An Analysis of Successful CDFI Mortgage Lending Strategies in Six Cities

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Abstract

Community Development Financial Institutions (CDFIs) are mission-oriented organizations that help provide credit to historically underserved markets. In particular, many CDFIs work to promote homeownership for lower-income and minority families and neighborhoods. Using a combination of quantitative and qualitative data, this report examines the extent to which seven CDFIs operating in six cities provide loans to borrowers and neighborhoods historically underserved by traditional mortgage lenders. It also examines the strategies that these CDFIs use to promote homeownership opportunities for such borrowers and neighborhoods.

Our results indicate that CDFI homeownership activities reach lower-income households and neighborhoods, consistent with these organizations' missions. The share of loans made by the CDFIs in the study is greater than the share of loans made to lower-income households and neighborhoods by other lenders in their respective cities. The loans made by CDFIs perform much better than FHA and subprime loans, suggesting that CDFIs make loans that promote sustainable homeownership. CDFIs are able to create sustainable homeownership opportunities most often by providing (1) soft second mortgages that help borrowers with closing costs and downpayments and (2) pre-purchase counseling for homebuyers.

Executive Summary

Despite a wide range of government policies and mortgage lender activities to promote homeownership, large gaps in U.S. homeownership rates exist between lower-income and higher- income households, and between minorities and non-minorities. This study examines the contribution of community development financial institutions to narrowing those gaps.

Across income groups, 45 percent of households in the lowest income quintile were homeowners in 2000, barely half of the 87 percent of households in the highest income quintile. These homeownership rates were nearly unchanged from 1990. In 2007 about 75 percent of non-Hispanic white households were homeowners, compared to only 46 percent of black households and 50 percent of Hispanic households. These differences too are largely unchanged since 2000.

Some of the homeownership gaps by income and race/ethnicity result from differences in demand for owner-occupied housing. This demand is lower for households with a high likelihood of moving, with low wealth relative to risk in a particular asset, and who may not be able to perform or pay for home maintenance tasks. On the supply side, the lack of owner-occupied units affordable to lower-income households contributes to gaps in homeownership rates, despite recent slowdowns in the appreciation of house prices.

But not all of the gaps in homeownership rates for lower-income and minority households can be explained by supply and demand factors. One important additional factor is the role of adequate access to mortgage financing on suitable terms. Research continues to show discrimination especially in mortgage lending to people of color, often low-income—in the form of loan denials at elevated rates, or offer only of subprime loans on disadvantageous terms.

Mortgage market institutions have established a number of initiatives to promote homeownership among traditionally underserved households. These programs generally address three issues:

- Affordability: the inability of such households to afford homes, either because of inadequate savings for a downpayment or due to inadequate income to qualify for a sufficiently large mortgage.
- Bankability: a credit history that does not meet requirements, either because it is too limited or because it shows late payments that lenders use to determine an applicant's creditworthiness.
- Unfamiliarity: a limited understanding of the homebuying process.

The institutions address these issues with lower cost or deferred first- and second-mortgage loans, flexible loan underwriting, downpayment assistance, and homeownership and credit counseling and education.

Community Development Financial Institutions (CDFIs) are lenders whose stated mission is to promote lending, and provide related assistance, to households and in neighborhoods traditionally underserved by credit markets. The four types of CDFIs—community development banks, community development credit unions, community development loan funds, and community development venture capital funds—provide a variety of financial and non-financial services. Financial services include making mortgage loans, providing equity investments, taking deposits, and offering consumer and small business financial products. Non-financial services are entrepreneurial education, organizational development, homeownership counseling, savings programs (such as individual development accounts), and training in financial literacy.

Given the importance of homeownership to households as consumers and investors, many CDFIs participate in the household mortgage lending arena. This study examines their success in delivering loans and otherwise providing for home purchase to buyers often left out in the past.

The purposes of the study are:

- To determine if CDFIs' methods for expanding homeownership are successful in meeting their goals. These goals are to increase the focus of lending and other aid for home purchase toward types of households that are historically less likely to become owners, and into neighborhoods with lower overall income, compared to the past pattern among traditional lenders.

- To explain the reasons for the CDFIs' success or failure.

To accomplish these purposes, we undertook research:

- Analyzing the extent to which a specific set of CDFIs have provided heightened levels of mortgage lending for home purchase to low-income, minority, and female borrowers and in low-income neighborhoods, compared to traditional patterns.

- Assessing how substantially, if at all, these CDFIs' activities encouraged traditional commercial lenders to increase their lending to such borrowers and neighborhoods.

- Identifying some of the strategies that were most useful in reaching those ends.

We used a combination of quantitative and qualitative data sources and methods, principally to:

- Identify the types of homeownership activities used by a sample of seven CDFI lenders (visited and interviewed in case studies) in six cities.[1].

- Compare the types of borrowers and neighborhoods they serve in their respective market cities (measured using CDFI Fund data) to those served by traditional commercial lenders

[1] Charlotte Mecklenburg Housing Partnership (CMHP) in Charlotte, NC; HomeSight, in Seattle, WA; The Housing Fund (THF) in Nashville, TN; Neighborhood Housing Services of Orange County (NHSOC), in La Habra, CA; Neighborhood Housing Services Silicon Valley (NHSSV), in San Jose, CA; HomeHQ, in Syracuse, NY; and Syracuse Federal Credit Union (SFCU), in Syracuse, NY.

in the same markets (measured using Home Mortgage Disclosure Act [HMDA] data), and identify any differences consistent with CDFIs' missions.

- Highlight why differences appear.

Overall, we find that CDFIs are achieving their missions of making home purchase loans to, and enabling homeownership for, the types of households they are deliberately targeting and in the neighborhoods they seek to serve—those with historically lower rates of homeownership.

Among the CDFIs examined in detail in this study, varying combinations of services provide routes to homeownership for households of types that are often otherwise unable to buy. These include homebuying education and counseling, first mortgages, subordinate debt, underwriting flexibility, and access to affordable homes.. The shares of their home purchase loans that CDFIs make to lower-income and minority borrowers are high in absolute terms. Overall, the seven CDFIs studied in this report originated nearly 87 percent of their loans to borrowers with an income below 80 percent of their area median income; and about two-thirds of their loans went to minorities (Table ES-1).

Table ES-1: Summary of characteristics of borrowers who received loans from CDFIs

CDFI	City	Household income below 80% of area median	Racial minority	Hispanic	Female	Number of CDFI loans
CMHP	Charlotte	96.2%	94.8%	2.3%	79.6%	788
NHSOC	La Habra	77.6%	26.5%	66.7%	25.1%	174
THF	Nashville*	82.5%	59.6%	9.1%	50.0%	559
NHSSV	San Jose	72.1%	67.2%	32.3%	n/a	251
HomeSight	Seattle*	99.0%	32.8%	3.5%	61.7%	201
HomeHQ	Syracuse	70.8%	43.1%	2.8%	66.7%	72
SFCU	Syracuse	67.1%	24.1%	5.3%	57.9%	76
Weighted average		86.6%	66.5%	13.1%	55.0%	
* Reflects loans originated between 2004 and 2006.						

Source: Authors' tabulation of CIIS data and loan level information provided by HomeSight, SFCU, and THF.

These percentages consistently exceed the shares of loans made to such borrowers by traditional lenders, often by a wide margin. On average, these CDFIs make 3.3 times as high a share of loans to low- and very-low-income people as do traditional lenders in the CDFIs' own cities. And they make on average 2.7 times as high a share of their loans to minorities as do those other lenders (Table ES-2).

Table ES-2: Disparity ratios of borrower characteristics between CDFIs and all lenders

CDFI	City	Household income below 80% of area median	Racial minority	Hispanic	Female
CMHP	Charlotte	2.5	3.7	0.3	2.1
NHSOC	La Habra	5.7	1.4	1.2	0.7
THF	Nashville	1.9	2.5	1.5	1.2
NHSSV	San Jose	7.5	1.7	0.9	n/a
HomeSight	Seattle	4.7	2.0	0.8	1.7
HomeHQ	Syracuse	1.3	2.5	0.6	1.6
SFCU	Syracuse	1.3	1.5	1.2	1.3
Weighted average		3.3	2.7	0.9	1.4

Source: Authors' tabulation of HMDA, CIIS data, and loan level information provided by HomeSight and THF.

The majority of CDFI home purchase loans (an average of 56 percent of all loans originated by all seven CDFIs) go to buyers in lower-income neighborhoods (Table ES-3), despite the fact that in general our study CDFIs allow clients to choose their homes throughout cities or counties (though in some cases with incentives to buy in certain neighborhoods).

Table ES-3: Summary of share of loans made by CDFIs in lower-income census tracts

CDFI	City	Very-low-income tracts	Low-income tracts	Total of very-low-income and low-income tracts
CMHP	Charlotte	56.9%	10.1%	67.0%
NHSOC	La Habra	28.6%	31.7%	60.3%
THF	Nashville	19.2%	30.3%	49.6%
NHSSV	San Jose	51.8%	18.6%	70.4%
HomeSight	Seattle	5.9%	33.3%	39.2%
HomeHQ	Syracuse	21.4%	33.3%	54.8%
SFCU	Syracuse	42.0%	7.2%	49.3%
Weighted average		32.3%	23.5%	55.7%

Note: Very-low-income tracts have a median household income at or below 50% of area median. Low-income tracts have a median household income at or below 80% of area median.
Source: Authors' tabulation of CIIS data.

The share of CDFI loans going to such neighborhoods well exceeds that of traditional lenders. CDFI loans are 2.8 times as likely to go to neighborhoods with incomes below 80 percent of area median income as are loans from traditional lenders. Limiting attention to the most impoverished neighborhoods, those with incomes below 50 percent, the ratio is more than 5 times (Table ES-4). According to our case study informants, house price factors provide for geographic targeting without explicit CDFI action: CDFI-assisted buyers generally cannot afford to purchase homes outside lower-income areas.

Table ES-4: Disparity ratios of census tracts served by CDFIs and all lenders

CDFI	City	Very-low-income tracts	Low-income tracts	Total of very-low-income and low-income tracts
CMHP	Charlotte	10.2	0.9	3.8
NHSOC	La Habra	2.6	0.8	1.2
THF	Nashville	4.0	2.5	2.9
NHSSV	San Jose	5.2	0.8	2.1
HomeSight	Seattle	1.1	1.3	1.3
HomeHQ	Syracuse	1.1	1.5	1.3
SFCU	Syracuse	2.1	0.3	1.2
Weighted average		5.4	1.7	2.8

Note: Very-low-income tracts have a median household income at or below 50% of area median. Low-income tracts have a median household income between 50 and 80% of area median.
Source: Authors' tabulation of HMDA and CIIS data.

CDFIs' loans outstrip even high-cost (subprime) non-CDFI loans in terms of the shares of CDFI loans that go to low-income and minority households and to neighborhoods with low incomes.[2] All seven of the CDFIs included in our analysis serve proportionately more low-income people with their prime and better than prime home purchase loans than do other lenders with high-cost loans, by differences ranging from 26 percent to 700 percent. Interestingly, high-cost loans made by traditional lenders actually do little if any better than prime loans in lending to lower-income borrowers in our sample cities. The high-cost loans do go more to communities' principal minorities than do all prime loans, but still well less so than do CDFI loans.
The same is true for low-income neighborhoods. From this viewpoint, CDFI loans not only offer lower-cost substitutes for loans with high APRs, but are also more likely to serve those with historically fewer options than are the higher-cost loans.

Limiting attention solely to borrowers for home purchase in lower-income neighborhoods reduces the contrast of CDFIs to other lenders. The disparity between the shares of both lower-income and minority borrowers served by CDFIs in lower-income neighborhoods and that of traditional lenders' mortgages in such areas is smaller than for the CDFIs' cities as a whole. But

[2] We use the HMDA definitions of high-cost loans, which are first-lien mortgages with an APR greater than 3 percentage points above a comparable term Treasury yield, and second-lien mortgages with an APR greater than 5 percentage points above comparable term Treasury yield at the time the loan was originated.

even within this more restricted lending area, CDFIs still serve a proportionately larger share of historically underserved households than do all lenders as a whole.

CDFI loans made at below-market interest rates and/or with payments deferred and sometimes forgiven over time are major components of the assistance that CDFIs provide. CDFIs' access to funds that finance subordinate debt lent on better-than-market terms is central to their ability to assist a greater number of lower-income people and people of color to purchase homes. Such financing addresses the wealth and income limitations borrowers face. Six of our seven case study lenders offer such debt as a primary product, using funds they have received from public and private investors and passing through funds supplied by local government programs. Matching total mortgage payments, including the low-cost subordinate debt, to payments affordable by households of limited means is a top-priority component of their work. Piecing together as many as seven components of subordinate financing, CDFIs have been able to reach this objective even in high-cost areas such as Seattle, Southern California's Orange County, and San Jose.

But inexpensive subordinate debt is only a part of the CDFI assistance menu for homebuyers. Homebuyer counseling and education services are mandatory elements of services to CDFI borrowers, and available to many others as well. The counseling services that CDFIs provide promote homeownership among large numbers of lower-income families who do not receive CDFI downpayment assistance through second-lien loans. The limited evidence available thus far suggests that CDFIs' counseling and education programs, plus brokering and referrals for loans, may benefit a numerically larger set of households than does direct lending for downpayments.

Using their array of tools and products, CDFIs seem to do a good job of serving the full mix of people who come to their doors for homebuying assistance. The evidence available thus far indicates that they are not simply "creaming" those easiest to assist in qualifying for ownership. For the CDFIs that provided data on characteristics of their intake and counseling/education populations, as well as those who bought homes and in some cases received CDFI loans, the distribution of actual resulting home purchasers is very similar, along many dimensions, to that of incoming clients as a whole.

CDFIs' impact on lending by traditional financial institutions to underserved people and neighborhoods is principally direct. CDFI second mortgages and counseling and education services help first-mortgage borrowers at other lenders successfully undertake and sustain home purchase. CDFIs and other lenders commonly refer clients to each other, although a narrow majority of our case study CDFIs make first-lien mortgages themselves as well. Contrary to our initial expectations, CDFIs have very limited if any indirect effects on other institutions' lending to low-income people and neighborhoods. Neither CDFIs nor traditional lenders report the former modeling certain lending behavior or products and practices and the latter following suit, at least recently. Nor was there any indication that CDFI lending displaced others' financing.

It would be valuable to estimate the scale of CDFI lending to their target populations compared to other lenders' scale of lending to the same groups, in the same years. As yet, the limits of data availability impose severe constraints on such an attempt. The best possibility is to compare our sample CDFIs to other lenders in their respective cities, using principally the two cities for which we have data on the date of loan originations. Compared to all home purchase loans to the CDFI target population originated between 2004 and 2006, the number of loans made by THF in Nashville and HomeSight in Seattle is only 3 percent of this total. This comparison, however, must be tempered by recognition that no one lender has a particularly large share of loans made to lower-income borrowers in a given area. Within Davidson County, which contains Nashville, Countrywide originated the largest number of home purchase loans to borrowers with an income below 80 percent of area median between 2004 and 2006, but its market share was no more than 13.5 percent in any of the three years. Similarly, in King County, which contains Seattle, the largest lender serving lower-income borrowers made no more than 9 percent of all purchase loans originated in any one year in that county between 2004 and 2006. Better estimates require reports from more CDFIs to the Fund, containing more-complete data.[3]

Families receiving CDFI loans for home purchase have been highly successful in sustaining homeownership once they achieve it. Perhaps due to a combination of pre-purchase counseling and receiving fully amortizing, fixed-rate first-mortgage loans, CDFI borrowers are able to pay their mortgages and avoid foreclosure. The delinquency performance of loans made by CDFIs, although slightly less strong than for loans originated to Fannie Mae and Freddie Mac guidelines, is better than for either FHA or subprime loans. This is an impressive performance given the by-design lower incomes and pre- and post-counseling credit scores of many CDFI clients. CDFIs know their borrowers individually, through the counseling, education, and lending processes, and reach out to them to try to correct problems early on when payments are late.

[3] Release of loan dates or origination would also be needed.

Our findings are necessarily preliminary, especially given the small number of CDFIs that supply relatively complete loan-transaction-level data to the CDFI Fund. One potentially significant question, for example, is whether depository institutions among CDFIs display any different behaviors or results. Such depository institutions are represented only by one institution (SFCU) in our sample, but constitute over 20 percent of institutions reporting to the CDFI Fund's institution-level database,. In terms of further monitoring and research, it is worth noting that, based on our limited sample experience, additional CDFIs exist that possess transaction data that they have not yet reported to the Community Investment Impact System (CIIS) database, often in fairly convenient electronic form. While we did not examine the issue specifically, there may be ways to simplify the data requests and transmission process that will expand the set of reporting institutions.

Introduction

Despite a wide range of government policies and mortgage lender activities to promote homeownership, large gaps exist in the homeownership rates between lower-income and higher-income households, and between minorities and non-minorities. Forty-five percent of households in the lowest income quintile were homeowners in 2000, which is 42 percentage points less than the 87 percent of households in the highest income quintile. These homeownership rates had changed only modestly from 1990, when 43 percent of households in the lowest quintile and 86 percent of households in the highest quintile were homeowners, and the gap between higher- and lower-income households in 2000 was about the same (Quigley and Raphael 2004).

As of the second quarter of 2007 (the most recent data available), about 75 percent of non-Hispanic white households were homeowners, compared to 46 percent of black households and 50 percent of Hispanic households (U.S. Bureau of the Census 2007), resulting in a 29 percentage point gap between the homeownership rates for non-Hispanic whites and blacks and a 25 percentage point gap between non-Hispanic whites and Hispanics. These gaps are also relatively unchanged since 2000, when the homeownership rates for non-Hispanic whites was 71.3 percent, compared to 46.3 percent for black households (a 25 percentage point gap) and 45.7 percent (a 25.6 percentage point gap) for Hispanic households (U.S. Bureau of the Census 2000).

Some of the homeownership gaps by income and race/ethnicity result from differences in demand for owner-occupied housing, which is lower for households with a high likelihood of moving, with low wealth to risk in a particular asset, and who may not be able to perform or pay for home maintenance tasks (Herbert et al. 2005). In addition to differences in demand for owner-occupied housing, the lack of owner-occupied units affordable to lower-income households contributes to homeownership rate gaps by income (Jacobus and Lubell 2007), despite recent slowdowns in the appreciation in house prices.

Not all of the gaps in homeownership rates for minority and low- and moderate-income households relative to non-minority and higher-income households are a function of differences in demand for owner-occupied housing or a lack of supply of affordable homes. Although there is no dispute that mortgage applications from minorities are more likely to be denied than applications submitted by white borrowers (for a recent analysis of disparities in denial rates by race, see Avery, Brevoort, and Canner 2007)[4], analysts disagree about the reasons for the higher denial rate for minority loan applicants. Some studies suggest that minority loan applicants have, on average, lower credit scores than non-Hispanic white applicants (Board of Governors of the Federal Reserve System 2007), and so are more likely have their mortgage applications denied.[5] In addition, minority and low- and moderate-income households may be less knowledgeable about the homebuying process, which affects their demand for owner-occupied housing and also may have an effect on the quality of their loan application (Haurin and Morrow-Jones 2006).

Unfortunately, the lower homeownership rate for minority households compared to non-minority households cannot be explained fully by differences in demand for owner-occupied housing, wealth, creditworthiness, or knowledge about the homebuying process. There is still evidence of discrimination in mortgage markets that manifests itself in higher denial rates (Apgar and Calder 2005), and also in minorities' higher use of subprime mortgages (Pennington-Cross Yezer, and Nichols. 2000) as compared to non-minority borrowers. And paired-applicant testing of the ways lending officers treat whites and minorities at the pre-application stage reveals very common and substantial discrimination in the lending process (Turner et al. 2002). Mortgage market participants have established a number of initiatives to promote homeownership among traditionally underserved households (see Listokin and Wyly 2000 for a summary). In general, such programs address the following three issues:

- Affordability: the inability of such households to afford homes, either because of too little savings to use for a downpayment or an income too low to qualify for a mortgage. .
- Bankability: An insufficient overall level of creditworthiness, including a lower credit score and more-problematic credit history that does not meet requirements, either because it is too limited or because it shows late payments that lenders use to determine an applicant's creditworthiness.
- Unfamiliarity: A limited understanding of the homebuying process.

[4] According to 2006 HMDA data, 32 percent of home purchase loan applications and 45 percent of refinance loans applications from blacks were denied, compared to 13 percent of home purchase loan applications and 31 percent of refinance loan applications from non-Hispanic whites (Avery, et al,. 2007: Table 13, pg. 70).

[5] The Federal Reserve (pg. 0-13) found that "[d]ifferences in credit scores among racial or ethnic groups and age cohorts are particularly notable because they are larger than for other populations. For example, the mean normalized TransRisk Score for Asians is 54.8; for non-Hispanic whites, 54.0; for Hispanics, 38.2; and for blacks, 25.6."

Most homeownership initiatives address affordability, bankability, and unfamiliarity issues with program features summarized in Table 1. Programs that address the affordability issue typically provide homebuyers with a below-market interest rate loan or a second mortgage that covers the difference between a home's purchase price, the downpayment made by the borrower, and the first-mortgage amount for which the owner qualifies. We distinguish affordability programs from bankability programs, which make loans to borrowers who do not meet the underwriting standards that lenders use to evaluate a borrower's creditworthiness.

Table 1: Issues addressed in homeownership programs

Issue	Programs to address the issue
Affordability	∞ Below-market interest rate first-lien loans: First-lien mortgages originated with an interest rate low enough to allow a lower-income household to make payments that are no more than a set percentage of its income. ∞ Soft second loans: Second- (or greater) lien mortgages that have below-market interest rates or deferred payment features, including no payment until the owner sells his/her home, for an amount that is the difference between the total purchase price and the combination of the first-lien mortgage and any downpayment the household can afford. Soft second loans are sometimes used by purchasers with below-market interest rate first-lien loans.
Bankability	∞ Flexible underwriting that allows higher loan-to-value and payment-to-income ratios than traditional mortgage products. ∞ Manual credit underwriting that includes a review of factors that contributed to an applicant's derogatory credit incidents. This manual credit review may identify and discount derogatory credit incidents that are unlikely to recur.
Unfamiliarity	∞ Homebuyer counseling and education workshops that provide information about the homebuying process, and, where necessary, can also include credit repair services.

Most lenders use credit scores and automated underwriting systems to determine an applicant's creditworthiness. These systems typically follow rules that establish minimum credit scores and maximum loan-to-value and payment-to-income ratios. Although lenders that use such systems allow underwriters to make exceptions to these rules, such exceptional loans accounted for a small share of approvals.

Programs that address bankability issues usually have higher maximum loan-to-value ratio and payment-to-income ratios than traditional mortgage loans, and, also, underwriters manually evaluate an applicant's credit history to determine the reasons for late payments and other derogatory credit incidents. Based on this review, an underwriter may determine that an applicant's derogatory credit incident resulted from an event that is unlikely to recur, and so approve the loan even though the applicant's credit score was below a threshold required by a traditional mortgage lender.

Purchasing a home is a complex and potentially daunting process for many potential buyers. Homebuyer counseling programs address this issue by providing participants with information about all aspects of the homebuying process, including selecting a mortgage product that best suits a particular purchaser's needs. In addition to providing information, homebuyer counselors work with participants to (1) establish a plan to save for a downpayment and/or (2) take steps to improve their credit scores so that they meet lenders' underwriting standards.

Given the importance of homeownership, it is not surprising that many CDFIs promote homeownership by helping to bridge the gap between the demand for credit among low-income people and communities and the supply of credit offered to such families and neighborhoods by mainstream lenders (CDFI Data Project 2006). With roots in the earliest credit unions established in the 1880s to address credit needs of black communities that did not have access to capital, CDFIs operating in the United States now number over 1,000 (Benjamin, Rubin, and Zielenbach 2003; CDFI Data Project 2006).

The four types of CDFIs—community development banks, community development credit unions, community development loan funds, and community development venture capital funds—provide financial and non-financial services. Previous studies of the industry document the specific types of services offered to CDFI customers. In general, such organizations make first-lien and subordinate mortgage loans (the latter are sometimes made to borrowers who receive first-lien mortgages from traditional mortgage originators), provide equity investments, take deposits, and offer consumer financial products. In addition to these financial services, CDFIs also offer entrepreneurial education, organizational development, homeownership counseling, savings programs (such as individual development accounts), and financial literacy training (CDFI Data Project 2006).

As of FY 2005 the 496 CDFIs that responded to the CDFI Data Project (CDP) survey had a total of $20.8 billion worth of assets. These assets are heavily concentrated: the largest five CDFIs have 28 percent of the total assets reported by the nearly 500 CDFIs. A total of 272 CDFIs reported information about their direct financing outstanding; these CDFIs had $14.0 billion of equity investments, loans, and other forms of direct financing outstanding as of FY 2005. Housing accounted for the largest share of the dollar volume of these investments (48 percent), but only 12 percent of the number of loans (CDFI Data Project 2006).

CDFIs, of course, are not the only mortgage market participants using the types of programs discussed above to increase homeownership among minority and low- and moderate-income households. Studies have documented the types of strategies CDFIs and other lenders use to promote increased levels of mortgage lending in underserved markets. In perhaps the most comprehensive analysis of this topic, Listokin and Wyly (2000) reported a number of strategies that lenders could use to (1) institute management procedures that support lending to underserved markets, (2) attract applicants from underserved markets, (3) qualify these applicants for mortgages, and (4) increase the likelihood that borrowers who receive loans through thee efforts remain current on their mortgage.

Listokin and Wyly in their 2000 paper measure each organization's outputs, which usually include the number of loans that an organization originated, the characteristics of borrowers that received these loans, or the number of clients that received homebuyer counseling services. As with other studies of successful lending strategies, those authors did not directly compare nonprofit lenders (including some CDFIs) to traditional commercial lender loan behavior, nor track whether and how the strategies these organizations used prompted traditional commercial lenders to increase their level of mortgage lending to low- and moderate-income families.

Analysts have studied the impact of related initiatives—Government Sponsored Enterprises' (GSEs) affordable housing goals (AHG; Ambrose, Thibodeau, and Temkin 2002), and the Community Reinvestment Act (CRA; Bostic and Robinson 2004)—on lending to low- and moderate-income borrowers. In these studies researchers used HMDA data to measure changes in lending volume to low- and moderate-income borrowers and neighborhoods that resulted from the changes made in response to the AHG and CRA. These studies suggest that the AHG and

CRA have resulted in more loan volume to such borrowers from traditional commercial lenders. They document the overall effects of the two regulations, which created incentives for lenders to initiate the kinds of strategies documented by Listokin and Wyly and that are among those that CDFIs used. Some studies suggest that AHG effects may be most beneficial in areas with low and moderate GSE purchasing activity (Bostic and Gabriel 2005).

Some of the existing analyses of determinants of homeownership levels among low-income and minority (LMI) households offer relevant guidance for the proposed research (summarized in Herbert, et al. 2005). Overall these studies indicate that a lack of income and wealth are the most powerful factors in limiting homeownership levels for lower-income and minority (LMI) households when compared to more-prosperous white households. Given these differences, the research suggests that CDFIs can increase LMI homeownership rates through affordable-lending activities, which include making loans to LMI households with a combination of prime (as compared to subprime) or below-market interest rates and deferred payment features, and providing downpayment grants.

In addition to increasing LMI homeownership rates, a growing body of evidence suggests that affordable-lending initiatives implemented by CDFIs and other organizations can increase homeownership rates for all households, not just those targeted by such initiatives (Quercia, McCarthy, and Wachter 2003). A method that is particularly effective is one in which modest-sized downpayment assistance (one method CDFIs use to promote low- and moderate- income homeownership) is provided to lower households. Such programs provide a directly subsidy to recipients, but also open home-buying opportunities for families receiving such grants (Herbert and Tsen 2007). Galster, Tatian, and Smith (1999) underline this effect by measuring the impact of extending mortgage lending to underserved areas and thereby increasing overall homeownership levels.

The purposes of this study are:

- To determine if CDFIs' methods for expanding homeownership are successful in meeting their goals. These goals are to increase the focus of lending and other aid for home purchase toward types of households that are historically less likely to become owners, and into neighborhoods with lower overall income, than is the past pattern among traditional lenders[6]—without sacrificing the sustainability of that ownership.

[6] We considered traditional mortgage lenders as those reporting within the Home Mortgage Disclosure Act rules. For depository institutions, those include banks, savings institutions, and credit unions that made home purchase or

- To explain the reasons for their success as so defined (or lack thereof).

To accomplish these purposes, we undertook research:

- Assessing the extent to which a specific set of CDFIs have provided heightened levels of home purchase mortgage lending to low-income, minority, and female borrowers and low-income neighborhoods, compared to traditional patterns.

- Assessing how substantially, if at all, these CDFIs' activities encouraged traditional commercial lenders to increase their lending to such borrowers and neighborhoods (a potential indirect effect of CDFI work).

- Identifying some of the strategies that were most useful in reaching those ends.

In the following section we detail the methods used to complete all of the analyses presented in the report. We then describe the seven CDFIs on which this study is focused and the types of activities they use to promote homeownership. This is followed by an analysis section, which compares the types of borrowers and neighborhoods served by the seven case study lenders and those served by all mortgage lenders in the cities in which the seven lenders operate. We conclude with a summary of the findings and policy implications.

To conduct this study, we used a combination of quantitative and qualitative data sources and methods, principally to:

- Identify the types of homeownership activities used by a sample of seven CDFI case study lenders.

- Compare the types of borrowers and neighborhoods they serve in their respective market cities to those served by traditional commercial lenders in the same markets, and identify any differences consistent with CDFIs' missions.

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home purchase refinancing loans the previous year. Non-depository institutions are included if they are for-profit and make minimum thresholds of home purchase loans. None of the CDFIs reporting significant numbers of loan transactions to the CDFI Fund were also HMDA reporters.

∞ Highlight the reasons for any differences in the types of borrowers and neighborhoods served by CDFIs when compared to traditional lenders.

Sample of CDFI Lenders

Our sample of CDFIs was initially to be selected such that each lender was:

∞ Holding a portfolio of a significant number of home purchase loans in a single city or adjacent cities.

∞ Making a significant number of such loans within a concentrated geographic area within its primary market cities.

∞ Including borrower characteristics and census tract locations in its transactions data.

∞ Representing diverse portions of the country and stronger and weaker housing markets.

∞ Located in markets in which at least two CDFIs met these criteria, so that if one declined to participate we could contact the other.

We employed a cut-off level of 100 distinct purchase loans in each portfolio, in order to have sufficient ability to break down borrower and loan characteristics and loan location for each lender. We quickly found that very few CDFIs meeting even that standard alone were included in the CIIS file. We considered nearly all of them as candidates,[7] and ultimately selected most of them. Only a subset actually had information about borrowers. We selected the four that had that information, and three that had geographic information for properties purchased and some concentration of loan property location. Together, the seven lenders also reasonably represented a mix of geographic areas and housing market conditions.[8] We included both of the two lenders in Syracuse, because neither had 100 loans in portfolio but the two combined had more than that threshold. The seven lenders in our sample are:

[7] We excluded Self-Help Credit Union as it has been extensively analyzed in other research.

[8] The fact that we sought lenders with larger portfolios with a good reporting record for transactions data may have biased our sample in the direction of higher-competency organizations, as may the criterion that lenders have provided relatively complete transaction-level data. This is balanced by the fact that 3 of our 7 lenders ultimately in fact had not submitted the latter to the CIIS.

- Charlotte Mecklenburg Housing Partnership (CMHP), in Charlotte, North Carolina
- HomeSight, in Seattle, Washington (including loans in Seattle and Everett)
- The Housing Fund (THF), in Nashville, TN
- Neighborhood Housing Services of Orange County (NHSOC), in Orange County, California and focused in the community of La Habra
- Neighborhood Housing Services Silicon Valley (NHSSV), principally in San Jose, California
- HomeHQ, in Syracuse, New York
- Syracuse Federal Credit Union (SFCU), in Syracuse, New York

Their histories, loan products, and other homeownership activities are described later in this report.

Data Sources

To compare our sample CDFI lenders' home purchase lending behavior to that of traditional lenders as a baseline, we drew on two primary quantitative sources. We used information on the CDFIs' lending from the CDFI Fund itself, as reported by their lenders. We compared it to Home Mortgage Disclosure Act (HMDA) data for traditional commercial lenders' lending. We then used interviews of key players at each of the sample sites to fill out our understanding of CDFI loan activity and to learn about why CDFI loan recipients and loan geographic distribution might differ from that of other lenders.

A portion of the lenders that receive grants from the CDFI Fund report a wide range of information about borrowers to whom they lend,[9] the loans they make, and the location of the properties on which loans are made. The data are collected into CDFI Funds' Community Investment Impact System (CIIS). This information is available for loans outstanding on a CDFI's balance sheet each year beginning in 2004 and at the time of this study running through 2006.[10] The loan-level data as made available to us does not include the loan origination date, and thus we are unable to determine when a particular loan was made. The original data set we received from the CDFI Fund also did not provide a unique loan code to allow us to identify loans that were in lending portfolios in more than one of the three years for which data were available, to use to avoid double-counting. We matched loans according to other variables provided to identify a set of distinct, non-repeat loans. Near the end of our study, we received a new CIIS data set with unique loan coding and replaced the earlier data for some of the analysis.

[9] Other CDFIs report only at the institution level, not individual loan transactions; and those provide no information about borrowers.

[10] Some CDFIs did not report complete data into the CDFI Fund's data collection system. These CDFIs were not considered in the sample.

The CIIS data, where complete, includes for each loan the following information:

- Borrower characteristics, including income, race, ethnicity, gender, and whether a first-time homebuyer.
- Loan characteristics, including loan purpose, lien position, interest rate, term, and size.
- Location of the property on which the loan was made, in the form of the Census FIPS code identifying location levels from state down to census tract..

Unfortunately, lenders do not report all of the borrower information into CIIS, and some report very little or none. Consequently, we supplemented the data available in CIIS with borrower characteristics information drawn from records available from the CDFI lenders themselves. We were fortunate that borrower information was available when we requested it from all three sites not reporting it in the CIIS file: for HomeSight in Seattle, SFCU in Syracuse, and THF in Nashville.

For traditional lenders, we used HMDA data for home loans originated between 2004 and 2006.[11] To narrow the set of non-CDFI loans considered to those loans to a service area and borrower clientele more comparable to CDFI markets, we selected all HMDA home purchase loans within the particular *city* that contained the largest share of loans on a CDFI case study lenders' balance sheet as of 2006. This resulted in selecting six cities (Charlotte, La Habra CA, Nashville, San Jose, Seattle, and Syracuse) in which our seven case study CDFIs originated loans.[12]

Borrower income comparisons are a very important component of this study. CIIS only reports borrower income information by categories of the borrower's income as a share of area median income. Specifically, CIIS reports borrowers as very-low-income (if their income is less than 60 percent of area median), low-income (if their income is between 60 and 80 percent of area median), or other, if the borrower's income is above 80 percent of area median. To allow for CIIS-HMDA comparisons, we coded all HMDA purchase loans[13] using the same classification methodology used to categorize CIIS borrowers.

[11] Of course, for our CDFI loans we know only that they are in the lender portfolios in one or more of those three years, so that there is no actual CIIS to HMDA match in terms of loan timing.

[12] CDFI loans were generally located in only a subset of the city tracts in which the HMDA loans were distributed.

[13] HMDA data include the borrower's actual income, allowing the categorization against each MSA's median income for the year as estimated by HUD.

HMDA provides data on many of the same variables as listed above for CIIS. A difference of note is that the HMDA information does not include loan interest rate and term but does identify high-cost loans, which are often referred to as subprime. We categorized the census tract in which a mortgaged property is located based on the median income of the tract compared to its area median. Tracts that had a median income less than 50 percent of area median were categorized as very-low-income, less than 80 percent as low-income, and above 80 percent as not low-income.

Methods and Calculations

Using the CIIS data (augmented by the sites' own data), we calculated the share of loans outstanding in 2004, 2005, and/or 2006 for each of the sample CDFIs by borrower income category, race, ethnicity, gender, and census tract income category. Using HMDA data, we did the same for new loans over those three years for traditional lenders for all home purchase loans reported in the CDFIs' cities. Where possible we calculated shares for the case study lenders and HMDA lenders separately for first-lien, second-lien, prime, and high-cost mortgages.[14] In the section that follows, we report directly the comparison shares. Because the CIIS and HMDA data include *all* loans made by the respective sets of lenders, we need not use statistical testing for the significance of these comparisons.

After calculating the respective shares for the case study lenders and HMDA loans for different types of borrowers and neighborhoods served, we also calculated disparity ratios. These are the quotient of the proportion of a given case study lender's loans going to a particular category of borrower or neighborhood, compared to the share going to the same group or category from all HMDA lenders originating mortgages in a city between 2004 and 2006. For example, if 60 percent of a case study lender's mortgages outstanding as of 2004-06 were originated to Hispanics, and 40 percent of all purchase loans in that lender's city went to Hispanics, the disparity ratio would be 60/40, or 1.5. These disparity ratios show the extent to which a CDFI's share of loans to a given group of borrowers or to certain types of census tracts is greater or smaller than the share for all lenders in that city.

In addition, we made a narrower comparison of CDFI to traditional lender borrowers and loans. We isolated loans from CDFI lenders for properties in low- and very-low-income census tracts.

[14] High-cost loans in HMDA are, for first liens, those with an APR greater than 3 percentage points greater than the 10-year Treasury yield at the time of origination and, for second-lien mortgages, an APR that is 5 percentage points greater than the 10-year Treasury yield at origination.

We did the same for HMDA lenders in the same city in which the CDFI operated. We then compared the characteristics of borrowers and loans for just those low-income neighborhood loans. That approach allowed us to look at CDFI borrower targeting in comparison not to all HMDA lending, including to well-to-do areas of the cities, but more specifically to lending within locations inhabited primarily by people of limited means.

Note that the three places where borrower data came directly to us from CDFIs had to be treated somewhat differently for this analysis for lending in lower-income areas. For those CDFIs, census tract identification, and hence tract income, resided in the CIIS file, whereas borrower information resided in files coming directly from the CDFI lenders, with no way to link individual loans in the two files with each other. For those CDFIs, we identified the highest income tract among CDFI loan property locations and found its income level. We then compared borrowers of HMDA loans in tracts with incomes beneath that threshold, instead of the 80 percent of median income threshold, to all of the CDFI's loans' borrowers.

Finally within our quantitative work, in addition to the analyses of the seven case study lenders individually, we also compared the proportion of loans for *all* lenders reporting into CIIS (not just the case study lenders), along several dimensions, to comparable measures for all (not just CDFI) mortgage loans. These included the proportions of loans made to first-time homebuyers, in the form of ARMs and fixed-rate mortgages, and with payment current as of 2007. We compared the share of loans with these characteristics in CIIS to the following types of mortgages: all mortgage loans, loans purchased by Fannie Mae and Freddie Mac, loans with an FHA guarantee, and subprime loans. We used a variety of sources (detailed in Table 24) to collect this information for non-CIIS loans.

Case Studies

For each of the seven CDFIs in our sample we conducted a set of interviews with informed observers with respect to CDFI homeownership lending and other related activities. The purpose was to discuss issues including:

- The nature of CDFI loan products for home purchase and other activities to promote homeownership.
- CDFI loan targeting—borrowers and/or neighborhoods toward which they directed their work—and why their activities were successful or unsuccessful in serving them. .
- CDFI impacts on lending partners and on other traditional lenders operating in the same locality, in terms of their roles in promoting home purchase.

With each CDFI, we interviewed its own chief executive; homeownership program manager, lending manager, and/or homeownership counseling manager (to the extent these positions existed) and lenders with whom the CDFI lender partnered or whose lending behavior had likely been affected by CDFI activity. [15] We conducted the interviews in person with participants at HomeSight, NHSSV, HomeHQ, and SFCU. The remaining interviews—at THF, and NHSOC—were conducted by telephone.

With executive directors, the interviews focused on types of homeownership strategies and activities employed, approach to targeting to particular borrowers and neighborhoods, partnerships with other lenders, impacts on partners and non-partner lender activity, and any responses to current lending conditions. With homeownership and lending managers, we asked about specifics of marketing their services, loan products and terms, loan underwriting, homebuyer counseling, other downpayment and homebuying assistance, as well as lender partnering and response to evolving market conditions. With commercial lenders, we focused on the nature of partnerships with CDFIs, their evolution over time, their effects on the traditional lenders' own targeting to borrowers and locations with historically lower ownership rates, and refinance and other activities in response to current conditions. The full discussion guides for these interviews are in Appendix A.

Case Study Lenders: Who Are They and What Home Purchase Lending and Related Assistance Do They Provide?

The CDFIs in our study have substantial histories in assisting households to purchase homes. In terms of years in the homeownership field, the oldest, SFCU, is a 26-year veteran. The middle three have 16-18 years experience, and the youngest three have been in the field 11-12 years. Their specific histories differ somewhat:

- The Charlotte Mecklenburg Housing Partnership (CMHP) grew out of a local government-sponsored task force on affordable housing. It developed rental and for-sale

[15] In fact, no CDFI identified such a lender, though there were a few partner lenders whose behavior outside the partnership had, we observed, been affected by the CDFI homeownership activity.

housing, and sponsored a lender consortium virtually from the start. Homeownership was viewed as a “sexy” component of the broader affordable housing effort.

- HomeSight in Seattle/Everett was founded by other nonprofits to produce for-sale housing on their behalf on an efficient scale, and soon evolved to focus on directly assisting homebuyers itself as well.

- The Housing Fund (THF) arose to deal with needs for downpayment and closing cost assistance, as identified among goals for the National Chamber of Commerce and adopted as one of many objectives by the City of Nashville. It began life as an element of the city’s housing authority/redevelopment agency, but became independent after three years.

- NHS of Orange County (NHSOC) concentrated on lending for housing rehabilitation for its first 15 years of operation, starting in 1977, but recognized a need to fill the gap beyond standard 75-80 percent home purchase mortgage loans, and so added a homebuyer component.

- NHS Silicon Valley (NHSSV) began work in a single neighborhood, at the encouragement of a key city official who felt the need for an NHS function in San Jose. After four years the CDFI widened its field of action to the whole city and beyond, and concentrated on homeownership more widely.

- HomeHQ began work as a home improvement lender. The collapse of demand in the homeownership market in Syracuse in the latter 1990s drew attention in to issues of attracting additional city buyers. The CDFI recognized that many potential buyers had sufficient income but not the downpayment needed for even modestly priced Syracuse homes.

- Syracuse Federal Credit Union (SFCU) had as its initial focus serving underserved market segments: for example, single mothers whose credit record was in their husbands’ names, or a group of women who wanted to cooperatively purchase a home. Over time, SFCU evolved to serve a wider range of borrowers, even though it continues to focus on borrowers who might not otherwise be able to qualify for a loan from a traditional mortgage lender.

Taken collectively, the seven CDFI lenders in our analysis conduct five principal activities that affect who buys homes and the location of the homes purchased, potentially reaching buyers and locations that are less frequently the recipients of loans from traditional lenders. The activities are the following, with numbers of CDFIs undertaking each one in parentheses:

- Homebuyer education and counseling (six CDFIs) and credit repair (four), including certifying the completion of these programs by potential buyers.

- Providing first mortgages (five CDFIs), either by originating loans themselves (three), brokering them (one), or referring people to other lenders with whom they explicitly work (one).

- Providing subordinate financing on concessionary terms (six CDFIs), in the forms of deferred loans (wholly and partially), low-interest loans, forgivable loans, grants for downpayments and/or closing costs, and combinations of those options.

- Underwriting lending on a more flexible basis than traditional lenders (five CDFIs), allowing purchases by borrowers with less than pristine credit histories and/or lesser incomes relative to loan payments.

Table 2: Summary of homeownership activities for case study lenders

CDFI	Education, counseling, and credit repair	First-lien mortgage	Subordinate debt	Underwriting flexibility	Develop affordable for-sale housing
CMHP	Conducts homebuyer education and counseling, and credit repair programs as needed	Originates loans for Housing Finance Agency and from lender round-robin lender pool; refers buyers to pool lenders	Low-interest amortizing second-lien mortgages	Yes, disregards credit score when evaluating creditworthiness	Partners with developers (develops own rentals, and earlier for-sale)
HomeSight	Conducts education program	Brokers loans to a single originator	Low-interest amortizing second-lien mortgages and deferred third-lien mortgages	Yes, disregards credit score when evaluating creditworthiness	Yes
THF	Through its Front Door program, makes referrals to other counseling agencies in the Nashville area	No specific program (often first lender or broker refers client to THF)	Low-interest second-lien mortgages; zero interest second-lien mortgages with payments deferred until home is sold	No	No
NHSOC	Conducts education and counseling	No specific program (often first lender or broker refers client to NHSOC)	Multiple low-interest subordinate loan programs, mixed amortizing and deferred	Must qualify for a first-lien mortgage from an approved lender	No
NHSSV	Conducts homebuyer education and counseling, and credit counseling as needed	Originates loans for Housing Finance Agency and also sells loans to the Housing Finance Agency	Multiple low-interest subordinate loan programs, mixed amortizing and deferred, partially deferred	Will lend to 103% of loan-to-value ratio and waive 1% equity contribution from borrower in some cases	Limited, and now at least temporarily not

Table 2 (cont.): Summary of homeownership activities for case study lenders

CDFI	Education, counseling, and credit repair	First-lien mortgage	Subordinate debt	Underwriting flexibility	Develop affordable for-sale housing
HomeHQ	Conducts homebuyer education and counseling, and credit counseling as needed	No specific program (often first lender or broker refers client to them)	Two subordinate debt programs (in one program personal property can be used as collateral), one low-interest and one forgivable	Can secure with personal property when the loan-to-value ratio would exceed first-lien lender's standards	Yes
SFCU	Conducts homebuyer education and counseling, and credit counseling as needed	Originates adjustable-rate mortgages (ARMs) for creditworthy but not bankable borrowers. These loans have higher interest rates than similar term ARMs, and so are typically refinanced by borrowers after three to five years.	None. ARM is to be refinanced with conforming 1st from commercial lender.	Consider credit score, but use other factors when determining creditworthiness	No

- Building or partnering to build affordable homes for sale (four CDFIs)[16], and then assisting their sale using their other activities.

The activities carried out by each of the seven lenders individually are summarized in Table 2. We discuss more specifics of each of the lines of activity in turn.

Homebuyer education, counseling, and credit repair

Education and counseling activities can benefit potential homebuyers in a variety of ways. Some non-CDFI lenders and all of the CDFI lenders in our study require completion of a homebuyer education curriculum as a condition for receiving a loan from their institutions. Non-CDFI lenders refer people specifically to our CDFIs to enable buyers to meet this requirement. The CDFIs are considered to be first-rate providers of these services, using high-quality standard curricula from NeighborWorks America[17] and elsewhere, with knowledgeable trainer/counselors. The lenders with whom we talked also indicated they welcomed graduates of the CDFIs' education and counseling preparation whom the CDFIs referred to them as creditworthy potential buyers, well-prepared to purchase homes.

The CDFIs themselves initiate aid to people interested in homebuying, through an initial assessment of their homebuying capability. They then refer them to the CDFI's own education and counseling programs for those ready for these steps. Only one of the seven, The Housing Fund in Nashville, does not have its own education/counseling programs, but it has a systematized arrangement for referring potential buyers to a designated list of other providers. The CDFIs also recommend that households whose finances and credit history place them further from homebuying undertake steps to repair their credit. And they counsel them to take other actions that are critical steps towards becoming a homeowner, such as beginning to save for a downpayment. Four of the seven themselves work on credit repair with households needing such aid.

The education and counseling efforts help provide first-time buyers with access to brokers, lenders, and affordable homes. CDFIs offering these services use their classes with potential buyers to introduce these financial options, and to advise potential borrowers on how to find and choose among them. In addition, HomeSight, HomeHQ, CMHP, and NHSSV have connections to specific new or renovated affordable homes for sale through their own or partner

[16] NHSSV recently decided to suspend that activity.

[17] NWA is a national nonprofit with over 200 neighborhood affiliates, focused on neighborhood revitalization, with a heavy emphasis on encouraging homeownership.

organizations' development activities, to which they alert buyers in their education and counseling programs. NHSSV also employs its own real estate brokers, whom potential buyers may choose to employ. CDFIs indicated that households both gained necessary specific knowledge from the education and counseling programs and were able to conquer anxieties about the homebuying process that might have otherwise discouraged them from entering the market or making an actual purchase.

In addition to providing counseling services for homebuyers,, CMHP and HomeHQ each have a counselor who works with delinquent borrowers or with owners who have received foreclosure notices. CMHP focuses these activities on borrowers who received loans from the organization itself; HomeHQ's foreclosure-prevention counselor works with people referred to the CDFI from local lenders. Representatives of both CDFIs said that their counselors are able to intervene successfully because of their relationships with local lenders' loss mitigation staff who have the authority to renegotiate loan terms or provide forbearance. NHSSV also provides foreclosure prevention services, using money provided by the City of San Jose. This CDFI has a structured education program, developed from materials provided by the National Consumer Law Center, that it uses when working with a borrower's servicer or lender to develop loan modifications.

THF in Nashville and NHSOC in Southern California are working on plans to address increasing numbers of foreclosures in their respective service areas. NHSOC is currently looking to raise $250,000 to augment its current counseling activities to include foreclosure prevention, and is also in discussion with local lenders to capitalize a $1M to $2M fund that would be used to purchase foreclosed homes from lenders and resell them to qualified families. THF is working with local governments and lenders in the Nashville area to develop possible intervention strategies in response to higher foreclosure rates.

CDFIs cover the costs associated with pre-purchase counseling through grants provided by local governments, intermediaries, or banking partners. CMHP and HomeHQ in Syracuse receive fees from lenders that refer borrowers to the organization for homebuyer counseling. THF had a grant from the City of Nashville for counseling services; the CDFI now funds its $120,000 counseling budget from grants provided by local lenders and foundations. SFCU funds a portion of its counseling activities from a New York Credit Union Foundation. In addition to these external sources of support for homebuyer counseling, the CDFIs use fee and lending income.

Although CIIS data submitted by CDFIs do not include information about homebuyer education and counseling, two of the study CDFIs did provide detailed information about the scale and client characteristics of their counseling activities. For these lenders, numbers of participants in education and counseling well exceed the numbers to whom they make loans. As detailed later in this report, CMHP provided counseling services to over 1,100 people who attended their education classes, and three times that many participated in pre-purchase counseling.[18] Over 600 households purchased homes during the period with some CMHP assistance, not necessarily including loans. CMHP indicates that only some of its education and counseling participants think of themselves as people seeking "affordable" housing or wanting to qualify for affordable mortgages. Many others just feel they need assistance moving through the process of being first-time homebuyers. As an illustration, CMHP's Executive Director Pat Garrett notes that they do counseling for the NFL's Carolina Panthers players, and have a special outreach effort to hospital employees.

For NHSSV, during the period FY2003-2007, nearly 6,000 people participated in initial orientations to homebuying. Almost 30 percent of those then came to workshops. Among them they attended about 7,800 counseling sessions.[19] And 373 households were known to purchase homes using a first mortgage either brokered or originated by NHSSV, though of course others attending education and counseling activities may also have purchased homes with financing from other sources.

HomeSight provided us with a convenient summary of the classes they include in their 6.5 hour (in one day) program of homebuyer education. The four classes are:

- <u>Predatory lending tactics</u>. Predatory lending is used as shorthand for a variety of practices .that might be harmful to the borrower. The class's objectives are to help homebuyers overcome fear of financial failure, avoid abuse from predatory lenders, and prevent erosion of assets

- <u>Real estate documents and mortgage default prevention. This focuses on review of l</u>egal documents, and on the closing process for home loans, as well as mortgage default and foreclosure and how to prevent them.

[18] Note that education and counseling data count individuals rather than households, and thus cannot be directly compared with the number of home sales/purchases, which corresponds to number of households.

[19] The data do not indicate how many people participated or how many sessions each attended, if any.

- Financial road mapping. This class expands financial awareness to improve buyers' ability to make sound financial decisions. It addresses developing a budget, budgeting tips, financial warning signs, basic rules of money management, and credit reports.

- Home, neighborhood, and community maintenance. Content includes using home inspections to guide maintenance, overview of home systems, handling emergencies, preserving long-term home value, seasonal maintenance, and resources available.

At HomeSight, this Financial Series is co-facilitated by another nonprofit, a credit union, home inspectors, and real estate professionals, along with HomeSight staff themselves.

First mortgages

A bare majority of four of the study CDFIs make specific provision for offering first mortgages to their homebuyer clients. The others refer their clients to traditional commercial lenders and mortgage brokers, feeling that a satisfactory set of appropriate first mortgages are available in the market once they have equipped the buyers with adequate market knowledge. Both CDFIs referring people for first mortgages and those providing their own, with one exception, strongly encourage and consistently counsel potential buyers to seek out prime 30-year fixed-rate fully amortizing first mortgages. They appear to have long recognized the risks of delinquency and foreclosure that adjustable rates and more-exotic lending could bring. Further, CDFIs insist that homebuyers who wish to take advantage of their low-cost and deferred second-lien mortgages obtain these fixed-payment first mortgages in order to qualify for that assistance with downpayments and closing costs.

The four CDFIs that do offer first-mortgage loans take differing approaches. CMHP and NHSSV both take pride in having become the first nonprofits in their states to qualify as originators of Housing Finance Agency (HFA) supported first-mortgage lending. NHSSV uses a line of credit from Santa Clara Valley National Bank to provide 90 percent of the initial mortgage funds, and then sells the mortgage to the California HFA on a pre-approved basis. CMHP originates first mortgages using its own funds and sells them to the North Carolina HFA.

CMHP provides for first mortgages through other means as well. Soon after the organization's birth, it joined in creating a loan consortium of banks.[20] Initially the consortium made participation loans, in which each first mortgage came partly from the funds placed in the

[20] Membership has remained generally steady over time, except that some of the lenders have been acquiring others.

consortium pool by each lender; and CMHP was required to keep a substantial reserve set aside against possible losses. Over time the lenders—gaining confidence in the market (i.e., borrowers and communities) that CMHP served and in CMHP, and wanting to be credited for CRA purposes—switched to a round-robin consortium approach, in which each lender in turn funded a loan to an individual borrower. Now lenders both participate in the round robin and have their own separate lending programs directed toward the same low- and moderate-income borrowers. Immediately prior to the mortgage market meltdown, the separate lending programs had the easiest lending terms, and most borrowers chose them. More recently the North Carolina HFA loans have been more attractive as other credit has become harder to access.

HomeSight acts as a loan broker—not originator—for first mortgages, brokering loans to a single originator, the Boeing Employees Credit Union (BECU), now open to the general public. Boeing has such a wholesale relationship only with HomeSight. Until recently, HomeSight also had a brokering relationship with the Bank of America, but that was cancelled as part of Bank of America's general elimination of their wholesaling links. In increasing proportion, HomeSight uses its Boeing connection for the sale of homes for which it has been the developer. HomeSight also refers buyers to Harris Bank in some cases that do not match BECU underwriting standards. Harris operates on only a small scale in the Seattle market, but it is a portfolio lender[21] better able to handle somewhat exceptional situations.

The final CDFI with a first-mortgage strategy other than broad referral is the Syracuse Federal Credit Union (SFCU). It concentrates on lending to borrowers who have advanced to a situation in which they are considered creditworthy by SFCU even though they are not yet bankable for first mortgages from traditional commercial lenders. SFCU originates adjustable-rate mortgages, at somewhat higher than prime mortgage rates, to these homebuyers. The reason for making adjustable-rate mortgages is that the organization does not want to be exposed to interest rate risk. Unlike some adjustable-rate mortgages, SFCU's ARMs do not contain a low "teaser rate" that resets to a much higher rate within a relatively short period of time. In fact, SFCU makes loans to borrowers whom the organization anticipates will be refinanced with loans from other lenders after borrowers establish records of timely repayment, typically in three to five years, to take advantage of lower interest rates.

[21] A portfolio lender holds loans it originates, rather than selling them in the secondary market.

Subordinate debt (downpayment assistance and closing costs)

Probably the most critical element of the studied CDFIs' efforts to extend homeownership to people with lower ownership rates generally, and especially to lower-income people, is their provision of subordinate debt on desirable terms. Six of our seven study CDFIs—SFCU being the exception—provide subordinate financing, and four of those provide it in more than one form. Among them the CDFIs both lend funds over which they have control and help homebuyers access additional subordinate debt from public sector programs. They use a substantial array of specific programs and funds. Especially in the highest-cost California markets where NHS Silicon Valley and NHS of Orange County work, as many as seven layers of subordinate debt may be provided. Among the studied CDFIs, typical subordinate debt ranges from as much as $140,000 in metropolitan markets with generally high-priced homes to amounts in the $10,000 range in more modestly priced locations.

The second-lien mortgages (and sometimes third-lien mortgages and beyond) serve in place of all or most of the cash downpayments and closing costs that would otherwise be required. They provide a source of funds to borrowers who may not have enough savings for a downpayment required by lenders or to cover closing costs. The funding for these loans comes from a range of sources, including banks that invest in loan pools; federal, state, and local government grants (including the CDFI Fund); and NeighborWorks. The two NHS groups in California, NHSSV and NHSOC, sell a portion of their second-lien mortgages to Neighborhood Housing Services of America (NHSA). These sales allow the CDFIs to recapitalize their balance sheets, and so provide another source of capital for second-lien mortgages (Table 3).

Table 3: Summary of sources of funding for subordinate mortgages originated by CDFI lenders

CDFI	Description of mortgages offered and funding sources
CMHP (Charlotte)	CMHP's second-lien mortgages are financed from either CDFI Fund grants or NeighborWorks funds. Although CMHP targets borrowers whose income is less than 115% of area median, borrowers may have to meet even lower income requirements. Second-lien mortgages funded by the CDFI Fund grants cannot be originated to borrowers with an income greater than 80% of area median, unless they purchase a home in a target area designated by CMHP. In these census tracts borrowers can have a higher income. CMHP second mortgages funded by NeighborWorks are typically made to borrowers whose income is no more than 100% of area median.
NHSOC (La Habra)	NHSOC makes available second-lien mortgages for downpayment assistance that have maximum income restrictions that range between \$62,690 and \$125,920 for a family of four. The CDFI has \$5M available for second-lien mortgages made under its Orange County Housing Trust program, raised through debt provided by Merill Lynch, Wells Fargo, the State of California Tax Credit program, and a \$500,000 CDFI Fund grant. In addition NHSOC uses a NeighhborWorks grant to fund a Workforce Housing program, and has funds from the State of California to fund a CalHome second-lien mortgage program. NHSOC is able to recapitalize its balance sheet by selling most of its second-lien mortgages to NHSA with recourse.
THF (Nashville)	THF makes available second-lien downpayment assistance loans in the Nashville MSA through its Homeownership NOW program and HUD's American Dream Downpayment Initiative (ADDI) program. NOW loans are financed out of a \$20M fund capitalized by \$11M in long-term investments from local banks, \$4M from the CDFI Fund, loan repayments, and fee income. The ADDI loans are financed entirely by HUD. Homeownership NOW loans are restricted to borrowers whose income does not exceed 100% of area median. The HUD-funded ADDI loans cannot be originated to a family whose income exceeds 80% of area median.
NHSSV (San Jose)	NHSSV originates second- (and greater) lien mortgages funded by a number of sources, including state and local governments. Loans made under the CDFI's HomeVenture program, which makes available five-year deferred second-lien mortgages, are sold to NHSA with recourse once the borrower has made three on-time payments. Second-lien loans financed through the CalHome program can be no more than \$40,000 or 20% of the purchase price; these loans are held in portfolio by NHSSV, and the CDFI can use the proceeds from repayments for additional loans. The loans made by NHSSV are mostly limited to borrowers whose income is below 80% of area median, although the CDFI can make loans to borrowers with higher incomes if the mortgages are funded with repayments from previously originated mortgages.

Table 3 (cont.): Summary of sources of funding for subordinate mortgages originated by CDFI lenders

CDFI	Description of mortgages offered and funding sources
HomeSight (Seattle)	HomeSight makes second-lien mortgages funded from a number of government sources, including CDBG, HOME, CDFI fund, private funders, and NeighborWorks. All of the second-lien mortgages made by HomeSight are held in portfolio. In some transactions HomeSight also originates third-lien mortgages. Although there are no income restrictions for the first-lien mortgages it makes, HomeSight restricts its second-lien mortgages to borrowers with incomes no more than 100% of area median, and third-lien mortgages to borrowers with incomes below 80% of area median.
HomeHQ (Syracuse)	HomeHQ originates second-lien downpayment assistance mortgages that are funded from HOME funds from the City of Syracuse and NeighborWorks. These mortgages are limited to borrowers who (1) have an income below 80% of area median (some loans funded by NeighborWorks can be made to higher-income borrowers); and (2) are purchasing a home for less than $99,900. Most of HomeHQ's borrowers (80%) have an income less than 80% of area median, compared to 54% of home purchase loan recipients in Syracuse between 2004 and 2006. Clearly the homebuyer market within the city of Syracuse, both for the CDFI and other lenders, is principally among lower-income people. The HMDA-loan share at below 80% of median far exceeds the comparable level in other cities in our study.

Because they are often made at below-market interest rates, on a deferred payment basis, and/or forgivable over time, these subordinated loans help limit total mortgage payments to manageable levels for households otherwise on the wrong side of thresholds for affording purchase of even modest homes. In some instances, the subordinate debt, by limiting loan-to-value ratios and/or total debt service as a percentage of income, also has the special effect of eliminating first-mortgage lenders' requirements for private mortgage insurance—another significant saving to the homebuyer.

Some of the CDFIs work in multiple public jurisdictions, including combinations of a city and county, or multiple cities and counties. The terms of subordinate funding among the localities differ, as jurisdictions offer distinct forms of assistance that CDFIs can then pass through to their clients or help them to access directly. And in some cases people with incomes below 80 percent of area median income are eligible for different debt products, and/or products on different terms, from those for households with higher incomes. The result is a substantial array of possibilities for buyer assistance depending on location and income.

NHSSV (Table 4) developed a chart that illustrates the various forms of assistance options and their effects on downpayments and debt service within one of their service areas. As the table shows (upper right hand corner), in the high-cost Silicon Valley location, the total subordinate debt for this homebuyer is over $130,000, about 40 percent downpayment assistance on a $327,000 purchase. The table's large central section enumerates the first-lien financing and then

Table 4: Homeownership assistance options offered by NHSSV

Down Payment Assistance Model -Sample Scenario

1/29/2

Member in Household #	5
Annual Income	59,584
% of AMI	52%
1st Mtg. Qualifying Note Rate	5.375

Qualifying Debt Ratio	
Primary Housing	35.94%
Total Obligation Ratio	36.72%
1st Mtg Loan to Value	59.90%
Total Subordinate Financing	$131,417

MTG	Mortgage Layer	Amount	Payment		
1st	CalHFA First Mtg	$196,000	$1,097.54	Mo. Payment	
2nd	Chdap	$6,317	$0.00	Deferred 30	
Other	CalHome	$40,000	$0.00	Deferred 30	
Other	City Eq. Share	$0	$0.00	Deferred until sale of property	
Other	HTSCC	$100	$46.15	Mo. Payment	
Other	Begin	$0	$0.00	Loan to Grant Program	
Other	Santa Clara FTHB	$75,000	$0.00	Def. for 5 years; Pmt 61 Mo	$524.41
Other	HomeVenture Fund	$0	$0.00	Def. for 5 years; Pmt 61 Mo	$0.00
	Subtotal	$317,417	$1,143.69	Principal & Interest	
	Down Payment	$9,817	$340.87	Property Taxes	
	Purchase Price	$327,234	$300.00	HOA Dues /Ins	
			$0.00	PMI	
	Santa Clara FTHB		$1,784.56	Total Payment	

Single Person

1st	CalHFA First	5.75% Interest Rate Amortized over 30 years **	Mo. Payment	Monthly Mortgage Payments
1st	Conventional Mtg	Interest Rate Amortized over 30 years	Mo. Payment	
2nd	ChDap	3% Simple Interest Deferred	Deferred	Up to 30 years
Other	CalHOME	3% Simple Interest Deferred	Mo. Payment	Loan from NHSSV payments over 30 years
Other	City Equity Share Loan	The lesser of either percentage of value of city loan, to be paid to the city or 8% whichever is less	Deferred for life of first mortgage	Percentage Equity Share 0.00%
Other	Housing Trust SCC	7.5% Interest Rate	Mo. Payment	Money Used for Closing Costs
Other	WISH	2% Simple Interest Deferred	Deferred	Loan to Grant program
Other	Santa Clara FTHB	Matches First Mortgage Interest Rate, and Amortized over 15 years ** No interest or Payments Months 1-60	Deferred for 5 years	Loan Program Deferred (over five year period) payments start 61 month
Other	HomeVenture Fund	7.5% Interest Rate, and Amortized over 25 years ** No Interest or Payments Months 1-60	Deferred for 5 years	Loan Program Deferred (over five year period) payments start 61 month

Borrowers Funds	
Cash	$10,581
Stock	$1,800
HTSCC	$6,500
ChDap	$3,500
Sch Fac Fee	$0
Seller Credit	$0
Gift	$0
Total	$22,381

Closing Costs	
Closing Cost +	$9,817
Down Payment +	$9,817
Impound Account +	$2,727
Estimated Total =	$22,361
Subtract Borrowers Funds	$22,381
Excess (Shortfall) =	$20

Example: Step Up Financing	
Total Mo. Payment	$ 1,784.56
Add Step Up Amt.	$ 104.88
13 - 24 mo	$ 1,889.44
25 - 36 mo	$ 1,994.32
37 - 48 mo	$ 2,099.21
49 - 60 mo	$ 2,204.09
Increase Amt. final time	$ 104.88
Total Pmt 61 Month Forward	$2,308.97

Disclaimer: Not responsible for Accuracy of Client Data.
All Numbers reflect projected possible layering example scenarios.

Source: NHSSV

the seven options for subordinate debt. Not every household is eligible for every option among the subordinate debt instruments, depending instead on (1) which local jurisdiction it seeks to purchase in, (2) income, and (3) other household characteristics. The sample case shows four subordinate sources (the ones with non-zero amounts in the "mortgage layer" portion of the table to the left).

This buyer makes almost $60,000 annually, but that is only 52 percent of Area Median Income (AMI). Below-market interest rates (see again center section of the table) help keep total mortgage payments at a level affordable to the household. Other elements include an equity share loan that is deferred until the first mortgage is paid off, and a "loan-to-grant" forgivable loan for residents who retain their homes. An important innovation is the use of loans deferred for five years and then amortizing over the longer run (remaining 25 years). These loans do not count in the first-mortgage lender's calculation of total mortgage payment relative to current income, so that the buyer can commit to pay a higher (by a known amount) monthly payment in the future without running into that cap. At the same time, the loans require repayments that CDFIs can later use to make further loans. Such loans do of course create additional risk that the buyer may have difficulty making its increased payment once the five years have passed. So far, the CDFIs that have used this approach do not report significant problems.

HomeSight, in another high-cost market in Seattle, supplies second- and third-mortgage products for up to $145,000 in total (see the right hand column of Table 5) to first-time homebuyers in the city of Seattle.[22] The second mortgage is a 30-year fully amortizing product currently at 5.18 percent interest for low-income people (6.5 percent for moderate). The owner need provide only 1 percent of the purchase price in cash, and even part of that may be a gift from others.

[22] Technically to households who have not owned a home in the last three years.

Table 5: Summary of mortgages offered by HomeSight

HomeSight's Seattle Loan Products

Revised 01/26/07 PRODUCTS SUBJECT TO CHANGE/AVAILABILITY AT ANY TIME.

PRODUCT FEATURES	HOMESIGHT PUGET SOUND REVOLVING LOAN FUND PRODUCT (2ND Mortgage)	CITY OF SEATTLE HOPE LOAN PRODUCT* (3rd Mortgage; *Administered by City of Seattle Office of Housing or HomeSight)
Interest Rate	5% Simple Interest (5.18% APR) if low-income or 6.5% simple interest (6.695%APR) if moderate-income.	3% Simple Interest (3% APR)
Term	30-year Amortizing Loan. Monthly payments of Principal and Interest. Due upon sale, transfer of title, transfer of use, or cash refinance.	Deferred Payment Loan. No payments first 30 years. Interest accrues but is not due until 30th year, upon sale, transfer of title, transfer of use, or cash refinance. **Shared Appreciation**-percentage of equity is paid to down payment assistance provider when the home is sold, cash refinance, transfer of use or transfer of title. Shared Appreciation is 0% after year 10.
Maximum Amount	Up to $75,000 based on need and eligibility. 2nd & 3rd combined assistance amount can't exceed $145,000	Up to $70,000 based on need and eligibility*. 2nd & 3rd combined assistance amount can't exceed $145,000
Loan Fees	$200.00 or 2% of total assistance, whichever is greater	None
Eligible 1st Mortgage		30 year conforming fixed rate mortgages
BORROWER ELIGIBILITY		
2007 Income Eligibility Requirements as Published by HUD	Up to 100% Median Income Based Upon Household Size: 1 person household-- $52,900 2 person household-- $60,500 3 person household-- $68,050 4 person household-- $75,600	Up to 80% Median Income Based Upon Household Size: 1 person household-- $41,700 2 person household-- $47,700 3 person household-- $53,650 4 person household-- $59,600
First Time Buyer	No ownership of principal residence within past 3 years.	No ownership of principal residence within past 3 years.
Residency	N/A	N/A
Occupancy	Must reside in property as primary principal residence	Must reside in property as primary principal residence.
Education Requirements	Must complete HomeSight's Two-Course Educational Curriculum & Financial Assessment.	Must complete HomeSight's Two-Course Educational Curriculum & Financial Assessment.
Buyer Cash Required	1% of the purchase price Some funds may be received in a gift.	$2,500 or 1% of purchase price, whichever is greater. Some funds may be received in a gift.
PROPERTY QUALIFICATIONS		
Home Location	Must purchase within Seattle City limits target area.	Must purchase within Seattle City limits target area.
Eligible Properties	Fee simple properties only including single unit homes, town homes, condos or manufactured homes permanently affixed to real property. Must pass home inspection by HomeSight-approved Certified Inspector.	Fee simple properties only including single unit homes, town homes, condos or manufactured homes permanently affixed to real property. Must pass home inspection by HomeSight-approved Certified Inspector.
Maximum Purchase Price	None	$335,800.00
Occupancy	Property must be vacant or owner-occupied at time of showing.	Property must be vacant or owner-occupied at time of showing.

Source: HomeSight

The third mortgage is a deferred payment loan only for people with incomes below 80 percent of median, interest accruing at 3 percent but with no payments for 30 years or until sale, transfer of title, or cash refinance. There is also a shared appreciation component, with the share declining to zero over 10 years of occupancy. Some of the specifics of the loans, and the maximum total amount, vary among the jurisdictions HomeSight serves. These are detailed in Table 5.

NHSOC is yet another CDFI with a broad array of secondary debt instruments designed to meet the needs of lower-income households in a market with expensive homes. It can draw on the Orange County Housing Trust for up to $105,000 per household in a low-interest amortizing loan. With households of up to 160 percent of area median income eligible for this particular source of funds, the Trust provides subordinate debt to the highest-income-eligible buyers among the study CDFIs. Other options of up to $45,000 in total are additionally available to households with tighter income restrictions, including CalHome and WISH programs at 80 percent of median income. The WISH program has a matching provision unique among our sites, providing $3 toward the downpayment for each $1 the purchaser provides and then forgiving the loan over 5 years. The full details of these products are provided in Table 6.

Table 6: Summary of loan products offered by NHSOC

CalHome

Down Payment Assistance Loan

Neighborhood Housing Services of Orange County

HIGHLIGHTS

- Up to $40,000 for down payment and closing cost assistance
- Deferred second mortgage for 30 years at 3% simple interest
- May be junior to all loans
- Funds available on of first-come first-serve basis with an acceptable purchase contract

QUALIFYING CRITERIA

- Borrowers must be first-time homebuyers
- First mortgage can not exceed Fannie Mae conforming loan limits
- Must qualify for a first mortgage with an approved CalHFA Lender
- Borrower must occupy property as primary residence
- Single-family detached homes, condominiums, and town homes are eligible
- Family must meet Orange County income limits (80% of Countywide Median):
- Must be used with Orange County Housing Trust

INCOME GUIDELINES

Family size	Maximum Income
1	$44,072
2	$50,368
3	$56,664
4	$62,960
5	$67,997
6	$73,034
7	$78,070
8	$83,107

FAMILY CONTRIBUTION

- Family must contribute towards closing costs
- Complete first-time homebuyer education with NHS OC

Other restrictions apply. Please call (714) 490-1250 for more information.
We offer the best variety of homeownership solutions for first-time homebuyers.

NeighborWorks PROGRAM

Source: NHSOC.

Table 6 (cont.): Summary of loan products offered by NHSOC

Orange County Housing Trust

Down Payment Assistance Loan

Neighborhood Housing Services of Orange County

HIGHLIGHTS

- Up to 25% of the purchase price or $105,000 (whichever is less) for down payment assistance
- Fully-amortized 30-year fixed-rate second mortgage
- Low interest rate
- Funds available on of first-come first-serve basis with an acceptable purchase contract

QUALIFYING CRITERIA

- Borrowers must be first-time homebuyers
- Family must purchase in Orange County
- First mortgage can not exceed Fannie Mae conforming loan limits
- Must qualify for a first mortgage with an approved NHS OC Lender
- Borrower must occupy property as primary residence
- Single-family detached homes, condominiums, and town homes are eligible
- Family must meet Orange County income limits (160% of Countywide Median):

INCOME GUIDELINES

Family size	Maximum Income
1	$ 88,144
2	$100,736
3	$113,328
4	$125,920
5	$135,994
6	$146,067
7	$156,141
8	$166,215

FAMILY CONTRIBUTION

- Family must contribute 3% of purchase price
- Origination and processing fee payable to NHS OC
- Complete first-time homebuyer education with NHS OC
- Origination Fee will apply

Other restrictions apply. Please call (714) 490-1250 for more information.
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NeighborWorks PROGRAM

Source: NHSOC

Table 6 (cont.): Summary of loan products offered by NHSOC

WISH

Down Payment Assistance Grant

Neighborhood Housing Services of Orange County

HIGHLIGHTS

- Provides up to $15,000 for each participating household, matching up to $3 for each $1 contributed by the homebuyers
- After 5 years total amount of grant is forgiven
- Funds available on of first-come first-serve basis with an acceptable purchase contract

QUALIFYING CRITERIA

- Application process allocates funds for homeownership based on program eligibility
- Borrowers must be first-time homebuyers
- Family must purchase in an Orange County
- Must qualify for a first mortgage with an approved lender
- Borrower must occupy property as primary residence
- Single-family detached homes, condominiums, and town homes are eligible
- Family must meet Orange County income limits (80% of Countywide Median):

INCOME GUIDELINES

Family size	Maximum Income
1	$44,072
2	$50,368
3	$56,664
4	$62,960
5	$67,997
6	$73,034
7	$78,070
8	$83,107

FAMILY CONTRIBUTION

- Borrower must contribute at least 1% of purchase price from his/her own resources
- Complete first-time homebuyer education with NHS OC

Other restrictions apply. Please call (714) 490-1250 for more information.
We offer the best variety of homeownership solutions for first-time homebuyers.

NeighborWorks PROGRAM

Source: NHSOC

Table 6 (cont.): Summary of loan products offered by NHSOC

Workforce Housing

Down Payment and Closing Cost Assistance Loan

Neighborhood Housing Services of Orange County

HIGHLIGHTS

- $10,000 for down payment and closing cost assistance
- Deferred second mortgage for 5 years then fully amortized for 5 years
- Low, fixed interest rate (based on NHSA current buying rate)
- Funds available on of first-come first-serve basis with an acceptable purchase contract

QUALIFYING CRITERIA

- Borrowers must be first-time homebuyers
- Family must purchase in Orange County
- First mortgage can not exceed Fannie Mae conforming loan limits
- Must qualify for a first mortgage with an approved NHS OC Lender
- Borrower must occupy property as primary residence
- Single-family detached homes, condominiums, and town homes are eligible
- Family must meet Orange County income limits (81% - 120% of Countywide Median):

INCOME GUIDELINES

Family size	Minimum	Maximum Income
1	$45,260	$66,108
2	$51,635	$75,552
3	$58,010	$84,996
4	$63,747	$94,440
5	$69,485	$101,995
6	$74,584	$109,550
7	$79,684	$136,623
8	$84,784	$166,215

FAMILY CONTRIBUTION

- Family must contribute 3% of purchase price
- $525 processing fee payable to NHS OC
- Complete first-time homebuyer education with NHS OC

Other restrictions apply. Please call (714) 490-1250 for more information.
We offer the best variety of homeownership solutions for first-time homebuyers.

NeighborWorks PROGRAM

Source: NHSOC

THF, in the much lower price market of Nashville, has correspondingly smaller maximum subordinate debt limits. The CDFI's broadly available NOW program caps loans at $8,500, and then only for people at 60 percent of area income or less. The interest rate is 5 percent. Loans for people at higher incomes have somewhat smaller caps and higher interest rates. The structure is such that payments for these amortizing loans are always $50/month. Two other programs are available for people in special situations—one is connected to HOPE VI. Both of them involve loans that are deferred until sale.

CMHP subordinate debt comes as 3 percent interest, 30-year amortizing loans. For purchase of homes built by developers buying lots from CMHP in CMHP development areas, interest rates may be reduced to as low as 1 percent. CMHP provided average second-lien mortgage loan size data for 2002 and 2003, at which time the average was a bit below $9,000 per home and reflected the modest prices (in the realm of $100,000) of Charlotte homeownership properties. The City of Charlotte also has its own program, with forgivable loans (House Charlotte), which were sufficiently advantageous to displace much of CMHP's loan-making in recent years. And the combination of relatively modest home prices and high LTV loans from commercial sources also limited the use of CMHP's own second mortgages. Interestingly, while Charlotte has been making few subordinate loans in the last several years until most recently, its counseling activity and number of clients aided in purchasing homes overall have continued to rise.

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Finally, HomeHQ has two subordinate debt options available to purchasers. For people with incomes below 80 percent of area median, HOME and CDBG money provide resources for five-year forgivable loans. For people of incomes up to 120 percent AMI, NeighborWorks America-funded loans are available at 3 percent interest. HomeHQ is unusual in that, in cases in which first plus second liens would exceed a first-lien lender's limits for total LTV, it has developed a product secured not by a real property lien but by a Uniform Commercial Code (UCC)-1. Some first-mortgage lenders are willing to disregard the HomeHQ debt for the purposes of calculating debt ratios for underwriting, provided the HomeHQ debt is secured by a UCC-1 rather than subordinate home real estate-secured lien.

In sum, these six CDFIs do indeed extend subordinate lending where equity might well be required, and provide the loans on terms made cheaper than traditional lending, by offering low interest rates, deferrals, and/or forgiveness. Their subordinate debt on better-than-market terms addresses both the limit in loan-to-value and debt-service-to-income ratio constraints that can combine with very limited equity to prevent people of modest means from being able to borrow sufficiently to be able to purchase a home. As we shall see, the benefits of that lending are especially striking in terms of the income spectrum of clients whom CDFIs help to become homeowners compared to the spectrum for buyers using traditional loans.

The extent of subordinate debt and in some cases its deferral does mean that households have little or no equity in their homes for extended periods. This poses a potential risk in terms of increased likelihood that households faced with financial cash flow problems might default. As we shall see later, the delinquency rate remains low for these borrowers. Factors offsetting the equity risk are the maintaining of fixed loan payments consistent with borrower incomes, and the incentive provided by the financial advantages of the subordinate instruments.[23]

Flexibility in underwriting

Some of our case study CDFIs make special provisions, in their consideration of the creditworthiness of potential homebuyers and in the kinds of security they require, in order to enable additional households to purchase homes. We have summarized those provisions in the second-from-right column of Table 2. The amount of flexibility is limited by the importance of borrowers qualifying for standard first-lien mortgages from approved lenders. But there is room to maneuver within that constraint, in significant part because subordinate debt allows the buyers to borrow at loan-to-value and debt-service to income levels that would otherwise not be as low.

Our lenders do not in general make significant departures from industry standards in the limits they set on front- and back-end ratios for debt service in relation to income.[24] For those who specified these ratios, front-end was in the 32 percent to 38 percent range, and back-end in the 41 percent to 45 percent range, again often constrained by the standards set by first-mortgage originators or purchasers.

Some of the seven CDFIs do depart from the requirements of credit scores in the traditional market. Two—CMHP and HomeSight—specifically mentioned disregarding credit scores in order to look more flexibly at credit history, allowing for some short-term delinquencies in debt payments that might otherwise be disqualifying if figured into credit scores, some special consideration for health-related debts, and other examination of specific circumstances and

[23] One can think of that cheap debt as lowering the present value of the borrowing beneath the potential sales price of the home.

[24] A front-end ratio is calculated by dividing the total principal, interest taxes, and insurance (PITI) for a given mortgage by a borrower's gross income. A back-end ratio is calculated by dividing a borrower's total debt payments (including his/her PITI) by the borrower's gross income.

causes. And SFCU considers credit scores but looks at factors beyond scores as well. But other CDFIs required minimum credit scores themselves (620), and/or deferred to the requirements of prime first mortgage lenders. Most CDFIs mandated first-lien mortgages from approved lenders as a condition for second-lien mortgages, and even shied away from first-lien mortgage lenders they found to be too flexible—even prior to the recent subprime crash.

Some additional flexibility was allowed in the area of loan-to-value ratios. Two CDFIs mentioned allowing loan-to-value (LTV) ratios of 103 percent; another allowed 100 percent LTV; a fourth CDFI required a 1 percent (of home value) cash equity contribution from the borrower household in order to obtain a second-lien and two percent for third-lien mortgages. Some CDFIs that already had low minimum cash standards allowed even those to be met using one of their downpayment/closing cost assistance products.[25]

Development of affordable housing

Even with provision for homebuying education/counseling, credit counseling, attractive first-lien mortgage and subordinate loans, and underwriting flexibility, it is not easy for low- and very-low-income households to afford homeownership. Four study CDFIs made additional specific provision for the development of and/or access to purchase of affordable units selling for below-market price levels. The lower prices resulted from three types of action: CDFIs obtaining public subsidies either in cash or in kind ; CDFI and other developers' efforts to lower costs of home production; and/or CDFIs creating special partnering relationships that expand their borrowers' access to affordable units.

HomeSight is perhaps the most prominent example. It was created by other Seattle nonprofits to serve as their homeownership production vehicle, rather than having each nonprofit pursue a low-level production capacity. After accessing significant resources from outside the city it was able to leverage an agreement with the City of Seattle to have first right of refusal to significant surplus public land parcels. By obtaining land at below-market prices and using downpayment assistance funds available under the Nehemiah Corporation of America's downpayment grant program, HomeSight was able to sell the homes it built at reduced prices—meshing with its lending efforts to enable households to pay more than their limited incomes would otherwise allow. The organization has constructed more than 330 homes since 1992. HomeSight continues to work hard at finding ways to keep its costs of development down, produces homes for sale, and uses an increasing portion of its special financing for purchasers of its own development project homes.

[25] See the tables on subordinate debt detail for three sites.

HomeHQ has a substantial history of development.. It targets neighborhoods, indeed specific blocks, that have suffered disinvestment, where it buys and rehabilitates homes and then re-sells them to people who have asked HomeHQ for help in becoming homeowners. In a period during which HomeHQ facilitated 200 home purchases, about 30 were people buying HomeHQ-developed homes.

CMHP produced homes for sale in its earlier days, when Charlotte lacked for-profit producers of lower-priced homes. Now, having showed the for-profit sector that there is a market for such homes, CMHP looks to for-profit developers to do the development and construction. CMHP's efforts seem to have been important in catalyzing the production of lower-priced homes by for-profit developers in Charlotte. But it does make explicit partnerships with them. CMHP has acquired significant land parcels, then sold off lots one by one to another developer of modest-price homes, and helped enable lower-income households to buy the resulting homes.

NHSSV has recently built one project for homeownership, which is still being marketed. It has however partnered successfully with another nonprofit developer that built subsidized for-sale housing. The developer, MACHSA, at NHSSV urging, made an exclusive marketing agreement with the CDFI. NHSSV recruited, counseled, and financed the homebuyers for the entire 60-unit project. NHSSV hopes to build an important part of its business as the designated agent for sale of affordable homes developed under inclusionary housing and other provisions in local jurisdictions, and has established a relationship of that type with one city government.

Comparative Analysis of CDFI Lending to All Mortgage Lending

In this section we present our analyses of the extent to which lower-income, minority, and women borrowers and low-income neighborhoods accounted for a larger share of home-purchase lending volume among the seven CDFIs in this study than they do among other lenders making mortgages in the cities where the CDFIs are most active. For each CDFI we present a comparative analysis of (1) the types of borrowers served by a CDFI and all lenders in a particular city, and (2) the types of census tracts (measured by their median household income as a proportion of the area median household income) with loans made by a CDFI compared to mortgages made by all lenders.

Given that CDFIs often have as their mission to serve lower-income families and communities, we would expect such groups to account for a larger share of mortgages than all lenders, many of which make mortgages across the country and in more well-to-do suburban areas and do not necessarily target any one income group or neighborhood. To test CDFIs' likelihood of serving underserved potential homebuyers against traditional lending in only more-similar communities, we present a third analysis for each CDFI that compares income and demographic characteristics of borrowers served by the CDFI to borrowers served by all lenders within just low- and very-low-income census tracts.

Overview of comparison of home purchase borrowers from the case study lenders with those from lenders overall

We examined the difference between shares of CDFI loans going to very-low- and low-income people, racial minorities, Hispanics, and women and those same shares for traditional lenders for all sites, and later expanded upon for each of the seven lenders and six cities.[26] The shares of their home purchase loans that CDFIs make to lower-income and minority borrowers are high in absolute terms. Overall, the seven CDFIs studied in this report originated nearly 87 percent of

[26] The borrower data for THF and HomeSight reflect actual loan originations between FY 2004 and FY 2006. For the remaining CDFIs, the borrower data reflect loans outstanding as of FY 2006.

Table 7: Summary of borrower characteristics served by CDFI lenders in the study

CDFI	City	Very-low-income households	Low-income households	Total of low-income and very-low-income borrowers	Racial minority	Hispanic	Female	Number of CDFI loans
CMHP	Charlotte	1.4%	94.8%	96.2%	94.8%	2.3%	79.6%	788
NHSOC	La Habra	10.3%	67.2%	77.6%	26.5%	66.7%	25.1%	174
THF	Nashville*	17.7%	64.8%	82.5%	59.6%	9.1%	50.0%	559
NHSSV	San Jose	18.3%	53.8%	72.1%	67.2%	32.3%	n/a	251
HomeSight	Seattle*	83.1%	15.9%	99.0%	32.8%	3.5%	61.7%	201
HomeHQ	Syracuse	0.0%	70.8%	70.8%	43.1%	2.8%	66.7%	72
SFCU	Syracuse	40.8%	26.3%	67.1%	24.1%	5.3%	57.9%	76
Weighted average		17.5%	69.0%	86.6%	66.5%	13.1%	55.0%	
* Reflects loans originated between 2004 and 2006.								

Note: Very-low-income households have an income at or below 60% of area median. Low-income households have an income between 60 and 80% of area median.
Source: Authors' tabulation of CIIS data and loan level information provided by HomeSight, SFCU, and THF.

their loans to borrowers with an income below 80 percent of their area median income; and about two-thirds of their loans went to minorities (Table 7).

In many of the tables that follow, we used disparity ratios to compare CDFI lending concentrations with those of other lenders. Disparity ratios here measure the ratio of the proportion of all loans going from CDFIs to one borrower group, for example low-income households, to the proportion of all loans going from traditional lenders to the same group. Thus, if the proportion of all loans from THF in Nashville to low-income people is 64.8 percent, and the proportion of all HMDA-lender loans to low-income people is (hypothetically) 32.4 percent, then the disparity ratio is 2.0.

Disparity ratios in the table exceeding 1.0 mean that the CDFI lenders allocated a larger share to the borrower group than did traditional lenders, and ratios below 1.0 mean a smaller share. (Detailed tables showing the data used to calculate these ratios are in Appendix B.) All of the case study lenders originated a larger share of their loans to lower-income and minority borrowers than did all lenders making mortgages in their respective cities (Table 8): the weighted average disparity is 3.3.[27] The disparity between the share of loans going to borrowers whose income is below 80 percent of area median (low-income and below) ranges from 1.3 for HomeHQ and SFCU in Syracuse to 7.5 for NHSSV in San Jose (Table 8).

Moreover, all of the seven CDFIs in this study have a disparity ratio for borrowers whose income is between 60 percent and 80 percent of area median (low-income) greater than 1.0, which means that the share of case study lenders' mortgages made to borrowers in the six cities with such an income exceeded the share of loans going to these borrowers from all lenders.

[27] The disparity ratios are weighted by the number of loans made by a case study lender in its city.

Table 8: Summary of disparities between shares of mortgage loans to categories of borrowers for CDFI lenders in the study and all lenders originating mortgages in their city between 2004 and 2006

CDFI	City	Very-low-income households	Low-income households	Total of low-income and very-low-income households	Racial minority	Hispanic	Female
MHP	Charlotte	0.1	5.0	2.5	3.7	0.3	2.1
NHSOC	La Habra	2.0	8.0	5.7	1.4	1.2	0.7
THF	Nashville*	0.8	3.0	1.9	2.5	1.5	1.2
NHSSV	San Jose	6.4	8.0	7.5	1.7	0.9	n/a
HomeSight	Seattle*	11.0	1.2	4.7	2.0	0.8	1.7
HomeHQ	Syracuse	0.0	3.0	1.3	2.5	0.6	1.6
SFCU	Syracuse	1.4	1.1	1.3	1.5	1.2	1.3
Weighted average		2.2	4.5	3.3	2.7	0.9	1.4
* Reflects loan originated between 2004 and 2006.							

Note: Very-low-income households have an income at or below 60% of area median. Low-income households have an income between 60 and 80% of area median.
Source: Authors' tabulation of HMDA, CIIS data, and loan level information provided by HomeSight and THF.

The picture for very-low-income homebuyers is mixed. Some CDFIs do little lending to this group of potential borrowers, believing that many may be unable to sustain ownership. HomeHQ in Syracuse made no loans to borrowers with an income less than 60 percent of area median, and so its disparity ratio for those borrowers is zero. CMHP made very few loans to borrowers within the lowest income category (1.4 percent out of 788 loans outstanding), and so its disparity ratio for very-low-income borrowers is 0.1. The share of very-low-income borrowers of THF's loans in Nashville is below the share of such borrowers for loans made in that city by all lenders.

The proportions of loans made by NHSOC in La Habra, NHSSV in San Jose, and HomeSight in Seattle to very-low-income borrowers (with an income less than 60 percent of area median) are well above the share of loans to very-low-income borrowers from all lenders in those cities, all of which are high-cost housing markets. All three of these organizations offer second-lien mortgages that provide downpayment assistance, which allows borrowers even with incomes below 60 percent of area median to purchase homes in relatively high-cost housing markets.

In some cases there are also differences in the racial, ethnic, and gender makeup of the case study lenders' borrowers compared to all borrowers. The share of loans to racial minorities for each of the case study lenders is at least 1.5 times the share of home purchase loans originated by all lenders in these CDFI's cities, except in the case of SFCU. Three of the seven CDFIs—NHSOC (La Habra), THF (Nashville),and SFCU (Syracuse)—originated a larger share of their loans to Hispanics than did all lenders in their respective cities; all but one lender (NHSOC in La Habra) that reported gender data made a higher share of its purchase loans to women than all lenders.

Racial and ethnic minorities in the United States have lower incomes in general than do non-Hispanic whites. Those incomes might explain the higher proportion of CDFI loans going to minorities than is the case for all traditional lenders, given CDFIs' household income targeting, underwriting flexibility, and subordinate debt provision. In fact, however, CDFIs serve higher proportions of minority homebuyers even after income is taken into account. In Table 9, buyers are grouped by very-low-income and low-income categories, and disparity ratios are then computed for racial and ethnic subgroups. With the exception of NHSOC in La Habra, the disparity ratio for the share of loans made to racial minorities is well over 1.0 in the very-low- and/or low-income category.[28]

[28] The disparity ratio exceeds 1.0 in at least the income category in which most CDFI loans were made.

Table 9: Disparity ratios for borrower characteristic for all purchase loans made to very-low-income and low-income borrowers

CDFI	City	Very-low-income racial minority household	Low-income racial minority household	Total very-low-income and low-income racial minority households	Very-low-income Hispanic household	Low-income Hispanic household	Total very-low-income and low-income Hispanic household
CMHP	Charlotte	2.0	3.2	2.4	0.0	0.2	0.0
NHSOC	La Habra	0.0	0.3	0.3	2.8	1.5	1.7
THF	Nashville*	2.0	2.2	2.1	1.1	1.0	1.0
NHSSV	San Jose	1.9	1.8	1.8	1.7	1.0	1.3
HomeSight	Seattle*	1.8	1.9	1.7	0.6	1.7	0.7
HomeHQ	Syracuse	4.3	3.1	3.2	0.0	0.0	0.0
SFCU	Syracuse*	0.0	3.8	2.8	0.6	1.9	0.9
Weighted average		2.1	2.8	2.1	1.0	0.6	0.5
* Reflects loans originated between 2004 and 2006							

Note: Very-low-income households have an income at or below 60% of area median. Low-income households have an income between 60 and 80% of area median.
Source: Authors' tabulation of HMDA, CIIS data and loan level information provided by THF, SFCU, and HomeSight.

Because lenders are more likely to make high-cost loans to lower-income borrowers, the weighted average share of loans from CDFIs originated to borrowers with an income of 80 percent of area median or below is 3.1 times the share of high-cost loans originated to borrowers with the same income (Table 10), compared to a disparity ratio of 3.3 for all purchase loans (Table 8). The same pattern holds for minority borrowers. The weighted average disparity ratio for the share of CDFI loans and high-cost loans originated to minority borrowers is 1.7 (Table 10); this disparity ratio is only two-thirds the minority disparity ratio for all purchase loans.

The results for Hispanics regarding high-cost loans are more complicated to interpret. The weighted average Hispanic disparity ratio for high-cost loans is 0.6, compared to 0.9 for all purchase loans. This difference reflects the relatively small share of loans originated by the CDFIs to Hispanic borrowers: Hispanics account for less than 10 percent of loans originated by five (CMHP, THF, HomeSight, HomeHQ, and SFCU) of the seven CDFIs, in cities that do not have high Hispanic populations. However, Hispanics received a higher share of high-cost loans in the cities (Charlotte, Nashville, Seattle, and Syracuse) in which the CDFIs operated than all purchase loans. As a result, the smaller weighted average Hispanic disparity ratio suggests that the pool of CDFI borrowers is different with respect to ethnicity than high-cost borrowers.

Table 10: Summary of disparities between shares of mortgage loans to categories of borrowers for CDFI lenders in the study and all lenders originating high-cost mortgages in their city between 2004 and 2006

CDFI	City	Very-low-income households	Low-income households	Total of low-income and very-low-income households	Racial minority	Hispanic	Female
CMHP	Charlotte	0.0	3.6	1.7	1.9	0.2	1.8
NHSOC	La Habra	1.5	8.9	5.3	1.7	1.0	0.7
THF	Nashville*	0.6	2.5	1.5	1.5	1.1	1.1
NHSSV	San Jose	7.1	11.5	9.9	2.3	0.5	n/a
HomeSight	Seattle*	11.0	1.0	4.1	1.3	0.4	1.7
HomeHQ	Syracuse	0.0	2.6	1.3	1.5	0.4	1.4
SFCU	Syracuse	1.5	1.0	1.2	0.8	0.8	1.2
Weighted average		2.2	4.3	3.1	1.7	0.6	1.3
* Reflects loans originated between 2004 and 2006							

Note: Very-low-income households have an income at or below 60% of area median. Low-income households have an income between 60 and 80% of area median.
Source: Authors' tabulation of HMDA, CIIS data, and loan level information provided by HomeSight, SFCU, and THF.

Comparison of neighborhoods served by the case study lenders with those from lenders overall

Only two of our study CDFIs have geographic targeting to specific neighborhoods as a program component.[29] But as Table 11 details, as a result of various factors not limited to deliberate neighborhood targeting, all seven CDFIs end up with at least 39 percent of their loans in the combination of low- and very-low-income neighborhoods. And CDFIs show their sharpest contrast with lending by all lenders in neighborhoods of very low income. The overall weighted average disparity ratio for the case study lenders' share of loans in tracts with a median household income below 80 percent of area median is nearly three times the share for all lenders in their respective cities.

CMHP has the most explicit neighborhood targeting among the seven CDFIs. This community development corporation selects neighborhoods for sequential concentrated attention in its efforts in the areas of housing development, public safety improvements, and other community organizing activity. It works in close collaboration with the Charlotte city government. It encourages homebuying and homeownership in its selected locations, as a neighborhood stabilization approach. It recruits buyers for those areas, and helps make households in its counseling programs aware of the opportunities for purchases. It also lowers the interest rate on subordinate debt when buyers purchase homes within projects being developed by its partners, from 3 percent to 1 percent. And it allows households with incomes up to 120 percent of area median to qualify for second-lien mortgages within the target neighborhoods, but only up to to 80 percent in other locations. CMHP has targeted five neighborhoods since 1990, though it phases out those that are stabilized and adds others. The results of these practices are reflected in the notably high level of CMHP loans that go to very low-income neighborhoods.

HomeSight is among those without a geographic targeting approach for its lending. But it does do substantial housing development itself, and increasingly it makes its loans to households purchasing the homes it has built.. Not all of Homesight's development is in low-income neighborhoods; some of it is in areas where Homesight is able to obtain surplus vacant land from public agencies, though Homesight does primarily concentrate its activity in low-income neighborhoods. Further, in a high-priced homebuying market like Seattle, there are few neighborhoods, at least within the city itself, in which people of limited means can afford to buy.

[29] The sites do in general have targeting at the city and county level. Various pots of funds they use for lending resources come from city-/county-owned or controlled funding sources and are limited by the jurisdictions to use within their boundaries.

If one includes loans in census tracts just above the low-income threshold, most loans end up being in such low- and near-low income areas.

THF's loans are mostly without a geographic target, although the set funded by Hope VI have a narrower focus in that project's vicinity. NHS of Orange County serves the entire huge county, although loans have centered in La Habra. NHS of Silicon Valley also has no geographic targeting policy. However, its partnership with a nonprofit developer as the exclusive broker/lender for a major project concentrated a large share of loans in one very-low-income tract.

HomeHQ serves the entire Syracuse area, and its loans are quite spread out. Perhaps the generally lower sale prices of Syracuse homes allow modest-income households to buy widely. SFCU, on the other hand, targets a list of core neighborhoods. It originally served the mostly African American community in south Syracuse, but has more recently added another community of focus in the northern part of that city.

Table 11: Summary of share of loans made by CDFIs in lower-income census tracts

CDFI	City	Very-low-income tracts	Low-income tracts	Total of very-low-income and low-income tracts
CMHP	Charlotte*	56.9%	10.1%	67.0%
NHSOC	La Habra	28.6%	31.7%	60.3%
THF	Nashville	19.2%	30.3%	49.6%
NHSSV	San Jose	51.8%	18.6%	70.4%
HomeSight	Seattle*	5.9%	33.3%	39.2%
HomeHQ	Syracuse	21.4%	33.3%	54.8%
SFCU	Syracuse	42.0%	7.2%	49.3%
Weighted average		32.3%	23.5%	55.7%
* Reflects CDFIs that target specific neighborhoods.				

Note: Very-low-income tracts have a median household income at or below 50% of area median. Low-income tracts have a median household income between 50 and 80% of area median.
Column totals may not add up due to rounding.
Source: Authors' tabulation of CIIS data.

Despite a lack of explicit neighborhood targeting, the share of each case study lender's mortgages going to very-low-income census tracts (the tract's median household income is below 50 percent of area median) is greater than for all lenders in their cities between 2004 and 2006 (Table 12). The greatest disparity is for CMHP, whose share of loans in very-low-income tracts was 10 times the share of such tracts for all mortgage loans in that city. Among the remaining case study lenders, the share of loans in very-low-income tracts was between 1.1 times as great (for HomeSight in Seattle and HomeHQ in Syracuse) and 5.2 times as great for NHSSV in San Jose (Table 12).

Table 12: Summary of disparities between types of neighborhood served by CDFIs included in this study and all purchase loans in their cities

CDFI	City	Very-low-income tracts	Low-income tracts	Total of very-low-income and low-income tracts
CMHP	Charlotte*	10.2	0.9	3.8
NHSOC	La Habra	2.6	0.8	1.2
THF	Nashville	4.0	2.5	2.9
NHSSV	San Jose	5.2	0.8	2.1
HomeSight	Seattle*	1.1	1.3	1.3
HomeHQ	Syracuse	1.1	1.5	1.3
SFCU	Syracuse	2.1	0.3	1.2
Weighted average		5.4	1.7	2.8
* Reflects CDFIs that target specific neighborhoods				

Note: Very-low-income tracts have a median household income at or below 50% of area median. Low-income tracts have a median household income between 50 and 80% of area median.
Source: Authors' tabulation of HMDA and CIIS data.

The results are different for low-income census tracts. The proportion of loans made in those tracts by three case study lenders—THF in Nashville, HomeSight in Seattle, and HomeHQ in Syracuse—is greater than for all mortgage loans in those three cities made between 2004 and 2006. Conversely, the proportion of loans made by the remaining four CDFIs in low-income census tracts is lower than for all mortgages made in their cities between 2004 and 2006.

Without regard to the distribution of the loans between very-low- and low-income census tracts, more loans are made by CDFIs in the combination of census tracts below 80 percent of area median incomes than is true for other lenders. In Table 12 we see that the share of all of the case study lenders' mortgages going into census tracts with an income below 80 percent of area median is consistently higher than for all lenders in their respective cities (disparity ratios above 1.0). But the difference is very sharp in only three of the six cities. The disparities between the shares of case study lenders' mortgages in tracts with a median household income no more than 80 percent of area median and all lenders in their city range are only 1.2 to 1.3 in four sites, but range for the remaining three from 2.1 in San Jose to 3.8 in Charlotte.

High-cost loans are more likely to be originated in lower-income census tracts. As a result, the disparity ratios between the share of loans made by the CDFIs and high-cost loans are lower than the disparity ratios for all purchase loans. The weighted average disparity ratio for CDFI loans made in lower-income tracts is 2.0 (Table 13), compared to 2.8 for all purchase loans. The pattern holds for low-income and very-low-income tracts.

Table 13: Summary of disparities between types of neighborhood served by CDFIs included in this study and all high-cost loans in their cities

CDFI	City	Very-low-income tracts	Low-income tracts	Total of very-low-income and low-income tracts
CMHP	Charlotte*	7.5	0.6	2.9
NHSOC	La Habra	2.3	0.8	1.1
THF	Nashville	2.3	1.8	1.9
NHSSV	San Jose	4.3	0.5	1.4
HomeSight	Seattle*	0.6	0.9	0.8
HomeHQ	Syracuse	0.8	1.3	1.0
SFCU	Syracuse	1.6	0.3	0.9
Weighted average		3.7	1.2	2.0
* Reflects CDFIs that target specific neighborhoods.				

Note: Very-low-income tracts have a median household income at or below 50% of area median. Low-income tracts have a median household income between 50 and 80% of area median.
Columns may not add-up due to rounding.
Source: Authors' tabulation of HMDA and CIIS data.

Comparison of borrowers served by case study lenders in low-income neighborhoods to all borrowers in those locations

CDFIs, unlike traditional mortgage lenders, typically originate loans as part of a broader mission to serve low- and moderate-income families and neighborhoods. Therefore, the expectation is that CDFIs target more lending towards such families and locations when compared to traditional lenders. Consistent with this expectation are the disparity ratios that show greater concentrations of CDFI loans to lower-income borrowers and in lower-income neighborhoods, when CDFIs are compared to traditional lenders. Overall, mortgages originated to lower-income borrowers and in lower-income neighborhoods constitute a larger share of CDFI mortgage loans than of mortgages made by all lenders.

But, do traditional mortgage lenders serve the same types of borrowers within lower-income neighborhoods as those that receive mortgages from CDFIs? Such a comparison takes into account the fact that most traditional lenders serve large geographic areas, and do not necessarily target their activities to lower-income neighborhoods, except for products developed to promote affordable homeownership. Therefore, a comparison within lower-income neighborhoods between borrowers served by CDFIs and all lenders provides a tighter "apples-to-apples" analysis of the extent to which these two types of lenders serve different types of borrowers.

Table 14: Summary of disparity ratios for types of borrowers served by case study CDFIs and all lenders in the low-income areas of their cities, for all home purchase loans

CDFI	City	Very-low-income households	Low-income households	Total of very-low-income and low-income households	Racial minority	Hispanic	Female
CMHP	Charlotte	0.0	4.1	1.9	3.0	0.1	1.9
NHSOC	La Habra	5.1	10.9	9.2	0.6	1.4	0.4
THF	Nashville	0.8	2.8	1.8	2.4	1.4	1.2
NHSSV	San Jose	4.5	6.6	5.9	2.1	0.7	0.0
HomeSight	Seattle	10.5	1.1	4.4	1.9	0.8	1.7
HomeHQ	Syracuse	0.0	2.6	1.0	1.8	0.4	1.5
SFCU	Syracuse	1.4	1.1	1.3	1.5	1.2	1.3
Weighted average		2.2	3.5	2.7	2.4	0.8	1.4

Note: Very-low-income households have an income at or below 60% of area median. Low-income households have an income between 60 and 80% of area median.
Source: Authors' tabulation of HMDA and CIIS data.

Table 14 shows the disparity ratios for only those loans made in lower-income tracts. The share of loans to lower-income households was higher for the case study lenders in their cities than the share of loans received by such borrowers from all lenders. The weighted average ratio for all case study lenders is 2.7. The same is true for the share of loans made to minorities, with the exception of NHSOC in La Habra. Even when we confine our attention to lower-income neighborhood lending, CDFIs target more lower-income and minority borrowers than do other lenders.

Other measures of the case study lenders' assistance to underserved households and communities in home purchase

There are other useful ways to measure the focus of CDFI activities on serving households and neighborhoods with low homeownership rates besides the comparison of the distribution of CDFI loan recipients to that of all other lenders—the measure upon which we have concentrated in much of this paper. In this section, we add to that measure:

- A limited (by data availability) sense of the scale of CDFI lending to their focus categories of borrowers compared to other lenders in the same community.
- A partial picture of the scale of CDFI assistance to households through counseling and referrals and not their own direct lending.
- A look at the extent to which the mix of households that CDFIs help actually attain homeownership matches the mix of households initially seeking their help.

First, consider the fragmentary information we have on CDFI lending scale compared to non-CDFI lenders. More so than we anticipated, traditional mortgage lenders too already offer lending products to lower-income homebuyers. As a result, CDFI activities are not needed to demonstrate to lenders how to increase their lending volume to traditionally underserved markets, although there remain important issues about the quality and cost of those loans from traditional lenders. Contrary to our initial hypothesis, the impacts of CDFIs arise principally from the loans and services directly provided to low- and very-low-income homebuyers and other ownership-disadvantaged households in their communities, rather than to effects of modeling behavior for other lenders—an issue that we discuss further under relations with traditional lenders in the next section of the report.

One major component of that direct effect is measured by the numbers of loans to low-income people and neighborhoods, particularly cheap second mortgages at six of our sites and the first-mortgage loans to "creditworthy but non-bankable" households by SFCU.

By this standard alone, CDFIs may play a modest role. We can do only limited comparisons of CDFI loan volume to various borrower categories and neighborhood types. The fact that we do not have CIIS data stating the year in which CDFI loans were made considerably reduces our ability to make this assessment. Our best comparisons are for HomeSight and The Housing Fund, where we obtained loan transaction data directly from the lenders. That data contained year of loan origin, unlike the CIIS data. We were thus able to compare the annual volume of loans to low and very-low-income people that our single CDFI originated to the number of prime loans that all HMDA-reporting lenders together made to those income groups in the same period. Compared to all home purchase loans to this group originated between 2004 and 2006, the number of loans made by THF in Nashville and HomeSight in Seattle is only 3 percent of this total (Table 15).[30]

[30] The THF data are actually 2/3 of the three-year total for 2004-2006.

Table 15: Comparison of volume of loans originated to lower-income borrowers by HomeSight and THF to loans made by all lenders in Seattle and Nashville between 2004 and 2006

	Seattle			Nashville		
Borrower income category	**Loans originated by HomeSight between 2004 and 2006 to lower-income borrowers**	**All purchase loans in Seattle originated between 2004 and 2006 to lower-income borrowers**		**Loans originated by THF between 2004 and 2006 to lower-income borrowers**	**All purchase loans originated in Nashville between 2004 and 2006 to lower-income borrowers**	
Very low-income	167	3,647	5%	99	9,251	1%
Low-Income	32	6,568	0%	363	6,568	6%
Total	199	10,215	2%	462	15,819	3%

Source: Authors' tabulation of HMDA and loan level information provided by HomeSight and THF.

In making this comparison, however, it must be kept in mind that no one lender has a particularly large share of loans made to lower-income borrowers in a given area. Within Davidson County, which contains Nashville, Countrywide originated the largest number of home purchase loans to borrowers with an income below 80 percent of area median between 2004 and 2006, but its market share was no more than 13.5 percent in any of the three years. Similarly, in King County, which contains Seattle, the largest lender serving lower-income borrowers made no more than 9 percent of all purchase loans originated in any one year in that county between 2004 and 2006 (Table 16). Better estimates require reports from more CDFIs to the Fund, containing more-complete data.[31] The single CDFI for which we have data, in each city, made a contribution to lending to people of limited means that was a significant fraction of that of the city's largest low-income lender. If we coupled the limitation to low-income people with low-income neighborhoods, the differences might be narrower still.

Table 16: Comparison of THF and HomeSight lending volume to largest lender in Davidson and King Counties between 2004 and 2006

King County			
Year	**Lender with largest number of purchase loans to borrowers with an income less than 80% of area median**	**Number of home purchase loans originated to borrowers with an income less than 80% of area median**	**Share of all purchase loans to borrowers with an income less than 80% of area median**
2004	Wells Fargo	1,054	8.2%
2005	Countrywide	902	7.8%
2006	Countrywide	674	8.8%
Davidson County			
2004	Countrywide	762	12.4%
2005	Countrywide	921	13.5%
2006	Countrywide	825	12.9%

Source: Authors' tabulation of HMDA and loan level information provided by HomeSight and THF.

Next, consider the scale of CDFI activity outside of direct lending. CDFIs' impacts are not limited to the cases in which they themselves originate loans. Their counseling activities, by preparing people for ownership, help banks to make loans to lower-income borrowers and also assist the public sector in making loans directly to homebuyers rather than allocating funds to and through CDFIs. And the CDFIs help people find their way to successful purchase, linking them to brokers, lenders, and affordable homes. We have data for the broader involvement of two of our sample CDFIs, obtained directly from those lenders.

[31] Release of loan dates or origination would also be needed.

CMHP is an interesting case. During the period 2001-2007 (Table 17), the number of subordinated loans that CMHP originated annually declined by more than 87 percent, and the dollar volume fell by 95 percent. Two factors contributed to declining loan activity on CMHP's part over the new decade. The City of Charlotte made forgivable loans available through its House Charlotte program, which competed favorably with CMHP's subordinated debt products. And the loosened strings on lending from individual traditional banks, before the current meltdown, reduced people's willingness to go through even the brief process of qualifying for CMHP first mortgages.

Table 17: CMHP's volume of second-lien mortgage activity

Year	of loans originated	Total loan value
2001	73	$1.4 million
2003	68	$0.7 million
2007	9	$0.066 million

Source: CMHP.

During the period when loans declined, the participation in CMHP homebuyer education and counseling courses grew, and the number of participants who were known to have acquired homes grew as well (Table 18). The number of home purchases nearly doubled between 2002 and 2007. Participation in homebuyer education grew 65 percent (after a flat period), although participation in homebuyer education class stayed flatter.

Table 18: Number of clients counseled by CMHP by activity: FY 2002-FY 2007

Fiscal Year	Sales	Homebuyer education and counseling	Pre-purchase counseling	Foreclosure prevention
2002	85	189	480	n/a
2003	98	271	504	151
2004	52	247	536	244
2005	96	0	551	202
2006	111	168	527	242
2007	161	226	735	304

Source: CMHP.

The average income of people purchasing grew only modestly, from about $31,000 in FY 2002 to $38,000 in FY 2007, but the total value of purchases and first mortgages roughly doubled (Table 19). Although the income of CMHP's homebuyers remained the same over the period, the average amount of first-lien mortgages originated, and the total sales volume, both increased from FY 2002 to FY 2007. While CMHP cannot (and does not) take sole credit for this activity and success, it clearly is assisting a larger number of homebuying households than its specialty second loan numbers alone would indicate.

Table 19: Average incomes for homebuyers served by CMHP: FY 2002-FY 2007

Fiscal Year	Number of families	Average family size	Average annual income	Percent of area median income	Average first-lien mortgage	Total sales volume
2002	85	2	$30,972	60%	$88,973	$8,607,584
2003	98	2	$30,984	60%	$92,941	$10,336,062
2004	52	2	$32,520	66%	$89,824	$5,100,408
2005	96	2	$33,540	68%	$98,752	$10,592,738
2006	111	2	$32,412	63%	$104,076	$13,659,026
2007	161	2	$37,704	73%	$121,877	$20,542,519

Source: CMHP.

Third, our analysis considered whether CMHP "creams" the least disadvantaged or least historically underserved households among those coming to its door and helps mainly those families to purchase homes with direct lending. The actual pattern can be gleaned from comparing the race of participants in elements of CMHP homeownership programs besides lending (Table 20) and their income (Table 21) to the data in Table B-1, which compares CMHP borrowers to those served by all lenders in Charlotte.

Table 20: Racial characteristics of clients receiving counseling services from CMHP: FY 2002-FY2007

Fiscal Year	Black	White	Hispanic	Asian	Other	Total
2002	455	12	8	4	2	481
2003	570	32	47	2	-	651
2004	716	35	24	3	-	778
2005	651	80	18	3	2	754
2006	681	62	12	7	7	769
2007	786	125	20	6	102	1,039
Fiscal Year	**Black**	**White**	**Hispanic**	**Asian**	**Other**	**Total**
2002	95%	2%	2%	1%	0%	100%
2003	88%	5%	7%	0%	0%	100%
2004	92%	4%	3%	0%	0%	100%
2005	86%	11%	2%	0%	0%	100%
2006	89%	8%	2%	1%	1%	100%
2007	76%	12%	2%	1%	10%	100%

Source: CMHP.

The distribution of people participating in counseling and education is very similar, in income and race, to that of the people who received CMHP loans. Blacks account for a high proportion (ranging from 76 percent in 2007 to 95 percent in 2002) of people receiving counseling services from CMHP; blacks received 95 percent of home purchase loans originated by the organization (Table B-1). Similarly, 94 percent of people receiving counseling services from CMHP had an income below 80 percent of Charlotte's area median income, compared to 96 percent of CMHP home purchase loan recipients with an income below 80 percent of area median. These findings suggest that people who enter into the program, whatever their characteristics, have a roughly proportionate chance of completing the process and obtaining a loan from CMHP. At least after people with a diagnosed need for credit repair are separated out (and given assistance with that issue), the others are helped to a consistent level of success.

Table 21: Income characteristics of clients receiving counseling from CMHP: FY 2003-FY2007

Fiscal Year	Below 50% of area median income	50-80% of area median income	80-100% of area median income	Over 100% of area median income	Total
2003	228	344	33	4	609
2004	330	373	64	14	781
2005	284	361	71	37	753
2006	304	324	96	45	769
2007	303	417	148	92	960
Fiscal Year	**Below 50% of area median income**	**50-80% of area median income**	**80-100% of area median income**	**Over 100% of area median income**	**Total**
2003	37%	56%	5%	1%	100%
2004	42%	48%	8%	2%	100%
2005	38%	48%	9%	5%	100%
2006	40%	42%	12%	6%	100%
2007	32%	43%	15%	10%	100%

Source: CMHP.
Note: Totals may not sum to 100 percent due to rounding.

The other CDFI for which we have activity data beyond its own loan-originations is NHSSV (see Table 22). The CDFI's activity again well exceeds the numbers of loans it reports to CIIS. The number of purchasers who have participated with NHSSV and whom NHSSV knows acquired a home is 50 percent higher than the number of CIIS-reported second mortgages. First mortgages originated or brokered are a bit higher still. Counseling sessions are nearly 10 times the number of purchases. We do not know the average number of sessions a given household had, but we can guess it was well below 10—meaning more families benefited from counseling (as well as workshops) than are known purchasers to date, and some may go on to buy homes without further NHSSV involvement.

Table 22: NHSSV homebuyer education and counseling activities, buyers, and source of first-lien mortgage

Fiscal Year ended	Orientation	Workshop	Counseling sessions	Buyers	Originated first-lien mortgage	Brokered a loan
2003	250	144	102	n/a.	0	42
2004	1,045	320	694	43	0	43
2005	1,932	459	891	98	42	56
2006	1,466	449	923	125	104	21
2007	1,277	415	882	107	71	40
Total	5,970	1,787	3,492	373	217	202

Source: NHSSV.
Note: Buyers purchase homes with NHSSV's assistance. Such buyers may receive a first-lien mortgage directly from NHSSV, or NHSSV may act as a broker while the buyer receives a first-lien mortgage from another lender.

As was the case for CMHP, the characteristics of NHSSV buyers and counseling participants are similar to each other (Table 23). Incomes and other characteristics track fairly closely. A much smaller proportion of buyers than overall clients are have very low income, but that difference is largely made up by significantly more low-income households, so that a similar share of loans go to people under 80 percent of area median income. The difference in median incomes between all clients and those who bought homes is only $7,000 out of $64,000.

Table 23: Characteristics of clients served by NHSSV and of clients buying homes: 2003-2007

	Counseled		Purchasers	
Race	N	Percent	N	Percent
Black	276	8%	21	5%
White	1,037	30%	156	37%
Asian	995	29%	142	34%
Other	1,105	32%	102	24%
Total	3,413	100%	421	100%
Hispanic	1,044	28%	95	23%
Income category				
Less than 50% of area median	1,170	32%	44	10%
Between 50% and 80% of area median	1,351	36%	197	47%
Between 81% and 120% of area median	1,010	27%	166	39%
Greater than 120% of area median	173	5%	14	3%
Total	3,704	100%	421	100%
Median income	$57,787		$64,000	
Mean income	$60,305		$65,868	
Immigrant status	1,324	36%	146	35%
Age				
Less than 26	303	9%	49	12%
26 to 55	2,931	85%	358	85%
56 and above	213	6%	13	3%
Total	3,447	100%	420	100%

Source: NHSSV.
Note: Totals may not sum to 100 percent because of rounding.

The percentages of Asians, Hispanics, and others are very similar between the groups. The percentages of immigrants are nearly identical. The homebuyers are actually younger on average than all clients. Women are a near identical slender majority in both cases. And almost every buyer is a first-time purchaser. Again, the CDFI is doing a good job of making homeowners out of the same mix of people who come in for help, not making progress only for the easiest cases.

Relationships with other lenders

Another way that CDFIs can have wider impact on home purchase lending and homeownership is to affect the behavior of non-CDFI lenders. Examining the effects, if any, of CDFI strategy and activity on other lenders was from the start an aim of our study. How if at all did the work that CDFIs carry out affect traditional lenders' ability and willingness to do home purchase lending for population subgroups and neighborhoods that had historically had lower homeownership rates and access to such loans?

Our original hypothesis about the principal links between the work of CDFIs and that of other lenders was this: CDFIs would demonstrate that, at least with certain practices and loan products adopted and revised, loans could successfully be made to people of lower incomes and in neighborhoods of lower income than had historically been the case with traditional lenders. Those other lenders would adopt some of the CDFI practices, and expand their lending among groups and in locations for which previous lending had been limited.

This hypothesis proved not to be a good description of the principal relationships between CDFI and traditional lenders, although it might have been somewhat more accurate at an earlier time. Indeed, as part of the set-up for our site interviews, we asked CDFI CEOs for names of lenders whom they thought they had influenced in this way, hoping to seek interviews with them. None of the seven CDFI leaders identified a lender whom they thought they had affected in this way. In our interviews, none of the CDFI executives and none of the partner lenders they identified responded positively to our questions about these modeling or demonstration effects. If the effects were important at any point, they preceded the substantial tenures of CDFI and other lenders.

CDFI and traditional lenders instead told a different story. Their primary relationships were in the form of explicit or implicit partnerships. These partnerships included arrangements in which, variously:

- CDFIs provided low-cost subordinate debt, often with other lenders as providers of first-mortgage capital. The CDFI loans enabled people with more-limited incomes and wealth to be served by the combination of CDFI and traditional lenders.

- CDFIs and traditional lenders shared a two-way referral system. People who approached traditional lenders for mortgages were referred to CDFIs for homebuyer education and counseling (sometimes on a mandatory basis to qualify for loans, sometimes to help prepare them voluntarily to meet lender standards), and for second (and third etc.) mortgages to enable them financially to reach their buying goals. And some CDFIs referred or brokered potential buyers who entered their systems to traditional lenders to seek first mortgages (compared to other CDFIs that originated their own loans).

We have already discussed many of these relationships in detailing provisions for counseling and first and subordinate mortgages for each CDFI, and will not repeat that material. Summarizing briefly across the counseling and lending categories:

- CMHP partners with a group of traditional lenders providing first mortgages. Its history with those lenders comes the closest to matching our original hypothesis, as loans from the pooled funds of several traditional lenders helped those institutions become comfortable with making loans from each individually on both round-robin and individual bases. CMHP also partners with the state's HFA, originating loans to be bought by North Carolina HFA. The system of two-way referrals also applies.

- NHSSV's approach is similar to CMHP's in terms of originating loans to be bought by its state HFA and two-way referrals. But it has nothing comparable to the Charlotte loan pool and round robin.

- HomeSight brokers first mortgages to Boeing Employees Credit Union and to Harris Bank, supplies accompanying junior debt capital, and gives and receives referrals.

- The Housing Fund more typically receives referrals from first lenders or real estate brokers, provides second-lien mortgages, and refers people out to counseling. Region's Bank and others provide the capital that THF uses for its second mortgages.

- The NHS of Orange County and Home HQ collaboration models are similar to that of the Housing Fund, except that the former two do their own counseling and get most of their lending capital from public sector sources.

- SFCU does not have explicit partnerships with other lenders, but SFCU clients depend on traditional lenders' confidence in SFCU education/counseling and lending. SFCU's ARMs are to be replaced by cheaper first mortgages once banks see SFCU clients demonstrating their creditworthiness and bankability.

The CDFIs provide a set of direct services to traditional lenders much more than they serve as models. CDFIs preparing people for ownership with education and counseling, referring them to first-mortgage lenders, and providing seconds so that homeownership is affordable all help traditional lenders meet their CRA requirements to lend to lower-income people and communities. Often the CDFIs receive fees for service (in counseling and education) and grants and participation/technical assistance (on boards, for example) from the other lenders in return, for which lenders get additional CRA credit. Most importantly, the combined set of CDFI and traditional lender activities increases the number of lower-income people and people of color who can gain access to homeownership.

Analysis of all CDFIs reporting into CIIS

Most of our seven case study lenders restricted their loans to first-time homebuyers, who generally received fixed-rate mortgages. Moreover, many of the case study lenders, especially those originating second-lien mortgages, required that their borrowers meet Fannie Mae or Freddie Mac underwriting requirements. To determine if these homeownership elements were unique to the case study lenders, we examined loans reported by *all* CDFIs that put transaction-level data into the CIIS system. We looked especially at the share of CDFI loans that went to first-time homebuyers and the share that were fixed rate (and ARMs). We also computed one statistic regarding the long-term sustainability of CDFI lending: the proportion of all CDFI loans outstanding that were not current as of the years they were reported in portfolios (2004-2006). We benchmarked these measures to all mortgage loans, loans purchased by Fannie Mae and Freddie Mac, FHA loans, and subprime loans, in order to determine if the overall measures for the CDFIs in CIIS were different from mortgage loans available from other market segments.

Overall, 85 percent of all loans reported outstanding as of 2006 in the CIIS system were originated to first-time homebuyers. This share is twice as large as for all home purchasers in 1999 (the latest year for which such data are available for all home sales); the disparity is even greater for home purchase loans purchased by Fannie Mae (2.4) and Freddie Mac (3.5). The share of CIIS loans to first-time homebuyers is slightly larger than that of home purchase loans insured by FHA, which has a target that 80 percent of the purchase loans it insures be originated to first-time homebuyers. About one-quarter of subprime home purchase loans went to first-time homebuyers between 2004 and 2006, a share that is only three-tenths as great as for all CIIS loans (Table 24).

Table 24: Comparative analysis of CDFI lending to first-time homebuyers

		Total	
Source		N	%
	All CIIS reporters	5,062	85%
1	All home purchasers in 1999	n/a	42%
2	Fannie Mae Purchase Loan Purchases: 2004-2006	1,447,077	36%
3	Freddie Mac Purchase Loan Purchases: 2004-2006	773,421	24%
4	FHA home purchase loans: Simple Average of share in 2004-2006	n/a	77%
5	Subprime home purchase loans: 2004-2006	897,713	25%
1	U.S. Department of Housing and Urban Development. First-Time Homebuyers: Trends From the American Housing Survey. 2001.		
2	Fannie Mae Annual Housing Activities Reports for the years 2004, 2005 and 2006: Table 9: Proportion Of Fannie Mae's Single-Family Mortgage Purchases For First-Time Homebuyers Relative To Total Purchase Mortgages Acquired For Calendar Year 2004, 2005 and 2006.		
3	Freddie Mac Annual Housing Activities Reports for the years 2004, 2005 and 2006: Table 9: Proportion Of Freddie Mac's Single-Family Mortgage Purchases For First-Time Homebuyers Relative to Total Purchase Mortgages Acquired For Calendar Year 2004, 2005 and 2006.		
4	Detailed Information on the FHA Single-Family Mortgage Insurance Assessment.		
5	Subprime Lending: A Net Drain on Homeownership. Center for Responsible Lending. Issue Paper No.14, March 27, 2007		

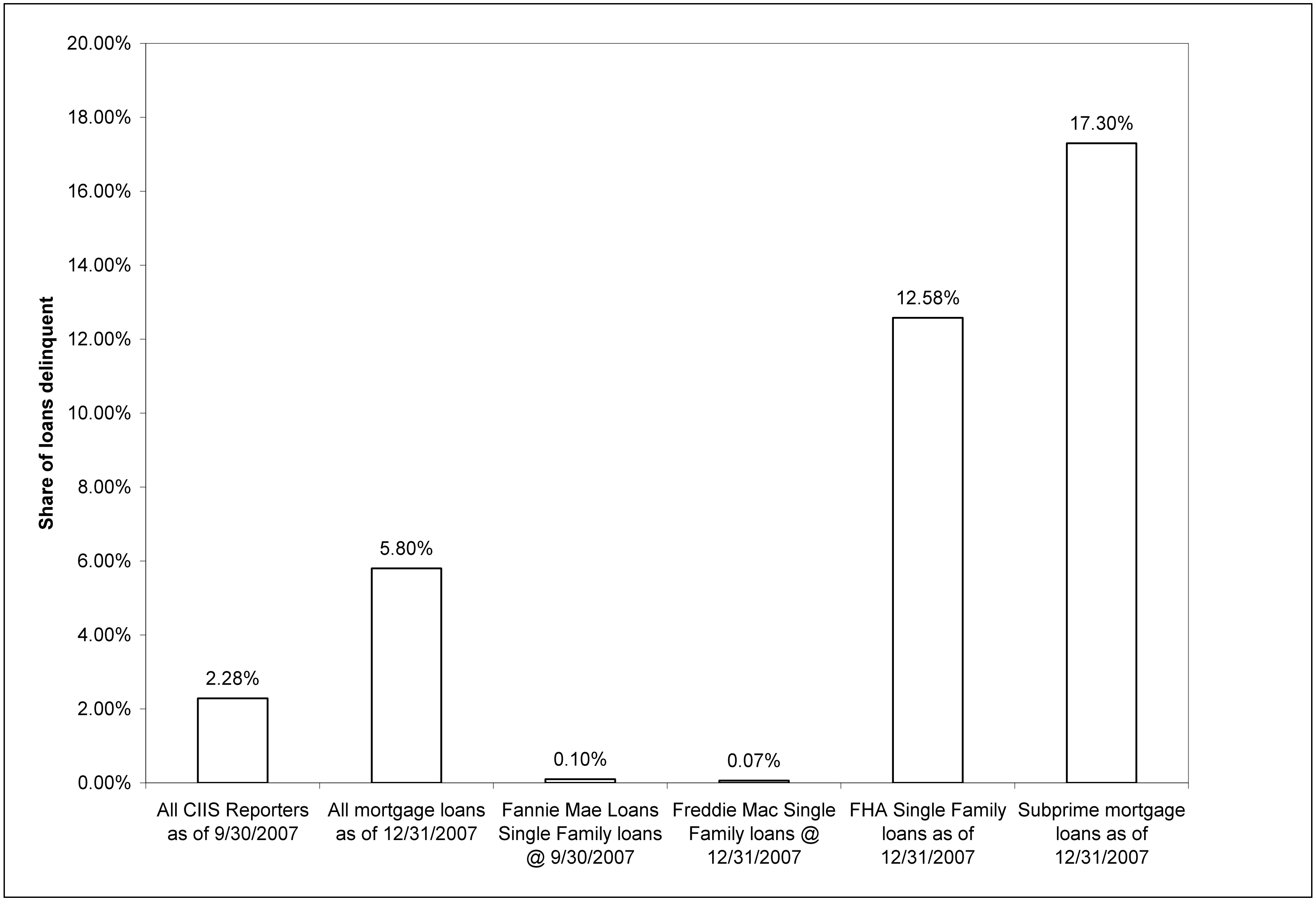
ARMs accounted for only 15 percent of all CIIS loans outstanding as of 2006, which is a much smaller share than of all mortgage loans originated in 2006 (see Table 25). The share of home purchase loans with ARMs purchased by Fannie Mae (15 percent) and Freddie Mac (19 percent) between 2004 and 2006 was about the same as for CIIS reporters. The large share of all mortgages with an ARM is driven mainly by the great proportion of subprime loans with such a feature: two-thirds of subprime home purchase loans originated between 2004 and 2006 were ARMs (Table 25).

Table 25: Comparative analysis of ARM share of loans originated by CDFIs

		Total	
Source		N	%
	All CIIS reporters	916	15%
1	All mortgage loans originated between first half 2005-first half 2006	n/a	46%
2	Fannie Mae conventional single-family loan purchases ($): 2004-2006	n/a	15%
2	Freddie Mac conventional single-family loan purchases ($): 2004-2007	n/a	19%
3	FHA share of originations in FY 2006	n/a	2.9%
1	All subprime loans in first half 2005 through first half 2006		67%
1	The Mortgage Bankers Association. 2007. The Residential Mortgage Market and Its Economic Context in 2007		
2	OFHEO. 2007. OFHEO Report to Congress, Table 1a: Fannie Mae Mortgage Purchase Detail, by type of loan and Table 10a: Freddie Mac Mortgage Purchase Detail, by type of loan		
3	IFE Group. 2007. FY 2007 MMI Fund Analysis Actuarial Review, pg. 6.		

Remarkably, despite the focus of CDFI lending on underserved populations who would appear less well able to meet their mortgage payment commitments in changing circumstances, CDFIs are experiencing very few payment delinquencies. Although CDFIs typically target lower-income homebuyers, only 2.28 percent of loans outstanding as of 2006 (or 2004 or 2005 if they were in portfolios only earlier) were delinquent (Figure 1).

Figure 1: Comparison of delinquency rates for CDFI loans to other types of mortgages



Source: Authors' tabulation of CIIS data, Mortgage Bankers Association Delinquency Survey, 4Q 2007, Fannie Mae 10-Q, September 30, 2007, Table 24 and Freddie Mac Annual Report, 2007: Table 51.

This rate is lower than for single family loans guaranteed by Fannie Mae as of September 30, 2007 (0.10 percent of loans) and Freddie Mac (0.07 percent) as of December 31, 2007, but greater than for all mortgage loans outstanding as of December 31, 2007. Moreover, the proportion of loans outstanding that are delinquent in CIIS is about one-fifth of the rate for FHA loans and about one-sixth the delinquency rate for subprime loans. Among lenders reporting to CIIS, CDFI loans perform slightly worse than those underwritten to Fannie Mae and Freddie Mac standards, but better than those used for FHA and subprime loans and all loans combined. We must be careful to note, however, that CDFIs are not reporting on the delinquency of first liens by other lenders to borrowers of CDFI subordinate debt.

In addition, at least our case study CDFIs are able to work out arrangements other than foreclosure with borrowers who do become delinquent. Some of the seven volunteered that they had never foreclosed on a homebuyer. In other cases, default was so rare that CDFI staff referred to the one or two cases by the borrowers' names[32] without consulting their files.

Summary and Conclusions

Overall, we find that CDFIs are achieving their missions of making home purchase loans to, and enabling homeownership for, the types of households they are deliberately targeting and in the neighborhoods they seek to serve—those with historically lower rates of homeownership.

- Among the CDFIs examined in detail in this study, varying combinations of homebuying education and counseling, first mortgages, subordinate debt, underwriting flexibility, and access to affordable homes provide routes to homeownership for households of types often otherwise unable to buy.

- The shares of their home purchase loans that CDFIs make to lower-income and minority borrowers are high in absolute terms. And they consistently exceed the shares of loans made to such borrowers by traditional lenders, often by a wide margin.

- The bulk of CDFI home purchase loans go to buyers in lower-income neighborhoods, despite the fact that in general our study CDFIs allow clients to choose their homes throughout cities or counties (though in some cases with incentives to buy in certain neighborhoods). The share of CDFI loans going to such neighborhoods well exceeds that of traditional lenders.

[32] First names only, to protect confidentiality.

- The disparity between the shares of lower-income and minority borrowers served by CDFIs in lower-income neighborhoods and that of traditional lenders' mortgages in such areas is smaller than for the CDFIs' cities as a whole. But even within this more restricted lending area, CDFIs still serve a larger share of historically underserved households than do all lenders as a whole.

- CDFIs' access to funds that finance subordinate debt lent on better-than-market terms is central to their ability to assist more lower-income people and people of color to purchase homes. Such financing addresses the wealth and income limitations borrowers face.

- Piecing together as many as seven components of subordinate financing, CDFIs have been able to reach this objective even in high-cost areas such as Seattle, Southern California's Orange County, and San Jose.

- The homebuyer counseling and education services CDFIs provide promote homeownership among large numbers of lower-income families who do not receive CDFI downpayment assistance through second-lien loans.

- CDFIs apparently do not "cream" among the people who come to their doors for homebuying assistance. For the CDFIs that provided data on characteristics of their intake and counseling/education population, the distribution of actual home purchasers is very similar along many dimensions to that of incoming clients as a whole.

- CDFIs' impacts on traditional financial institutions' lending to underserved people and neighborhoods are generated principally by providing second mortgages and counseling and education services. This helps first-mortgage borrowers at traditional lenders successfully undertake and sustain home purchase. CDFIs and other lenders commonly refer clients to each other, although anarrow majority of our case study CDFIs make first mortgages themselves as well.

- Contrary to our initial expectations, CDFIs appear to have very limited if any indirect effects on other institutions' lending to low-income people and neighborhoods. Neither CDFIs nor traditional lenders report the former modeling certain lending behavior or products and practices and the latter following suit, at least recently. Nor was there any indication that CDFI lending displaced others' financing.

- Perhaps due to a combination of counseling and receiving fully amortizing, fixed-rate first-mortgage loans, CDFI borrowers are able to pay their mortgages and avoid foreclosure. The delinquency performance of loans made by CDFIs, although slightly less strong than for loans originated to Fannie Mae and Freddie Mac guidelines, is better than for either FHA or subprime loans. This is an impressive performance given the by-design lower incomes and pre- and post-counseling credit scores of many CDFI clients.

Our findings are necessarily preliminary, especially given the small number of CDFIs that supply relatively complete loan-transaction-level data to the CDFI Fund. One potentially significant question, for example, is whether depository institutions among CDFIs, represented only by SFCU in our sample, display any different behaviors or results.

In terms of further monitoring and research, it is worth noting that, based on our limited sample experience, there are additional CDFIs that possess transaction data, often in fairly convenient electronic form, although they have not yet reported it to the CIIS database. Although we did not examine the issue specifically, there may be ways to simplify the data requests and transmission process that will expand the set of reporting institutions.

In addition, we had hoped in this study to examine on a pilot basis whether leading action in particular neighborhoods by CDFIs—lending and in some cases housing production—might have attracted additional traditional lender financing into the same low-investment areas. That research required data on the dates on which CDFIs made loans, which the Fund did not provide because of confidentiality concerns. It remains a potentially fruitful area of investigation.

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Appendix A: Discussion Guides

CDFI Executive Director Discussion Guide

CDFI: _________________
Name: _________________
Date: _________________

Thank you for agreeing to speak with us. We are interviewing you as part of a study sponsored by the CDFI Fund that we are conducting to identify successful strategies that CDFIs use to promote homeownership. We are also examining the extent to which your organization's strategies have been adopted by commercial lenders that originate mortgages in your area. We selected your organization based on its relatively large home purchase lending volume in the [name of city] area. Before we start, do you have any questions?

Organization's Homeownership Activities

1) When did your organization start its homeownership activities?

2) What were the reasons that your organization started its homeownership activities?

3) What are your organization's current strategies to promote homeownership? Have they changed, expanded, or contracted from your original approach?
Prompts: lending, downpayment assistance, pre- and post- purchase counseling, construction and/or acquisition/rehab of homes, credit repair, other.

4) Do you provide loan products that are different from those of traditional (commercial banks, wholesale lenders and thrifts) lenders? What products and how are they different?

5a) To whom are your homeownership efforts targeted (what types of households and locations)? What aspects of your strategies help to reach those targets?

5b) Are your lending activities targeted differently from your overall homeownership effort (e.g. different households, narrower geography, homes you developed)? In what ways?

6) How well are you doing in reaching targeted households and impacting their levels of home purchase and ownership? What important strengths are there in your work that affect these outcomes? What are the key challenges and constraints?
   a. for overall homeownership effort
   b. for lending activity in specific

7) What factors did your organization take into account when it developed its current strategies?

a) Were there lessons that you learned in your earlier work or the work of others that shaped your current approach?
b) How did conditions in the market affect your strategic choices? Have recent conditions prompted rethinking or adjustment?

8) What are the funding sources used by your organization to supports its homeownership activities. What about its lending activities in particular?

Organization's Targeted Homeownership Activities

9) If you do target any of your organization's homeownership activities to a particular geographic area within [name of city]:

a. What is this area? Does it correspond to any census tracts? If yes: What are they?

b. Why did your organization select this area as a focus?

c) What activities are targeted to this area (lending only or your homeownership activities more broadly)?

d) When did your organization start these activities in this area?

e) Has your organization changed its activities in this area over time? If yes:

i) When did your organization make these changes?

ii) Why did your organization make these changes?

f) Do any of your organization's activities have an income-eligibility restriction? If yes: What are those restrictions?

g) What impacts do you think your work has had in this targeted area?
Prompt: expanded homeownership, increased or decreased housing demand, changed the mix of purchasers (income, wealth, gender, race/ethnicity), encouraged people to stay in target area, encouraged or discouraged housing repair and improvements, increased or decreased gentrification and displacement, other impacts.

h) Are there any sources of data or studies available that can be used to substantiate these impacts? If yes: What are they?

Organization's Partnerships with Traditional Lenders

10) Has your organization partnered with any other lenders in its homeownership activities? If yes:

a. What are these organizations?
(For site visits, we will have had to obtain this information, along with contact information, in advance and, we hope, gotten assistance in making appointments).
b. What is the nature of the partnership(s)?
Prompt: they provide loan capital and you do underwriting, counseling, and/or on-lending; you do deferred/silent second liens with their firsts; you provide credit enhancements for their loans; you subsidize their interest rates or they yours; they fund your downpayment assistance and/or you provide DP aid along with their loans

c. Why did your organization select these organizations for a partnership?

d. What was your organization's relationship with these organizations before starting these activities?

i) When did these partnerships begin?

ii) How have these partnerships helped your organization promote homeownership? Where and with whom have they had the largest impact?

iii) Have these partnership help your partners promote homeownership? Where and with whom have they had the largest impact?

Organization's Effect on Partners: (If organization has partners)

11) Have any of your organization's partners developed new lending products or introduced new strategies to promote homeownership in low-income areas or among low-income borrowers in [name of city] since working with your organization? If yes:

a. What are those strategies?

b. How do you think the partner's experience with your organization contributed to the new lending product or strategy?

c. What effects do you think that the partner's strategies had on homeownership opportunities for targeted borrowers and areas?

Organization's Effect on Other (Non-Partner) Lenders

12) Have any other commercial lenders (not your organization's partners) developed new lending products or introduced new strategies to promote homeownership in low-income areas or among low-income borrowers in [name of city] in response to the work and strategies of your organization? If yes:

a. Who are the lenders?
(For site visits, we will need to have identified these in advance and arranged appointments).

b. What are those strategies?

c. How do you think the lender's knowledge of the work, products, and strategies of your organization contributed to the new lending product or strategy?

d. What effects do you think that the lenders' strategies had on homeownership opportunities for targeted borrowers and areas?

Refinance and Other Foreclosure Prevention Activities

13) Does your organization have any initiatives to assist homeowners who are in danger of foreclosure? If yes:

a. Why did your organization start these initiatives?

b. What are these initiatives?

c. When did your organization begin these initiatives?

d. What are the sources of funding for these initiatives?

e. Are these initiatives targeted to any area within [name of city]? If yes:

iv) What factors did your organization use to select this area?

f. Are these initiatives targeted to any specific sets of households or areas?

g. What impact are they having on foreclosures thus far?

14) Are commercial lenders, in partnership with you or not, initiating efforts to prevent foreclosures?

a. What initiatives?

b. When did they start?

c. How if at all are they targeted?

d. What impact are they having thus far?

CDFI Homeownership Program Director

CDFI: _________________
Name: _________________
Date: _________________

Thank you for agreeing to speak with us. We are interviewing you as part of a study sponsored by the CDFI fund that we are conducting to identify successful strategies that CDFIs use to promote homeownership. We are also examining the extent to which your organization's strategies have been adopted by commercial lenders that originate mortgages in your area. We selected your organization based on its relatively large home purchase lending volume in the [name of city] area. Before we start, do you have any questions?

Marketing

1. What are some of the strategies that your organization uses to attract clients to your homeownership programs?

2. Has your organization changed strategies over time? Why or why not?

3. Does your organization use partnerships to market its programs? If yes:

    a. How did your organization select its partners?

    b. What was your organization's relationship with this organization before starting marketing activities?

4. Does your organization target its marketing activities in any particular geographic area? If yes:

    a. Is the area defined by census tracts?
    b. What factors were used to select the area?

Direct Loans

For each loan product (including refinance loans):

1. Is this product restricted to a particular area of [name of city]? If yes: What is the area?

2. What is the income limit (if any) for borrowers that use this product?

a. Do you have any other target groups of households other than buyers in an area or an income range?

3. What are the underwriting standards regarding loan-to-value ratio and front/back-end ratios that your organization uses when evaluating mortgage applications?

4. How does your organization evaluate an applicant's creditworthiness? If credit scores are used: What is the minimum credit score (if any)?

5. What are the sources of funds that your organization uses to close these loans?

6. Are these loans held by your organization in portfolio?

    a. If sold: To whom are these loans sold? Are they sold with recourse?

7. Are there any equity recapture restrictions on these loans?

    a. If yes: What are the restrictions?

8. Does the loan product provide for any deferred payment options? If yes:

    a. What are these options?

9. How does your organization price these loans?

10. What impact do you think this product is having in extending (or preserving) homeownership? What aspects of this loan product have the most impact in extending home purchase to targeted areas or households?

11. Are there any data sources or studies that can be used to substantiate this impact? If yes: What are they?

Credit Enhancements for Loans Originated by Third-Party Lenders

1. What is the source of funds that are used for credit enhancements?

2. What third-party lenders originate loans with the credit enhancements?

3. What types of credit enhancements are offered to the third-party lenders?

4. Is this product restricted to a particular area of [name of city]? If yes: What is the area?

5. What is the income limit (if any) for borrowers that use this product?

6. What are the underwriting standards regarding loan-to-value ratio and front/back-end ratios that your organization uses when evaluating mortgage applications?

7. Are there any equity recapture restrictions on these loans? If yes: What are the restrictions?

8. Does the loan product provide for any deferred payment options? If yes: What are these options?

9. What impact do you think this product is having in extending (or preserving) homeownership? For which locations and for which borrowers? What aspects of the credit enhancement/loan product combination have the most impact in extending home purchase to targeted areas or households?

10. Are there any data sources or studies that can be used to substantiate this impact? If yes: What are they?

Downpayment Assistance

1. What are the sources of funds used for downpayment assistance?

2. Is this assistance restricted to a particular area of [name of city]? If yes: What is the area?

3. What is the income limit (if any) for downpayment assistance recipients?

4. What is the maximum downpayment assistance available to a recipient? How much is the typical amount of assistance?

5. What impact do you think downpayment assistance is having in extending (or preserving) homeownership? For which locations and for which borrowers? What aspects of downpayment assistance have the most impact in extending home purchase to targeted areas or households?

6. Are there any data sources or studies that can be used to substantiate this impact? If yes: What are they?

Homebuyer Counseling

1. What types of homebuyer counseling (if any) does your organization require borrowers or downpayment assistance recipients to complete?

2. Does your organization provide homebuyer counseling?

   If yes:

   a. What curriculum does your organization use in its homebuyer counseling course?

   b. What are the sources of funds to support homebuyer counseling?

   If no:

   a. What organizations provide the counseling?

2. What impact do you think counseling is having in extending (or preserving) homeownership? For which locations and for which borrowers? What aspects of downpayment assistance have the most impact in extending home purchase to targeted areas or households?

3. Are there any data sources that can be used to substantiate this impact? If yes: What are they?

Post-purchase Counseling

1. What types of post-purchase (if any) counseling does your organization provide borrowers or downpayment assistance recipients?

2. What curriculum does your organization use for post-purchase counseling?

3. How does your organization fund post-purchase counseling?

Changing Markets

How have the difficulties in the markets for buyers with subprime loans and exotic mortgages (those with interest only features, no-doc loans, etc.) affected your strategies and programs' operations and impacts? Why?

Partnering and Impacting Partners and Other Lenders

For homeownership program directors with sufficient breadth of knowledge, revisit questions from Executive Director interview on partnerships formed and impacts on other lenders' activities.

Commercial Lender Discussion Guide

Lender's Name: _________________
Name: _________________
Date: _________________

Thank you for agreeing to speak with us. We are interviewing you as part of a study sponsored by the CDFI fund that we are conducting to identify successful strategies that [name of the CDFI] uses to promote homeownership. As part of the study, we are also examining the extent to which [name of organization]'s strategies have been adopted by commercial lenders that originate mortgages in [name of city] area. We selected your company from a recommendation from [name of CDFI's ED]. Before we start, do you have any questions?

Lender's Partnerships with CDFI (for lenders whom ED has named as partners)

1. What is the specific nature of the partnership**?**

2 Why did your company partner with [name of CDFI]?

3 What was your organization's relationship with this organization before the partnership?

4. When did your organization start its partnership with [name of CDFI]?

5. How has this partnership helped your organization promote low-income homeownership in [city]? How extensive has been the impact? Does it focus on a geographic area or any household types other than low-income?

What is key to the partnership having impact, and what constrains its effects?

Organization's Effect on Partners: (If organization has partners)

5) What types of initiatives (if any) did your company have in place to promote low-income homeownership before the partnership?

6) Since the partnership, has your company developed new lending products or introduced new strategies to promote homeownership in low-income areas or among low-income borrowers in [name of city]? If yes:

   a) What are those strategies?

   b) How did your experience with [CDFI name] contribute to the new lending product or strategy?

7) How have your new products and strategies impacted homeownership in low-income neighborhoods and among low income and other underserved households?

Organization's Effect on Non-Partner Lenders: (If lender has not partnered with CDFI)

What types of initiatives (if any) did your company have in place to promote low-income homeownership before the (name of CDFI) undertook its homeownership initiatives?

8) Since (name of CDFI) has been active in promoting homeownership, has your company developed new lending products or introduced new strategies to promote homeownership in low-income areas or among low-income or other historically underserved borrowers in [name of city]? If yes:

    a) What are those strategies?

    b) How did the experience and efforts of [CDFI name] contribute to the new lending product or strategy?

9) How have your new products and strategies impacted homeownership in low-income neighborhoods and among low income and other underserved households?

Organization's Targeted Homeownership Activities

1. Do you target any of your company's homeownership activities to a particular geographic area within [name of city]? If yes:

    A. What is this area? Does it correspond to any census tracts? If yes: What are they?

    B. Why did your company select this area as a focus?

    C. What activities are targeted to this area?

    D. When did your company start these activities in this area?

    E. Has your company changed its activities in this area over time? If yes:

        1. When did your company make these changes?

        2. Why did your company make these changes?

    F. Do any of your company's activities have an income-eligibility restriction? If yes: What are those restrictions?