Comptroller of the Currency
Administrator of National Banks

Community Developments

Spring 2003 Community Affairs OnLine News Articles

Building Assets and Homeownership Alliances in Rural America

by Lee Beaulac, *Senior Vice President for Housing Programs, Rural Opportunities, Inc.*

Thelma Ambrose knew that she and her three children needed the stability that a home of their own would give them, so she enrolled in ROI's Homebuyer Education program.

Rural Opportunities, Inc., (ROI) has been helping rural families build assets since 1969, when the organization was founded to fight for the civil and economic rights of migrant and seasonal farm workers in New York. We're now a regional non-profit community development corporation operating in New York, Pennsylvania, Ohio, New Jersey, Indiana, and Puerto Rico.

Still governed by a board of directors controlled by farm workers, ROI works with a broad spectrum of low- and moderate-income rural residents on a wide variety of fronts. We're involved in housing, job training and employment, childcare, health and safety, and small business lending. Our programs serve the predominant rural needs in our markets by helping people increase their personal skills and capacity, promoting wealth creation, and encouraging community engagement.

ROI's Division of Housing and Economic Development develops affordable rental housing, helps families to purchase their first home, and provides loan financing to small businesses. ROI has developed, preserved or helped finance more than 5,500 units of affordable housing valued at over $255 million. Our affiliate, The Enterprise Center, a Community Development Financial Institution (CDFI), has helped finance more than 275 small business enterprises.

We couldn't do this vital work without a network of partners -- especially our longtime banking partners.

IDAs: an asset-building tool

Within the past three years we've helped more than 900 lower-income rural families to become first-time homebuyers. As part of our risk-reduction strategy, we assist prospective homebuyers in setting up Individual Development Accounts (IDAs) — dedicated savings plans that help families build cash assets to be used for closing costs and at least a portion of the required borrower's contribution.

IDAs use third-party sources — such as federal and state programs, nonprofits, corporations and individuals — to match the borrower's savings. IDA funds can be used only for specified purposes, such as buying a first home, paying for post-secondary education expenses, or starting a small business.

Most of the IDAs in which ROI participates are for homeownership. Families open supervised accounts with a specific financial institution and make monthly payments to this account for a minimum of 10 months and a maximum of 30 months. While the account cannot be used for any other purpose during the 10-30 month period, hardship withdrawals are allowed.

ROI commonly uses programs, such as the Federal Home Loan Bank's Affordable Housing Program and HUD's Section 8 Homeownership Vouchers to help families build their IDAs. Many enrollees in ROI's IDA programs are able to save as much as $6,700 in less than 18 months. ROI currently has 125 families enrolled in the IDA program through four financial institutions: HSBC, M&T Bank, Bank of Castile, and Ulster Savings. (For more information on IDAs, see sidebar below.) Many financial service providers see IDAs as an opportunity to develop a long-term relationship with a customer who may never have previously had a bank account. Depending on how the IDA is structured, the bank's activities may also be eligible to receive positive consideration under the Community Reinvestment Act.

The Affordable Lending Alliance:
A new model for CDC-bank collaboration

To help expand homeownership opportunities for lower-income rural residents, ROI has forged an alliance among lenders, the secondary mortgage market, the private mortgage insurance industry, USDA Rural Development, realtors, property inspectors, and other community development corporations.

The ROI Affordable Housing Finance Lending Alliance represents a new approach to delivering residential mortgage credit to people traditionally left out of the mortgage market. The Alliance addresses the lack of coordination between the entities that are critical to the home buying process by connecting them into a seamless process for the homebuyer.

Here's how it works. ROI identifies and counsels prospective homebuyers and processes their applications. Loans are underwritten by MGIC, a private mortgage insurance company that also provides full representations and warranties. ROI delivers fully processed and underwritten loans to banks participating in the Alliance. The banks then sell qualified loans into the secondary market and receive Community Reinvestment Act (CRA) credit for their lending activities.

The Alliance has also helped public-sector institutions to reach out to would-be homebuyers. USDA Rural Development, for example, continues to be a major source of mortgage capital for low- and moderate-income homebuyers in rural America, but increasing demands on staff resources have reduced the agency's outreach and processing capacity. The Alliance offers a way to leverage the agency's outreach and improve its income-targeting effectiveness.

"When ROI delivers a loan package to one of our offices," says Patrick H. Brennan, New York State Director for USDA Rural Development, "we know that it has been thoroughly and completely prepared. Just as importantly, we know that, with the help of the counseling and homebuyer education they've received, the family is prepared to make a serious commitment to homeownership."

A major problem in rural areas, confirmed by a recent USDA Economic Research Service study, is that rural loans are generally more expensive than urban loans, in part because there are fewer banks and thus less competition and fewer products to choose from. ROI is working to increase the effectiveness of the Alliance by bringing more products and services to rural areas via participation in the Rural Home Loan Partnership (RHLP).

Created by Rural LISC, USDA's Rural Housing Service (RHS), the Federal Home Loan Bank System, and other participants, RHLP brings together RHS and private lenders, not historically partners in mortgage lending. A private lender participating in RHLP makes a first-position loan for less than 50 percent of the total transaction, and RHS makes a second-position loan for the balance. By blending banks' mortgage interest rates with RHS's -- which can be as low as 1 percent -- the benefits of homeownership have been extended to thousands of rural families.

"Working with ROI and the Rural Home Loan Partnership has enabled us to make mortgages to families we wouldn't otherwise have been able to serve," says HSBC's Joan Dallis. "We're now able to target families at 50 percent of area median income or less with blended interest rates of 3 to 5 percent."

Protecting hard-earned gains: The post-mortgage connection

As all homebuyers learn, the challenges of homeownership do not end with that awesome moment when the mortgage papers are signed. New loans are fragile and vulnerable to borrowers' financial problems.

ROI's approach is to stand by the homeowner. We ask each new borrower to establish a regular meeting schedule with an ROI mortgage counselor for the first three years after closing. In these meetings we address credit, home maintenance, budgeting, and other issues that may stress the mortgage payment schedule. And we go further, offering workshops to new homeowners on topics, such as home maintenance and repair and the hazards of predatory lending.

Single-parent households account for over 40 percent of the families we assist with homeownership. They're particularly vulnerable to predatory lending schemes, which are common in rural areas and often aggressively marketed to new homeowners. To provide a mainstream alternative, we work with our partner banks to help homeowners build on their IDAs, creating reserve accounts that can be used to help meet the challenge of an unexpected financial problem.

Post-mortgage assistance, in our view, is every bit as important to the success of homeownership -- particularly first-time homeownership -- as is pre-purchase financing and counseling. Working with our bank partners, we're committed to help lower-income rural Americans acquire -- and hold onto -- their piece of the American dream.

For more information, contact Lee Beaulac, Senior Vice President for Housing Programs, Rural Opportunities, at (585) 340-3366 or via e-mail at lbeaulac@ruralinc.org. Web site: www.ruralinc.org

---

IDAs: An Effective Way for Lower-Income Rural Americans to Leverage Their Resources

You can't buy a home — or send a child to college, or start a business — without some assets. But how can you build assets if nearly all of your income goes to meet basic necessities such as food, clothing, shelter, and transportation?

Individual Development Accounts (IDAs) are helping thousands of lower-income working Americans to answer that question. They're proving to be an effective tool to promote first-time homeownership —- and thus contributing to stabilizing and strengthening the rural economy.

IDAs are dedicated savings accounts that can be used by eligible lower-income participants to help purchase a first home, pay for post-secondary education, or capitalize a business. Participants deposit savings from earned income that are then matched by deposits of a specified amount for each dollar saved. Community organizations and local financial institutions manage IDAs. Contributions are matched using both private and public sources, including foundations and federal and state housing programs. IDA participants also receive economic literacy training that helps them clean up their credit, establish a budget and savings schedule, and manage money over the long term.

IDA initiatives are under way in more than 350 communities. The nonprofit Corporation for Enterprise Development (CFED) promotes and coordinates IDA initiatives nationwide through the IDA Network (www.idanetwork.org). Through its Office of Community Services (OCS), the Administration for Children and Families (ACF) of the Department of Health and Human Services administers a five-year IDA demonstration program authorized by the Assets for Independence Act of 1998. For more information, visit OCS's IDA Web site: www.acf.hhs.gov/programs/ocs/demo/ida/.

At a Glance

Manufactured Housing in Rural Areas

- Manufactured housing continues to be one of the nation's fastest growing types of housing, particularly in rural areas. Recent statistics show nearly 9 million manufactured homes nationwide, representing 21.4 million residents or 7.6 percent of the population.
- In rural areas, the prevalence of manufactured housing is twice the national rate as manufactured homes make up 16 percent of non-metro housing units. The number of manufactured homes in non-metro areas grew by 25 percent from 1990 to 2000.
- In 2002, 168,000 manufactured homes were shipped representing 11 percent of all single-family housing starts with an average sales price of $49,200.
- The US Census estimates that in 1999, 68 percent of the new manufactured homes were placed on private property, with the remaining being placed in residential land-lease communities.

Financing Options

The two main two options for financing manufactured homes are:

Personal property loans are typically used for homes that are not permanently secured to land. According to one estimate, 80 percent of manufactured units are financed as personal property loans.

Mortgage loans are available for manufactured homes that are considered real estate. Requirements for sale of these loans into the secondary market are as follows:

- The manufactured home must be titled as real property in the land records of the county where the property is located (although it may be taxed as real or personal property).
- The manufactured home must be permanently affixed to a suitable foundation.
- The property must be located on land owned by the borrower or property leased by the borrower,

including a leasehold estate that is part of a ground lease community (lease term must exceed mortgage term by more than five years).