urban Development (HUD), **75% of the tribes and tribally designated housing entities (TDHEs) responding reported that the demand in their communities for homeownership was high.**[1]

- The financial capability of potential homebuyers in Native communities is increasing as well. **Over 40% of reservation households have income over the U.S median levels**, according to U.S. Census data.[2]

- A recent analysis of Equifax data conducted by the Federal Reserve Bank of Minneapolis showed that **most reservation residents have prime or near-prime Equifax risk scores**.[3]

- According to another study by First Nations Oweesta Corporation,[4] **31% of surveyed Native CDFIs anticipate adding first mortgage loan products, and 15% plan to add a home rehabilitation loan product** in the next year. In addition, **40% of responding Native CDFI loan funds say they would add a mortgage loan product** if the funding was available. This interest can be attributed to both an increase in demand from Native communities and the prospect of generating more earned revenue through expanded portfolios.

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[1] Pindus, Nancy, G. Thomas Kingsley, Jennifer Biess, Diane Levy, Jasmine Simington, Christopher Hayes. *Housing Needs of American Indians and Alaska Natives in Tribal Areas: A Report From the Assessment of American Indian, Alaska Native, and Native Hawaiian Housing Needs.* Prepared for the U.S. Department of Housing and Urban Development, Office of Policy Development and Research. Washington, DC: Urban Institute. 2017, p. 86.
[2] Federal Reserve Bank of Minneapolis Center for Indian Country Development and Enterprise Community Partners. *Tribal Leaders Handbook on Homeownership.* 2018, p. 54.
[3] Federal Reserve Bank of Minneapolis Center for Indian Country Development and Enterprise Community Partners. *Tribal Leaders Handbook on Homeownership.* 2018, p. 55.
[4] First Nations Oweesta Corporation. *Snapshot 2018: The Growing Native CDFI Movement.* 2018, p. 21.

This curriculum – ***Developing Strong Native CDFI Housing Loan Products and Services*** – is designed to help Native CDFIs to create or expand their programs to meet the demands of homebuyers in their communities, especially on trust lands.[5]

- Day One of the course will provide an overview of the mortgage lending industry and explain how to navigate issues unique to doing business on trust land, including conducting housing needs assessments and designing products and services appropriate for your market.
- Day Two will present case studies about how established CDFIs engage in the mortgage industry to capitalize their housing lines of business.
- Day Three will cover how to operationalize housing programs, taking into consideration tribal, state and federal regulatory compliance requirements.

This interactive course, structured to facilitate peer knowledge sharing and learning, will provide an opportunity for participants to expand their lending expertise to include a broader range of housing products and services.

Learning Objectives

By the end of the training, participants should be able to:

1. Explain the basics of the mortgage lending industry;
2. Describe key housing partners, tools, resources, and programs;
3. Formulate strategies to create or expand housing loan products and services to meet the demand in their Native communities;
4. Outline capitalization strategies to access long-term, affordable mortgage capital, based on lessons learned from successful CDFI housing lending models;
5. Address challenges with the residential leasing and mortgage lending processes on trust land;
6. Engage tribal leaders to advocate for tribal policies that create an environment conducive to private mortgage lending; and
7. Develop a plan to operationalize housing lending expansion strategies that includes staff training, licensing, and regulatory compliance unique to the mortgage lending industry.

[5] For the purposes of this training, the term "trust lands" includes tribal trust land, allotted land and Native Hawaiian Home Lands.

Module 2 – Basics of Mortgage Lending Landscape

To understand the way the mortgage lending industry brings capital to borrowers, it's important to understand who the players are and their respective roles. Whether you are offering mortgages, home improvement loans, or homebuyer education, your CDFI can help to facilitate access to a critical source of credit and financial capability in your Native community. The mortgage lending players include:

- Secondary markets;
- Insurers/guarantors;
- Housing counselors;
- Lenders;
- Servicers; and
- Foreclosure prevention specialists.

Secondary Market

With mortgage lending, we need to start with the end in mind. Where will the money come from that your CDFI will lend? Most non-housing CDFIs lend their own capital, which comes from either grants, loans, or earned revenue. As loans are repaid, the loan fund is recapitalized, and the lending cycle continues.

However, mortgages generally carry a longer loan term and may require different sources of capital. That's where the secondary market comes in.

Who are the potential secondary market players?

- Government-sponsored enterprises, such as Fannie Mae or Freddie Mac
- Ginnie Mae
- Federal home loan banks
- State housing finance agencies
- Other lenders
- Your tribe
- Investors

What does the secondary market do?

- **Raise money in the global capital markets**. Secondary market players issue bonds and other securities that people and institutions all over the world purchase, in turn investing in housing in America. Mortgage-backed securities (MBS) comprise one of the largest global financial markets. These securities are considered among the least risky investments, which is why they result in such low-cost, long-term financing.

- **Establish loan standards, parameters and guidelines**. Raising capital globally requires standardization with loan underwriting and documentation. MBS purchasers don't need to understand local real estate markets because they rely on the standardization provided by investors.

- **Provide liquidity to lenders by purchasing loans that meet their standards**. Secondary market investors can provide access to a virtually inexhaustible supply of the cheapest mortgage money on earth by purchasing loans that conform to their investor guidelines.

What is a government-sponsored enterprise?

Fannie Mae and Freddie Mac are government-sponsored enterprises (GSEs). They are private companies, regulated by the Federal Housing Finance Agency. They buy and securitize conventional loans, which are private loans without a government guaranty or insurance. They also purchase government insured or guaranteed loans.

What is Duty to Serve?

The Duty to Serve (DTS) program requires Fannie Mae and Freddie Mac to facilitate a secondary market for mortgages on housing for very low-, low-, and moderate-income families in three underserved markets:

- Manufactured housing;
- Affordable housing preservation; and
- Rural housing, in specified rural areas (Appalachia and Lower Mississippi Delta) and for specific populations (farmworkers and Native Americans).

The Federal Housing Finance Agency oversees the DTS regulation that requires Fannie Mae and Freddie Mac to publish and implement annual Underserved Markets Plans from 2018 to 2020 to address plans in each of these areas. Both Fannie Mae and Freddie Mac have actively engaged the Native homeownership market and its stakeholders, including Native CDFIs.

For more information and to review the plans, visit www.fhfa.gov/dts.

What is Ginnie Mae?

Ginnie Mae is a division of HUD that performs a similar function to that of Fannie Mae and Freddie Mac, but specifically for government guaranteed or insured loans. Ginnie Mae securities are also called MBS and are also traded globally. Ginnie Mae only securitizes (it doesn't actually purchase) loans with government insurance or guarantees, so even though the underlying loans may be riskier to borrowers, their MBS are equally or more attractive to MBS purchasers.

Insurers/Guarantors

Insurers and guarantors provide a type of insurance or credit enhancement on a mortgage loan. This means that the insurer or guarantor pays for some or all of the loss that an investor would incur if the borrower cannot pay and the loan goes into foreclosure. This credit enhancement is for the benefit of the investor. The borrower does not benefit from it, except that lenders may not make certain loans without the insurance.

Who are the public insurers/guarantors?

- **HUD Federal Housing Administration (FHA)**. A division of HUD that insures loans that meet its standards. FHA loans were created primarily to assist first-time buyers and have among the most flexible credit standards of all secondary market programs. The insurance is called the Mortgage Insurance Premium (MIP). A portion of the MIP is typically added to the mortgage loan balance (up-front MIP), and a portion is paid in the borrower's monthly payment (renewal premium). The renewal premium is reestablished every year, and while it will decline slightly over time, it is paid for the over life of the loan.

- **U.S. Department of Veterans Affairs (VA**). The VA guarantees loans made to eligible veterans. The program was originally developed to assist veterans returning from overseas service after World War II. The VA guaranty is called the VA Funding Fee. It is typically added to the loan balance, not paid in cash at closing. A key feature of the VA loan is that it requires no down payment from the veteran, so it has a loan-to-value (LTV) ratio of 100%. It also has flexible credit guidelines.

- **U.S. Department of Agriculture (USDA) Rural Development (RD).** Rural Development maintains a guaranty fund for loans in designated rural areas. A 100% LTV loan, the RD 502 Rural Guaranteed Loan has income limits set at 115% of Area Median Income (AMI). It is a bit more prescriptive in guidelines than the FHA or VA, but it is still considered a flexible program. The 502 Guaranteed Rural Housing Loan Program, like FHA, has an up-front component and a renewal premium, but both are less than those of FHA.

- **HUD Office of Native American Programs (ONAP).** HUD ONAP provides guarantees on loans made to eligible tribal members, tribes, and tribally designated housing entities (TDHEs) under the HUD Section 184 loan guarantee program. Section 184 also has both an up-front component and a renewal premium and is the least expensive, making the program attractive to buyers. It can be used on trust land and in states where a tribe has designated its service area statewide, and it can be used anywhere a tribal member chooses to purchase. Terms of the guarantee are different on restricted land to make it more attractive for lenders and investors. A tribe or TDHE is also an eligible borrower and can use this loan to build homeownership units to sell or to build rental units.

  HUD also offers the comparable Section 184A Native Hawaiian Housing Loan Guarantee Program for Native Hawaiians purchasing homes on Hawaiian Home Lands.

Can borrowers obtain private insurance or a credit enhancement?

Yes. In fact, Fannie Mae and Freddie Mac are not allowed under their enabling legislation to purchase loans with LTV ratios greater than 80% without credit enhancement. Therefore, conventional loans require private insurance. Private mortgage insurance (MI) companies provide insurance on conventional loans with LTV ratios greater than 80%.

The MI premiums can be structured in a variety of ways, including single premiums added to the loan balance, monthly premiums, or combinations of the two. The most attractive feature of private MI is that the lender must automatically cancel the MI payment once the loan balance meets 78% of the original sales price, making it attractive in the long term.

Mortgage Loan Credit Enhancements

PUBLIC				PRIVATE
HUD – FHA	**USDA Section 502 Guaranteed Home Loan**	**VA Guaranteed Home Loan**	**HUD Section 184/184A**	**Conventional**
Mortgage Insurance Premium (MIP)	Loan Guarantee Fee	VA Funding Fee	Loan Guarantee Fee	Private Mortage Insurance

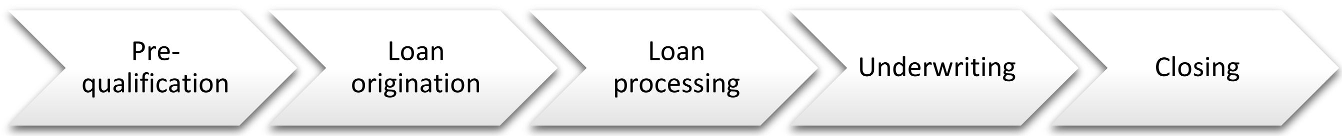
Loan Originators

The lender originates the loan. This means taking the loan application, processing it (verifying the information the borrower provided), approving it according to investor and credit enhancement provider guidelines, closing, funding the loan, and selling it to the investor. This requires a lending license for the organization and for individual loan officers. The lender earns the origination fee and may collect certain additional fees, and may also earn a premium on the sale and even sell the loan servicing rights.

There are generally four types of lenders involved with loan origination:

- Direct lenders
- Correspondent lenders
- Mortgage brokers
- Portfolio lenders

Steps in the Mortgage Loan Process



Direct Lenders

Direct lenders are large institutions that originate and underwrite their own loan products using their own funds in their own name. They generally process a high volume of loans, so they can offer lower rates. A direct lender may hold some of its loans in its portfolio, but it sells most of them on the secondary market. A direct lender may offer loans on both the retail and wholesale level (through correspondent lenders).

Federal agencies can also serve as direct lenders. For example, USDA Rural Development offers the 502 Direct Loan Program for very low- and low-income families in rural areas, and the VA offers the Native American Direct Loan program for Native veterans on trust land.

Correspondent Lenders

Correspondent lenders are smaller institutions with strong relationships in their communities that provide high-touch services. In order to maintain enough liquidity, they sell their loans through aggregators or conduit lenders. This allows correspondent lenders to access enough capital to finance more loans.

Mortgage Brokers

Brokers only originate the loan through to the point of processing it and submitting the loan to underwriting for investor approval. They also sell loans to aggregators or conduits as described above. Brokers are allowed to earn the origination fee subject to regulatory limitations. Compensation must be commensurate with actual work, as opposed to a referral fee. Because brokers have relationships with multiple lenders, they can help borrowers find the best terms for their individual situation.

Portfolio Lenders

Portfolio lenders originate loans for their portfolio. Because they don't have to meet the requirements of the secondary market, they can be more flexible with their loan terms, such as down payment requirements, loan limits and property conditions. Typically, these institutions are credit unions or savings banks that fund their mortgages through their deposits.

Aggregators

Most major lenders operate third-party origination (TPO) programs in which they purchase loans that they will sell to the GSEs. They are primarily interested in the servicing income, as they already have huge servicing platforms, and adding new loans costs them almost nothing. Also called "aggregators," they are mostly just providing access to the GSEs for small to mid-sized lenders and brokers who lack the approvals or capacity to do so directly.

When they purchase the loans, they also purchase the servicing rights (often paying 1%–2% or more), which for many loan originators is a critical revenue source and more desirable than doing the servicing in house.

LENDER ROLE-PLAYING EXERCISES

1. Watch the four role-playing examples and try to identify which type of lender the homebuyer has approached.

   - Role Play 1: ______________________________________
   - Role Play 2: _______________________________________
   - Role Play 3: _______________________________________
   - Role Play 4: ____

2. With your table, discuss the following questions:

   a. Which type of lending would work best in your community?

      - ☐ Direct
      - ☐ Correspondent
      - ☐ Broker
      - ☐ Portfolio

   b. What factors contributed to your decision?

Servicers

The Servicer, who may or may not be the lender, collects payments, pays the investor, and uses the escrow portion of the payment to pay property taxes, homeowners insurance, and mortgage insurance, if applicable. The servicer is responsible for collecting the payments, and in some cases, passes through payments to investors on a delinquent loan.

The Servicer collects a monthly fee for this service and may charge late fees to cover the cost of collections work when borrowers are delinquent. The servicer will usually perform all of the administrative and legal work in cases of modification or default.

Housing Counselors

"Housing counselors" is a broad term used to describe any type of practitioner that helps a homebuyer to prepare for and qualify for a loan, close and remain a mortgage borrower. Native CDFIs can serve as housing counselors by customizing their development services to address the market needs of American Indian, Alaska Native and Native Hawaiian borrowers.

HUD's Office of Housing Counseling certifies housing counselors and provides training, technical assistance and funding opportunities. Visit https://www.hudexchange.info/programs/housing-counseling to access more information.

For more information on housing counseling resources for Native communities, visit https://www.minneapolisfed.org/indiancountry/native-homeownership/homebuyer-readiness.

Foreclosure Prevention

Though mortgage foreclosure rates in Native communities tend to be lower than in the mainstream economy, foreclosures do happen. It's important for your housing program to offer post-purchase and foreclosure prevention services to help your clients make the transition from being a tenant to embracing all of the benefits and responsiblities of being a homeowner.

These services may include:

- Home maintenance;
- Post-purchase budget management;
- Early intervention support in the event of delinquency or default;
- Risk mitigation services to help borrowers restructure or modify loan agreements;
- Emergency loans to help borrowers become current on mortgage loans;
- Facilitation of arrangements with tribes and TDHEs to identify eligible tribal members to assume a loan in default or foreclosure; and

- Negotiation of alternatives to eviction such as “cash for keys,” where a borrower is offered a cash amount in exchange for moving out of the home, relinquishing their title to the property, and agreeing to transfer their residential lease.

Module 3 – Housing Lending in Native Communities Today

Even with the growing demand for housing products and services in Native communities, many challenges remain. Our current reality with housing in Native communities stems from a long history of federal housing policies that caused tribal leaders to rely on public housing models designed to accommodate low-income residents in urban areas.

Since the enactment of the Native American Housing Assistance and Self-Determination Act (NAHASDA) in 1996, Native communities have slowly shifted to housing models that leverage private capital and promote the self-sufficiency of Native families in an appropriate cultural context.

SMALL GROUP EXERCISE – IDENTIFYING HOUSING CHALLENGES
1. In the spaces below, describe the challenges that your CDFI encounters (or expects to encounter) while offering your housing products and services on trust land. 2. Discuss these challenges with those seated at your table and come to a consensus about what you think are the top three housing challenges. 3. Select one spokesperson at your table to report out your top three challenges.
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Common Housing Challenges

Native CDFIs offering mortgage financing in Native communities often encounter the following challenges:

Homebuyer Readiness

One of the most common challenges to accessing homeownership financing in Native communities is the readiness of the homebuyers. This could include issues around:

- Poor or no credit history;
- Limited employment opportunities;
- Challenges with verifying income;
- Lack of savings;
- Lack of opportunities to learn personal financial management skills; and
- Ability to secure a residential lease.

Availability of Housing Stock

Many Native families who want to become homeowners have difficulties finding homes to purchase or land on which to build. This leads to:

- High development costs;
- Challenges identifying contractors, appraisers, inspectors, insurers, etc.; and
- No economies of scale with infrastructure installation.

Complexity of Land Issues

Given the trust status and remoteness of land on reservations, Alaska Native Villages, and Native Hawaiian homesteads, navigating the complexity of land issues can present many hurdles, such as:

- Delays with executing or conveying residential leases;
- Difficulty documenting clear title;
- Requirements for receiving approvals from allottees; and
- Uncertainty about processes for obtaining the required tribal and federal clearances for residential leases and mortgages and for recording liens on title status reports.

Access to Capital and Credit

Research conducted by the CDFI Fund clearly documents the historic lack of access to capital and credit in Native communities[6]. Recognizing this issue has led to:

- Identifying a need to develop unique loan products and services customized for the Native homeownership market;
- Developing additional resources to build the capacity of service providers targeting Native communities; and
- Creating more sophisticated transactions as part of expanding collaborations between Native and non-Native practitioners at the tribal, state, regional, and national levels.

Capacity of Stakeholders and Partners

Many of the stakeholders and partners involved with the development and financing of affordable homeownership are not knowledgeable about working in Native communities. In some cases, they may not have the cultural competency or the technical expertise to provide their services in these areas of high demand. Expanding these partnerships may require stakeholders to dedicate additional operating support and resources to engage in this market. Examples include:

- Modifying or tweaking programs to meet the unique requirements of Native communities;
- Advocating for Native set-asides in federal and state programs; and
- Providing education about the history, sovereignty, culture, and current practices of Native communities.

[6] Native Nations Institute. 2016. *Access to Capital and Credit in Native Communities*. Tucson: Native Nations Institute.

Module 4 – How to Assess Your Housing Market Demand

Before adding new products and services, CDFIs typically conduct a market study to get a better sense of the demand for those product and services as well as identify potential partners and competitors. This step is particularly critical when your plans involve designing new offerings in the housing arena. Your CDFI may also want to partner with other local housing organizations to get a broader understanding of the housing needs in your community. A housing needs assessment can help you and your partners to design your products and services in a way that leverages resources and maximizes your success.

Housing Needs Assessments

A comprehensive housing needs assessment typically involves the compilation and evaluation of specific demographic data, economic characteristics and trends, current housing inventory and characteristics, government policies and incentives, availability of community services and physical infrastructure, and the input of key stakeholders and residents.[7]

Housing needs assessments can be used to:

- Inform policy decisions related to future housing development;
- Determine the need for and identify gaps in housing-related financing resources;
- Understand market demand in the community for homeownership, housing rehabilitation, rental housing, transitional housing, or other supportive services;
- Provide more information about how much community members can afford for housing;
- Provide details on the needs of special populations such as elders, students, disabled people, veterans, or homeless individuals; and
- Identify the types of housing most needed in the community.

Components of a Housing Needs Assessment

Whether you hire a research firm that specializes in conducting housing needs assessments or you complete the assessment in-house, the key components of a housing needs assessment may include:

Data collection efforts, which include a housing unit condition assessment, infrastructure assessment, and a household survey. Effective data collection efforts use the local labor workforce to gather data through written surveys, focus groups, and in-person interviews. Other sources of data may include previous market studies, housing waiting lists, intake forms from potential clients, or tribal or U.S. Census data.

Data analysis summarized in a written report with recommendations on how best to meet the identified housing and infrastructure needs in the community.

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[7] Bowen, Patrick. *What Is a Housing Needs Assessment and How Do You Use It?* 2018. https://www.bowennational.com.

Recommended strategies to guide future decisions regarding resource allocations, housing development plans and homeownership initiatives.

Data Elements of a Housing Needs Assessment

Typically, housing needs assessments address the following types of data elements:

Existing Housing Stock	Other Housing Issues	Homeownership Information	Providers	Demographics	Economic Base
By tenure and type	Senior/assisted living options	Demand	Lenders	Household size	Employers
By value	Workforce and professional housing	Income levels	Housing Counselors	Income levels	Commuting patterns
By age and condition	Veterans housing	Affordability	Developers	Age	Industry trends

For more information about housing needs assessments and to download sample reports, visit: https://www.minneapolisfed.org/indiancountry/native-homeownership/getting-started.

Housing Needs Assessment Group Discussion Exercise

Discuss the following questions:

1. Why might some organizations not complete a housing needs assessment?
2. What is the most compelling case for taking the time and incurring the expense of completing a housing needs assessment?
3. How can a housing needs assessment help a CDFI to design its housing loan products and development services?

Module 5 – Selecting Products and Services for Your Market

Once your CDFI has a clear picture of the housing needs in your Native community, you can begin to explore which home loan products and development services would meet the housing finance demand in your target market.

Home Loan Product Types

As discussed in Module 2, there are generally three types of mortgage loans:

- Mortgage loans insured or guaranteed by the government;
- Conventional loans that are insured with private mortgage insurance; and
- Portfolio loans designed to be flexible without the constraints of the secondary market.

CDFIs can offer more flexible loans with fewer requirements. However, these “portfolio loans” may be considered “non-conforming” because they may not meet the requirements of the secondary market.

Home Loan Product Uses

The following home loans are all mortgages collateralized by real estate. On trust land, the collateral is the interest in the land (the lease) and the improvement (the home).

- **First mortgage**. A legal agreement between a borrower and a lender. In exchange for advancing money to the borrower, the lender charges interest. If the borrower fails to repay the lender according to the terms of the loan (which is called “default”), the lender can foreclose, taking and selling the property (or the interest in the property) to pay off the loan.

- **Second mortgage.** A second mortgage is a home equity loan. It allows the homeowner to borrow against home equity (which is the difference between the property value and the mortgage balance(s) against it). A second mortgage is a lien on a property, which is subordinate to a more senior first mortgage. It can be a lump sum payment or a home equity line of credit (HELOC).

  Second mortgages can help borrowers avoid the cost of private mortgage insurance by piggybacking on the first mortgage to keep the loan-to-value ratio above 80% on the first mortgage.

  A home equity loan can also be used for:
    - Home improvements
    - Debt consolidation
    - Education
    - Personal expenses

- **Interim construction loan.** A short-term interim loan for financing the cost of construction. The lender advances funds to the builder as the work progresses. The lender needs to know exactly what is going on with the construction of the home, because the builder draws money from the lender as needed during the process of building the house. The lender needs to make sure that the money is going where it is intended. Borrowers make interest-only payments during the actual construction period. Upon receipt of the certificate of occupancy, the entire balance of the loan is due, so the borrower will "take out" the construction loan with a new mortgage. Alternatively, the loan could be a construction-to-permanent loan, which has a single closing.

- **Refinance loan.** Refinancing means replacing one loan with a new, better loan. Improving the terms of a loan can mean obtaining a lower interest rate, a lower monthly payment, replacing an adjustable or variable rate loan with a fixed-rate loan, or increasing the size of the loan and taking the difference in cash.

- **Acquisition rehab loan.** This loan enables homebuyers and homeowners to finance either the purchase or refinance along with the renovation of a home through a single mortgage.

Considerations When Selecting a Home Loan Product

When deciding which loan products to offer, there are several considerations:

- **Eligibility.** Which loans will your borrowers qualify for?

    - Is your target market on trust land?
    - Are veterans an important part of the population (in volume)?
    - What is the income level of the borrowers you are trying to serve?
    - Do you have down payment assistance available to assist your clients?

- **Credit standards**. How much flexibility will your borrowers need with underwriting criteria?

    - If your borrowers have unpaid collections or high debt-to-income (DTI) ratios, conventional products might be a better fit because GSEs are more flexible with regards to unpaid collections. They allow a DTI ratio of up to 50% when using the automated underwriting systems, compared to 41% for allowed government loan programs.
    - However, government-backed loan programs generally offer more flexible credit standards. Generally, conventional loans have a higher credit standard than government-backed loans.

- **Cost to borrower.** What is a better deal for your borrowers? Look at down payment costs, the cost of insurance/guarantee, and the interest rate.

    - Down payment costs vary by type of loan. Rural Development and VA loans require no down payment, while HUD Section 184 loans require a 2.25% down payment, and conventional programs generally require 3%.

- The cost of insurance/guarantee also varies. While the government programs have the lowest cost, conventional products can be lower as the LTV goes down.
- Interest rates are generally lower for government programs, but for conventional loans with a LTV at 90%, the reduction or elimination of mortgage insurance costs makes the loans cheaper, even with higher interest rates.

See Appendix A for a summary of federal and private loan products for Native communities.

Development Services

Many CDFIs enter the housing market first by offering development services for future homebuyers. These development services could include:

- Basic financial management skills
- Credit repair or building
- Financial coaching
- Matched saving programs
- Free tax preparation services
- Homebuyer education
- Assistance with obtaining all necessary environmental and other clearances for residential leases
- Real estate agent services
- Referrals for residential construction professionals; e.g., contractors, appraisers, inspectors
- Loan packaging
- Down payment assistance (DPA)
- Closing cost assistance

SELECTING LOAN PRODUCTS EXERCISE

Read each scenario below and decide which loan product would best suit each borrower.

1. A Native couple lives on a reservation in North Dakota. They have been saving to build a home for the past 10 years and have about $25,000 in savings. They estimate the cost to build their dream home will be $100,000. • Which loan products might work for them? • What other information would be helpful to know before you make a recommendation?
2. A young Native veteran walks into your office. He wants to get a home loan to buy the house next to his mama in Oklahoma. He was honorably discharged and has been working consistently for the past five years as the manager at Auto Zone. He already has a new job lined up to transfer to the Auto Zone near where he is moving in Oklahoma. • What are his loan options? • What other information would be helpful to know before you make a recommendation?
3. A Native family lives in their Mutual Help home on a reservation near Phoenix. They have lived there for nearly 20 years and want to add a new bedroom for their grandson. The housing authority has taken all the steps necessary to convey the unit. The family wants to get a loan to pay off the home early and do major renovations. • What are the possible loan options? • What other information would be helpful to know before you make a recommendation?

Module 6 – Housing Lending Models of Native CDFIs

Let's take a look at three Native CDFIs that have been actively engaged in housing lending to see how they structure their operations.

- ### Tiwa Lending, Isleta, New Mexico

Tiwa Lending Services (TLS) is a Native CDFI in New Mexico serving members of the Pueblo of Isleta and other Native people in surrounding communities both on and off the reservation. The tribe was the sponsoring entity for TLS, creating it to take over its tribal home loan program with the goal of leveraging its tribal investment with additional capital from federal, state and private sector sources.

TLS provides comprehensive financial education programming for those seeking loans as well as to high school students in their community. Education courses are extensive, delivered over 11 weeks and covering a variety of topics, including homebuyer education, money management, credit counseling and budget assistance. TLS also offers youth-focused programs such as an internship, summer financial education courses and youth empowerment summits.

TLS has generated a loan portfolio of approximately $7 million of first mortgages and a variety of consumer loans, including first mortgages (new construction, acquisition, refinance), second mortgages (down payment assistance, home improvement, debt consolidation), and credit builder loans.

Capital sources include earned revenue, Oweesta, CDFI Fund's Native American CDFI Assistance Program (NACA Program) funds, Wells Fargo and the Pueblo of Isleta. To date, TLS has held all of its loans in portfolio. The program has an excellent track record with no foreclosures or write-offs and a low delinquency rate.

The loan terms for Tiwa Lending Service's portfolio loan products include:

- Flexible underwriting criteria;
- No minimum credit scores;
- No down payment;
- Low interest rates (equal to the 30-year Treasury bond rate);
- 100% financing;
- Closing costs and infrastructure costs can be financed; and
- Residential lease used as collateral.

TLS is also considering new ways to market consumer loans and, if successful, it may need to find additional sources of lending capital.

➢ Cook Inlet Lending Center, Anchorage, Alaska

Cook Inlet Lending Center (CILC) is a Native CDFI created in 2001 by the Cook Inlet Housing Authority to serve borrowers in the Cook Inlet region in Alaska. Certain products and services are available statewide regardless of race. Because CILC operates in Alaska, loans are on fee simple land.

CILC offers first mortgages through a broker relationship with Bank2, a Native bank owned by the Chickasaw Nation. CILC brokers primarily HUD Section 184 loans, but the CDFI recently expanded its relationship with Bank2 to include HUD FHA and conventional loans and hopes to add USDA and VA loans soon. CILC is also marketing the Section 184 loan to tribe and TDHE borrowers.

CILC provides a down payment assistance (DPA) second mortgage funded through the Alaska Housing Finance Corporation (AHFC). The DPA loan amounts may not exceed 20% LTV. The maximum loan amount is $60,000, and the loan is currently being offered at a 4% fixed interest rate over a 30-year term. CILC holds these loans in its portfolio and services them. They are primarily used in conjunction with conventional first mortgages from an AHFC-approved lender. The DPA loan has the potential to increase the borrower’s buying power by eliminating the need for private mortgage insurance if it helps to reduce the LTV of the first mortgage below 80%. See Appendix B for the CILC DPA loan application.

Other subsidy options for CILC’s borrowers include an Individual Development Account (IDA program) that provides a 4:1 match for up to $4,000 in matched funds. In addition, borrowers may qualify for a Home$tart grant in the amount of $5,000 as well as the Home$tart PLUS and Native American Homeowner Initiative (NAHI) grants for $10,000, which CILC is able to apply for directly through its membership in the Federal Home Loan Bank (FHLB) of Des Moines.

Development services include one-on-one counseling and weekly courses offered during the lunch hour on a variety of homebuyer education topics.

Funding sources include earned revenue, brokerage fees, CDFI Fund NACA Program and CDFI Program Financial Assistance, Wells Fargo, AHFC, and FHLB. Cook Inlet Lending Center is a non-profit, wholly owned subsidiary of Cook Inlet Housing Authority. While the housing authority used HUD Indian Housing Block Grant (IHBG) dollars to fund the CDFI in its infancy, CILC no longer receives IHBG funds. CILC is exploring new funding sources to expand its product line to include small business loans.

Four Directions Development Corporation, Orono, Maine

Four Directions Development Corporation (Four Directions) was created in 2001 by a collaboration involving the Penobscot Nation, Penobscot Indian Nation Housing Department, Coastal Enterprises, Inc., and Bangor Savings Bank. It is a certified Native CDFI that provides direct mortgages, home improvement loans, mutual help home improvement loans, Energy Star-rated appliance loans and credit builder loans. Its loan portfolio is about $5.4 million, and none of the loans are sold to the secondary market. FAHE services the loans. Four Directions became an approved Section 184 lender but never closed any Section 184 loans. The CDFI does provide loan packaging services for the USDA 502 direct home loan program.

Four Directions also provides:

- Homebuyer readiness training;
- Credit counseling;
- Budgeting and debt-reduction services;
- Pre- and post-purchase counseling;
- Delinquency and foreclosure counseling; and
- Free income tax preparation through the Volunteer Income Tax Assistance program.

Capital sources include earned revenue, NACA Program funds, and loans from lenders, Oweesta, and Opportunity Finance Network. Four Directions also manages a $750,000 capital campaign with 15-year investments from faith-based, state, and national investors, which has been renewed twice.

Four Directions is in the process of exploring growth strategies including options sell loans on the secondary market, broker relationships, conventional lending and using warehouse loans as a source of capital.

Notes on Models
Space is provided below to take notes on the three models presented.
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Small Group Exercise – Native CDFI Housing Activities

- In the space below, list the housing products and services your CDFI is currently offering.
- Share your list with those seated at your table. As a group, pick the three activities that you think are the most innovative.
- Select one spokesperson at your table to report out your three most innovative activities.

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Module 7 – Mortgage Lending Roles for CDFIs

Native CDFIs interested in expanding their housing lending activities have a range of options. Your organizational capacity and experience will help you to determine at which level you engage.

Possible Roles for a Native CDFI Expanding to Housing Lending

Borrower Preparation

Although it is not mandatory, most first-time homebuyers in Native communities benefit from education about the homebuyer process and one-on-one coaching to improve their purchasing power. These are specialized development services geared specifically toward helping the borrower qualify for a mortgage loan and determining how much they can afford. In Native communities, it may also involve assistance with obtaining a residential lease or navigating through the mortgage approval process through the tribe and the Bureau of Indian Affairs.

For CDFIs to be effective at providing borrower preparation services, staff must have knowledge of investor and insurer/guarantor guidelines. *Remember, begin with the end in mind*.

- Question: How will you know when you are done with borrower preparation and you can pre-qualify your buyer?
- Answer: When the borrower meets all the guidelines and has enough purchasing power. Know the guidelines well enough to know when you are done.

Investors and insurers/guarantors use the following key variables to describe their parameters.

- **Credit score.** Typically, FICO scores are used. Most programs have a minimum of 620 or 640. Anything above 700 is good. Some guidelines (e.g., FHA) allow lower FICO scores with compensating factors like cash reserves.

- **Debt-to-income ratio (DTI).** This includes a borrower's total house payment and all other monthly debt payments divided by monthly qualifying income, which is income that is stable and likely to recur.

- **Borrower contribution.** This is the actual borrower cash to be invested in the property but excludes gifts and down payment assistance. It is considered by many to be the borrower's "skin in the game" or commitment to the home. On government loans, nonprofits may not loan this money to the borrower, but government sources may sometimes be used as a borrower contribution.

- **Cash reserves**. Cash in the bank, or liquid assets easily converted into cash, after closing. It may be more important and safer for the borrower to have cash available after closing than to have it all invested in the property.

- **Loan-to Value (LTV)/Combined Loan-to-Value (CLTV) Ratios.** The percentage of the purchase price you are loaning to the borrower, expressed as the first mortgage (or all mortgages for the CLTV), divided by the lower of purchase price or appraised value.

In addition to being knowledgeable about loan guidelines and parameters, your CDFI will need to have other types of capacity to offer homebuyer preparation services. For example, you will need access to credit bureaus so you can pull credit reports. You will need to learn to read and understand the reports to be able to explain them. No license is required, but HUD housing counseling certifications or other certifications, such as *Pathways Home* instructor certification, may be required depending on your funding sources.

Know what affects the borrower's credit score, such as available borrowing capacity (unused credit line on a credit card), amount of consumer debt, late payments, seasoning of the credit, new debt, or recent inquiries.

Know what debts to pay off and which they should pay over time. Financial advisor Suze Orman's rule is to pay off the highest rate or the lowest balance, but loan parameters may influence this decision. Do all collections need to be paid? Or are reserves required?

Homebuyer Education

Entry level into homeownership is homebuyer education (HBE), counseling, and down payment assistance lending. Borrower preparation (a more specific term for pre-purchase counseling) is described in the previous section. Homebuyer education can take many forms. Traditionally, the nonprofits have hired and trained staff to perform this function. They produce materials, develop a curriculum, hold classes, and often charge a fee for attending. They may invite other partners to perform some of the training.

The nonprofits may have a loan officer teach part of the lending portion, have an escrow officer describe title insurance and other closing documents or fees, and have a realtor talk about the benefits of homeownership. These other professionals may have some ability to sponsor the class in exchange for the visibility among potential buyers.

Online Homebuyer Education

Many investors and guarantors are now accepting online HBE. Fannie Mae requires borrowers to use FrameWorks online training for its HomeReady product. Many first-time buyer loan products require some form of HBE, and often online versions are the best option. There are others available for minimal cost, and the convenience of doing it from home is preferable for many customers compared to spending eight hours on a Saturday in a classroom. The benefits of online HBE have not been documented to the extent that traditional in-person classroom HBE has been.

There is also evidence to support the commonsense notion that scheduling the HBE before the borrower makes all the important decisions, like choosing a realtor, a lender, and a home, leads to better outcomes than when it is a last-minute, investor-required activity. Fannie Mae even pays lenders more for the loan if the borrower receives counseling before signing a purchase contract.

Down Payment Assistance

Nonprofits are eligible to provide down payment assistance (DPA) to borrowers on conventional loans and to provide additional principal reduction and closing costs on government insured or guaranteed loans. Specific approvals are required. A HUD approval covers both FHA and HUD 184 loans. There are many variations on the types and sources of these funds, but generally, government-provided sources can be deployed as 0%, fully deferred loans that are powerful ways to increase a borrower's purchasing power by reducing the amortizing portion of their loan. These are primarily targeted to lower-income borrowers, which may be more restrictive than the need in Indian Country. The CDFI Fund is one exception to that rule, as its funds can be used by moderate-income borrowers.

Some of these sources also provide some administrative funding along with the program dollars, which is critical as there are administrative costs. Advertising the availability of DPA funds increases attendance at HBE classes, which is great if your organization capitalizes on this by offering fee-based services. It just increases costs if yours does not.

Examples of this model abound. The majority of the 230+ NeighborWorks members practice this model, though many are now expanding into other homeownership services, primarily brokering, real estate sales, and real estate development of affordable housing.

Organizational Capacity Checklist for Borrower Preparation

- Knowledge of loan guidelines
- Access to credit bureau
- Homebuyer education certifications
- Ability to provide credit counseling services

Loan Brokering

Once your borrower meets guidelines and can be pre-qualified, where do they go next? They can shop for a house to buy or build, but once under contract, who will originate the loan? During borrower preparation, you have collected a lot of the same information that a loan originator will collect, so it is a logical next step for your CDFI to become a loan broker.

To be a broker, you must be licensed by the appropriate authority in the state where the loan is originated. The broker is responsible for knowing all applicable regulations and providing the required disclosures of the loan program and for the federal and state licensing authorities.

The broker takes the application, provides disclosures, starts the process of documenting the loan, and may collect fees for appraisals and credit reports. The broker does not work for one institution, but rather has a relationship with several and tries to find the loan that is the best deal for the borrower.

The broker usually processes the loan to the point of submission to the underwriting, but this may vary by investor and will depend on the broker's operational capacity. Some brokers will originate the loan, but to do so, they must be licensed. To obtain an origination license, there are education requirements. You must pass the standard national test and, in most cases, a state test with state-specific questions. You must also pass a criminal background check and answer questions about your financial and legal history.

In all cases, the lender (not the broker) will close the loan in its name and use its funds. A broker will need to use a Loan Origination System (LOS), preferably one that communicates well with the ultimate investor on the loan.

From a staff capacity standpoint, one loan processor can handle the workload of more than one loan originator, so operational expenses can be minimized, and the processing function can be justification for negotiating a higher fee with the lender. Brokering is typically the first step into lending, and brokers typically earn 1%–2% of the loan balance.

Organizational Capacity Checklist for Loan Brokering
•National/state licensing (broker and/or orgination license) •Knowledge of applicable regulations and disclosure requirements •Access to a Loan Origination System •Loan processing capacity

Lending

Loan origination includes everything that the broker does, plus it involves underwriting, closing, funding, and shipping to investors. Underwriting for government loans may require an approval from the insurer or guarantor. GSEs require experience, but no specific approval of individuals. Because the lender will close the loan in its name and sell it to the investor, the lender must understand how to price the loan to make the desired revenue at origination and upon sale to the investor.

It requires the operational capacity to underwrite, close, and ship the loan. A good LOS will be required. A secondary marketing system for pricing and delivery may also be required. The ability to fund loans and hold them for as long as it takes to obtain investor funding is also necessary. This is usually accomplished with a warehouse line of credit, which may also be provided by the investor or aggregator.

The lender can earn the origination fee plus any premium on sale and the value of servicing, which can amount to 3%–5% of the loan balance but requires significant expertise and ongoing training. At this point, you are running a mortgage company. Salaries and technology will result in high fixed costs but can be recovered with enough volume.

Organizational Capacity Checklist for Loan Origination
• National/state licensing • Knowledge of applicable regulations and disclosure requirements • Processing capacity • Underwriting capacity • Government lender approval • Loan Origination System • Ability to fund loans

Other traditional roles for CDFIs include the following:

Servicing

Servicing, as described above, is a volume business. Fees are low, typically 0.25%–0.44% of the loan balance annually, and they require significant investment in technology and experience or training. The organization may have non-monetary reasons for wanting to service (customer experience, to protect other related investments such as subordinate loans) but strictly on the economics, it requires tens or hundreds of millions of dollars' worth of servicing to justify the cost of employees and technology. But if it is your portfolio, maybe you think about it.

Real Estate Development

Becoming a real estate developer may be necessary to provide a supply of affordable, higher quality housing stock in tribal communities. Rehabilitating existing units and upgrading rental units to make them attractive to owners can help develop supply.

Be prepared to purchase a home back from a lender and bring additional buyers in case one defaults. Some rehab may be necessary at that point as well. After all the work to prepare a family for homeownership and possibly building a home on restricted land, you don't want to lose the home or the family. You may also want to move the displaced family into one of your rentals or those of another tribal entity, so supply is valuable for many reasons.

If a lender knows there is an organization like a CDFI or a TDHE standing ready to assist in cases of delinquency or default, they are much more likely to want to partner with you and serve your clients.

Foreclosure Intervention

During the financial crisis, many nonprofits adopted the function of foreclosure prevention. Lenders were then paying a fee for assistance from nonprofits who could help bring delinquent borrowers current. Establishing a small loan pool to help borrowers catch up may improve their success. Native CDFIs can use the skills they developed in borrower preparation and the relationships they forged with the customers to their benefit. Lenders may still pay for this service. In the worst case, you will know when someone is in trouble and can line up another buyer, as described above.

Module 8 – Becoming a Secondary Market Seller/Servicer

Once your CDFI has a track record of making housing loans and capacity as a mortgage lender, you may want to consider becoming a seller or servicer for one of the secondary market investors.

Benefits

- Selling directly to the GSEs eliminates the use of conduit lenders who may have underwriting overlays (tighter underwriting parameters, like a higher FICO or more cash or reserve requirements).
- It is essentially the only way to get the benefits of the secondary market's low-cost capital while retaining servicing if that is a part of your business model. Loans to lower-income and underserved borrowers stay on the books longer, so retaining servicing may be more valuable than the market pays.
- Both GSEs will buy HUD 184 and RD Guaranteed loans, even though those are government-backed loans. There are secondary marketing and servicing related advantages to selling directly to Fannie Mae and Freddie Mac rather than to a conduit or to Ginnie Mae. For example:
    - Closing loans in your own name allows the lender to charge lower fees to the customer and make some income on a sale that might not otherwise be possible.
    - GSEs may pay over 100% for loans, as they are currently "paying up" for 1) loans with smaller loan balances and 2) loans to borrowers who have been counseled prior to executing a purchase contract.

Challenges

- Requires extreme investment in operational capacity and technology.
- Requires some lending capital and retained earnings (net worth/net assets requirement).
- Must be licensed and experienced and already be making secondary market eligible loans (presumably sold to conduit lenders).
- Must have experienced underwriting, closing, and processing staff, and licensed originator(s), who also meet all local licensing requirements.
- Must have a Loan Origination System (LOS) capable of good delivery to the GSE's delivery system and capable of generating disclosures that meet all regulatory requirements.

- Must have quality control procedures written and in practice.
- Must have short-term (warehouse) funding capacity to hold loans until purchase and the ability to repurchase any ineligible loans you deliver.
- Must have servicing capability in house or sub-servicer on contract.

To explore whether becoming a secondary market seller/servicer is a good fit for your organization and to complete a preliminary assessment, visit:

https://www.fanniemae.com/singlefamily

or

http://www.freddiemac.com/singlefamily/doingbusiness

Module 9 – CDFI Mortgage Lending Business Models

The following examples showcase some CDFI mortgage lending business models in practice.

SPRINGBOARD CDFI

fahe
Strength in Numbers

MMCDC
Midwest Minnesota
Community Development Corporation

Springboard CDFI		fahe	MMCDC
Matches Pre-Qualified Borrower with Lender	**Broker**	**Broker/ Correspondent**	**Broker/ Correspondent**

Springboard Home Loan

Springboard Home Loan, an affiliate of Springboard CDFI, is a clearinghouse for lenders interested in serving lower-income or other underserved communities to receive leads from nonprofits. The nonprofits perform the homebuyer education and borrower preparation functions. They produce a mortgage-ready homebuyer and register the loan opportunity in a database. Lenders then see the borrower characteristics on the site and make an offer to provide financing. The winning bidder then contacts the customer and moves forward with the loan application.

Nonprofits' participation in this program does not require a lending license. The nonprofits are paid a fee for the homebuyer education and counseling but cannot be paid the origination fee or a referral fee.

Discussion Questions

1. What type of nonprofit would be a candidate for this model?
2. What capital, technology, and operational capacity is required for this model?
3. What are the advantages to this program for the homebuyer and for the nonprofit?

Homewise

Homewise is a nonprofit CDFI based in Santa Fe, New Mexico, that operates a small broker network (also known as a wholesale program) for nonprofits in the Four Corners states. The nonprofits are responsible for all borrower preparation and homebuyer education. In addition, they are licensed brokers capable of taking the loan application and in some cases processing the loan. Homewise underwrites the loan, closes it in its name, sells it to the investor, and retains the servicing.

Another key component of the Homewise program is that it also requires the nonprofit broker to provide a down payment assistance loan to the borrower. This requires the nonprofit to raise the capital to lend and take the default risk on the second mortgage. The second mortgage becomes an asset to the nonprofit and helps the borrower by eliminating the private mortgage insurance on the loan. The result is a conventional first mortgage with no monthly mortgage insurance payment, which lowers the borrower's payment below that of competing programs. This also increases purchasing power, which is critical in the high-cost markets that Homewise and some of its brokers operate. The amortizing second mortgages provide sustaining income for the nonprofits. The Homewise portfolio is the organization's largest single source of income.

1. What type of nonprofit would be a candidate for this model?
2. What capital, technology, and operational capacity is required for this model?
3. What are the advantages to this program for the homebuyer and for the nonprofit?

FAHE

FAHE is a CDFI primarily serving Appalachia and other rural areas. FAHE's primary customers (members) are nonprofits with an emphasis on affordable housing that serve rural communities. Because FAHE's emphasis is on rural areas, its primary product is the RD 502 Guaranteed Loan. FAHE's members pay dues for access to FAHE's services. FAHE members perform homebuyer preparation and loan origination functions. They can either process the loans themselves or just take the applications and FAHE will process. Fees earned are commensurate with the amount of work performed and range from 1% to 2.5%. FAHE underwrites, closes and funds in its name, then sells the closed loan and servicing to a conduit. FAHE members are brokers, and FAHE is a correspondent. FAHE does have a portfolio that it owns and services consisting of a small number of nonconforming loans and a larger group of subordinated down payment assistance loans. FAHE is seeking GSE approvals to develop the capability to sell directly to the secondary market (rather than through a conduit) and maintain the servicing.

1. What type of nonprofit would be a candidate for this model?
2. What capital, technology, and operational capacity is required for this model?
3. What are the advantages to this program for the homebuyer and for the nonprofit?

Midwest Minnesota Community Development Corporation (MMCDC)

MMCDC operates statewide in Minnesota as a mortgage lender, primarily in partnership with a network of community banks. The banks have licensed loan officers on staff but lack the operational capacity to process and underwrite secondary market loans. These banks actually broker the loans to MMCDC which then processes, underwrites, and closes the loans in the name of MMCDC. MMCDC is approved as a delegated underwriter for two large conduit banks, US Bank and Freedom Mortgage, which purchase the closed loans and the servicing of the first mortgage. MMCDC pays the bank a 1% origination fee from the proceeds of its sale to the conduit. The CDC also has counseling and education staff who can prepare buyers and can originate and process loans in-house. As a NeighborWorks organization, MMCDC has access to down payment assistance funds, which it can combine with its first mortgages to lower monthly payments. The primary products it offers are conventional and RD loans. MMCDC has a partnership with White Earth Investment Corporation, a Native CDFI that refers Native American borrowers to the CDC.

1. What type of nonprofit would be a candidate for this model?
2. What capital, technology, and operational capacity is required for this model?
3. What are the advantages to this program for the homebuyer and for the nonprofit?

Achieving Self-Sufficiency

As part of its Minimum Prudent Standards for financial strength for CDFIs, the CDFI Fund encourages a self-sufficiency ratio of more than 40% for nonprofits. This ratio measures the percentage of operating costs a CDFI can cover with earned revenue. It is calculated by dividing the total amount of earned revenue from lending activity (interest and fee income, other earned revenue related to lending) divided by total lending-related expenses during the same period:

$$\frac{\$\text{ Earned Revenue Related to Lending}}{\$\text{ Lending Expenses}}$$

Established housing lending CDFIs like Homewise aspire to self-sufficiency ratios of 100%. Strategies to achieve this goal by managing lending expenses include:

- Establishing an effective staffing model that uses qualified staff to perform multiple functions until they can support additional hires;
- Appropriate outsourcing;
- Appropriate loan products that maximize earned revenue;
- Effective development services to build a pipeline to generate sufficient loan volume;
- Effective organizational/lending structures;
- Beneficial partnerships;
- Effective technology;
- Robust performance management; and
- Institutional capacity.

SELF-SUFFICIENCY EXERCISE

You are the CEO of a housing CDFI with an existing portfolio size of $1.2 million. To date, your organization has offered portfolio mortgage loans, just started brokering loans, and is exploring a correspondent relationship with another lender. You have one person on your lending staff, and your projected loan volume is five loans per quarter. Your board seeks to improve your organization's self-sufficiency ratio. You ask your finance director to share historical data and cost estimates for lending income and expenses.

She provided the following information about **expenses**:

- Salary costs
    - Licensed loan officer/manager - $5,000/month
    - Loan processor/closer - $4,000/month
    - Servicer - $5,000/month
- Outsourcing costs
    - Underwriting - $400/loan
    - Quality Control (QC) review - $250/loan (QC review required for 10%of loans)
- Software costs
    - $10,000 start-up
    - $35/month per user
- Licensing
    - $2,500 annually for organization
    - $2,500 annually per licensed staff
- Training - $250 annually per person

She also shared the following estimates for **earned revenue**:

- Lending origination income – 1-3 person
- Portfolio income – 2%
- Real estate sales – 3% of transaction
- Real estate developer fee – 10% of transaction

You gather your senior managers and ask them to help you to identify strategies for improving your organization's self-sufficiency ratio.

With other participants at your table, discuss the following questions.

1. Why might you decide to expand your business model to include correspondent lending? Why might you decide not to expand?
2. If you decide to expand, why might you decide to hire new staff? Why not?
3. Which lending expenses might be worth considering in order to generate more earned revenue?

4. What are three possible strategies you could recommend to your board of directors in order to improve your self-sufficiency ratio?
Strategy #1:
Strategy #2:
Strategy #3:

Module 10 – Mortgage Lending on Trust Land

Land Classification

In Native communities, there are generally three types of land.

- Tribal Trust Land
- Individual Trust Land
- Fee Simple Land

Typically, the land in mortgage transactions is used as collateral for the loan. In Native communities, the collateral is the interest in the land (a leasehold interest on trust land) and the improvements (the home). To ensure adequate collateral, lenders need to determine the required level of Bureau of Indian Affairs (BIA) clearance necessary to approve the mortgage and to document clear title.

The two relevant departments within the BIA are:

Division of Land Titles and Records

- Oversees 18 Land Titles and Records Offices (LTROs)
- Processes Title Status Reports (TSRs)
- Records mortgages on TSRs

Division of Real Estate Services

- Approves residential leases
- Approves mortgages on allotted land

Module 11 – Engaging Tribal Governments

Tribal Leaders' Governance Role

Tribal leaders have an important governance role to play with facilitating the mortgage lending process in Native communities. CDFIs can support that role by providing technical expertise and guidance about how tribal leaders can help to create a business environment to support commercial transactions.

Tribal leaders can:

- Enact legal infrastructure, including mortgage and foreclosure ordinances.
- Ensure tribal courts provide a venue for legal remedies.
- Enter into agreements with federal agencies, private lenders, and investors to make loan programs available in their tribal jurisdiction.
- Define the tribe and TDHE's roles with risk mitigation in the event of delinquency, default, or foreclosure. Examples include:
    - Facilitating the execution at loan closing of an "Authorization for Release of Information" allowing lenders to provide notice to the tribe, TDHE, or designated housing counselor to allow for early intervention with a delinquency;
    - Assisting with pre-foreclosure remedies to cure defaults such as supporting delinquent homebuyers with counseling or grant assistance, purchasing the unit (or assuming the mortgage) to add to resell or add to rental housing stock, or finding another eligible buyer to assume the mortgage;
    - Transferring lease assignments to new owners, as appropriate;
    - Exercising the "right of first refusal" to assume a mortgage or purchase foreclosed property; and
    - Creating a loss mitigation pool and process to facilitate these strategies.

Strategies for Tribal Leaders to Expedite the Leasehold Mortgage Process

An informed and actively engaged tribal council can help to promote homeownership opportunities in Native communities. Examples include:

- **Development of leasing regulations through the "Helping Expedite and Advance Responsible Tribal Homeownership (HEARTH) Act."** This law, enacted in 2012, provides tribes the authority to issue their own residential and other leases if they get leasing regulations approved by the Secretary of Interior.

- **Executing a Section 638 Compact for Land Management.** Tribes have the authority under Public Law 93-638 to manage federal programs that impact their communities. Some tribes, such as the

Confederated Salish and Kootenai Tribes, have entered into an agreement with the BIA to take over their own land management systems.

Module 12 – Operationalizing Your Mortgage Lending Plan

Building Organizational Capacity

To determine which business model makes the most sense for your CDFI to expand its housing products and services, you will need to assess your capacity in several areas:

- **People.** Do you have qualified staff to perform the required functions? Do they have the necessary expertise and experience related to mortgage lending? Do you need to hire new staff with more mortgage lending experience? Which staff positions would be able to generate sufficient revenue to support their salaries – loan officers, processors, underwriters, closers, real estate developers, realtors?

- **Technology.** What technology do you have? Do you have loan origination software? What do you need to purchase or subscribe to?

- **Licensing.** Visit the Nationwide Multistate Licensing System (NMLS) website (https://nationwidelicensingsystem.org) to review national and state licensing requirements.

- **Education requirements.** Do you need to send staff to training in order to meet licensing and regulatory compliance requirements?

- **Operating capital.** Do you have enough operating funds to deliver an effective borrower preparation program of education and counseling in order to generate a pipeline of borrowers that allows your operations to grow to scale? Do you have the ability to fund payroll and other operating expenses until you can generate fee-for-service transactions?

- **Loan capital.** How much and what kind of capital do you have (or have access to)? How much lending capital is available to make subordinate loans that can stay in portfolio? How much is available if the CDFI must repurchase a loan?
  - For portfolio lending – holding loans in portfolio can be highly profitable, but only if you can obtain low-cost, long-term capital (at least 10–15 years).
  - For warehouse lending – you need short-term funds (less than six months), which can come from deposits or a warehouse line of credit.
  - For down payment assistance – you can use grants, tribal funds, Community Reinvestment Act (CRA) loans, Federal Home Loan Bank funds, CDFI Fund Financial Assistance grants, foundations, state housing finance agencies, Indian Housing Block Grant funds, Indian Community Development Block Grant funds, etc.

Other questions to consider:

- Where do you want to be in one year? 3 years? 5 years?
- Which model is your target in each of the above time frames, and what capabilities match up with that function (this could be a sort of match game)?
- Can any of this be outsourced or contracted until volume supports it in house? (Many mortgage functions can be outsourced on contract or through Investors in TPO models)
- What procedures need to be written (disclosures, quality control procedures) for the stage you are in or are targeting?
- Who needs a license or certification?

Licensing and Regulatory Compliance

Regulatory compliance could and should be the topic of an entire separate training. For this course, we should clarify that once the organization decides to offer the ability for a consumer to apply for a mortgage, the entity and the individual will need to be licensed and will need to know all of the applicable regulations, including TRID,[8] fair lending laws, and how to produce all of the required disclosures and the applicable timelines associated with each.

This is all covered in the required training to become licensed. Additional information is available on the NMLS site (http://nmls.org) and CFPB's website (https://consumerfinance.gov). The lender or conduit who will fund the organization's loans should also assist, especially with disclosures as they are also responsible for the actions of brokers who supply loans to them.

Loan Policies and Procedures

As CDFIs expand their housing products and services, they may need to adopt new policies and procedures to govern this new activity. Many of the policies may be required by insurers, guarantors, and investors. A model housing policies and procedures for CDFIs document appears in Appendix C.

[8] TRID is the TILA/RESPA Integrated Disclosure Rule. TILA is the Truth in Lending Act and RESPA is the Real Estate Settlement Procedures Act.

Resources

For more capacity building tools and resources, visit:

- Federal Deposit Insurance Corporation's (FDIC's) *Community Affairs Affordable Mortgage Lending Center* at https://www.fdic.gov/consumers/community/mortgagelending/resources.html.
- Federal Reserve Bank of Minneapolis Center for Indian Country Development's *Homeownership Clearinghouse* at https://www.minneapolisfed.org/indiancountry/native-homeownership.
- CDFI Fund's Resource Bank at https://www.cdfifund.gov/programs-training/training-ta/Pages/resource-banks.aspx.

Module 13 – Next Steps: Pulling Your Plan Together

Pulling Your Plan Together Exercise

Divide into groups based on the business model you plan to pursue:

- Borrower preparation
- Mortgage broker
- Correspondent lender
- Portfolio lender
- Selling mortgages on the secondary market directly or through an aggregator

With your group, discuss the following questions:

1. What key pieces do we have in place to pursue this business model?
2. In what areas do we need to build our capacity?

3. Who are our potential partners?
4. In what areas do we need technical assistance?

After your discussion, record your immediate next steps below.

Action Plan for Expanding Housing Products and Services

My Native CDFI's Intended Business Model ____

Action Step	Lead	Target Completion Date
1.		
2.		
3.		

Appendix A: Loan Programs for Native CDFIs

Appendix B: Cook Inlet Lending Center Down Payment Assistance (DPA) Loan Application

Appendix C: Sample Housing Lending Policies and Procedures