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'Greenlining' Homeownership

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Rene and Vilma Vasquez with daughters, Debbie and Diana, outside their new Los Angeles area home purchased through Freddie Mac's Watts Home Ownership Center Initiative, a community-based program to increase the number of minority homeowners.

Last year Freddie Mac financed more than \$100 billion worth of homeownership for very-low, low, and moderate-income families, including families living in historically underserved areas. We exceeded our 2000 HUD housing goals. Altogether, we financed homes for 1.5 million families. In fact, 50 percent of all families served by Freddie Mac in 2000 had low incomes or lived in communities too often overlooked by the mortgage industry.

This year we are continuing to "greenline" even more communities for affordable homeownership and sustainable family prosperity, especially for historically underserved families and communities. We are doing this despite the current economic slowdown.

It's reasonable to ask: what is our strategy and how is it working? We have a four-part answer:

- We're building an efficient network of lenders, non-profit groups, and local governments to deliver affordable mortgage credit to underserved areas and borrowers, a system that combines new technology with lessons learned over the past generation of community development.
- We're working closely with America's national minority leadership to create new outreach efforts to build excitement, capacity, and opportunity for homeownership in Hispanic and African-American communities.
- We're creating flexible new mortgage products for families with credit issues or other financial constraints.
- At the same time, we're taking steps to cut off lenders who engage in predatory business practices.

Let's look at each of these elements in turn.

Coalition-building

We're building a new generation of productive homeownership coalitions that bring together local and national lenders, such as Bank of America and Wells Fargo, with minority advocacy organizations, churches, non-profit organizations, and local governments. The scale, breadth, and potential impact of Freddie Mac's hundred-million-dollar (in some cases billion-dollar) alliances are unprecedented.

For example, Freddie Mac has committed more than \$5 billion through nine urban homeownership alliances. These are multi-party collaborations that are designed to (1) connect the credit

markets with underserved communities and borrowers, and (2) add extra thrust to new and ongoing community and neighborhood revitalization efforts.

To illustrate, consider the Oakland Alliance — a \$1-billion collaboration that is expected to help 10,000 additional buyers to buy homes in Oakland, CA over the next five years, lifting the city's homeownership rate from 42 to 47 percent. Participants include Bank of America, the Local Initiatives Support Corporation, California Low-Income Housing Fund, and other nonprofit organizations.

The Alliance provides Oakland families with two highly flexible, low-downpayment mortgage products, plus a special lease-purchase arrangement that enables cash-strapped borrowers to forgo making a downpayment or having to qualify for credit at the outset of the homeownership process. Leases have mandatory three-year terms, which means that families not only can become homeowners with less up-front money but will also have a reasonable period of time to resolve any credit problems.

Other innovative features include special financing programs to help low- and moderate-income daycare providers achieve homeownership, and to help community-based nonprofit groups acquire and rehabilitate distressed properties. To ensure that the rehabbed homes are affordable, the City of Oakland will provide mortgage assistance to low-income buyers.

Outreach efforts

Freddie Mac and the Rainbow PUSH Coalition/Wall Street Project are implementing a separate, nationwide \$1 billion-alliance known as the Minority Homeownership Initiative — a collaboration designed to expand homeownership opportunities by demystifying the home-buying process.

What makes this collaboration especially exciting is its link with the Wall Street Project's "One Thousand Churches Connected." This national effort is helping churches to establish financial ministries in their congregations and to help members cope with personal finance challenges by providing innovative outreach and credit-counseling tools.

As part of this effort, Freddie Mac plans to invest an additional \$1 million in developing a new educational initiative to explain the benefits of homeownership, the mechanics of the home-buying process, and the flexible mortgage opportunities available through national and local lenders, including selected local lenders and participating minority lenders.

Impaired credit is, of course, a leading cause of mortgage rejections. To improve minority acceptance rates, Freddie Mac will work with the National Urban League and the NAACP to implement the Consumer Credit Initiative and distribute its educational curriculum for teenagers and young adults. The five higher-education institutions working with Freddie Mac are Benedict College, Clark Atlanta University, Florida A&M, Howard University and Saint Augustine's College.

Similarly, Freddie Mac and five Historically Black Colleges and Universities (HBCUs) are in the final stages of launching a national, multi-million-dollar Consumer Credit Initiative aimed at making homeownership more broadly accessible by helping consumers understand credit and how to manage and maintain it.

We're also launching a major outreach effort with the National Council of La Raza (NCLR) that uses the latest mortgage technology to increase homeownership among low- and moderate-income Hispanic families. The Hispanic Community Technology Initiative will provide a new web-based technology platform (along with 200 computers) to NCLR and its homeownership network affiliates in 20 communities within the next three years.

Accessible new mortgage products

On another front, Freddie Mac is piloting a new effort to finance homeownership for families with credit issues. Available in 19 test markets, CreditWorks offers conforming, conventional market-rate mortgages for families who successfully participate in an 18-month debt management plan under the auspices of local consumer credit counseling services and who also participate in homebuyer counseling. Participants not only qualify for homeownership but to also stand to save hundreds of dollars annually in interest costs by qualifying for a prime-interest-rate mortgage.

In yet another example of reaching out to new markets, we have recently begun investing in home financing contracts that are acceptable under both Islamic and American law, paving the way for a major expansion in affordable homeownership opportunities. Observant American-Muslim families require a special housing contract because Islamic religious law prohibits the payment of interest on mortgages and other types of debt. American Finance House-LARIBA, based in Pasadena, CA, developed a financing model for the American-Muslim community based on the utility value of the investment as reflected by the rent or lease rate that the asset or service commands in the market. Freddie Mac is investing in Islamic housing contracts from LARIBA, which is also the nation's first Islamic financial institution to achieve Freddie Mac Seller/Servicer status.

Expanding opportunities

Freddie Mac is also engaging the mortgage industry in a far-reaching effort to expand affordable mortgage opportunities for families who have been restricted to the subprime market. At the same time, we are working to choke off opportunities for predatory lenders. Our goal is save families potentially hundreds of dollars in unnecessary borrowing costs, not to mention the incalculable grief that predatory lending can cause.

We have already announced several anti-predatory actions. For example, we will not buy mortgages if single-premium credit insurance (life, disability, and unemployment) is financed out of the loan proceeds. This product has clear predatory potential, and anything that strips equity out of a home and increases the likelihood of default is bad news for us as well as homeowners.

Nor will we buy loans that trigger disclosure requirements under the Home Ownership and Equity Protection Act (HOEPA). These are legal loans, but because of their predatory potential, lenders must ensure that the portfolios they sell us do not include high-cost HOEPA loans. Alternatively, we can require them to repurchase the loans.

We also require all lenders who do business with us to report full-file credit data to the credit repositories each month so that borrowers' credit records will accurately reflect their good credit histories. Clearly borrowers must have the freedom to move into lower-cost mortgages as their credit improves.

What's the bottom line? Freddie Mac is committed, financially and philosophically, to strengthening our communities by expanding safe and prudent homeownership opportunities. Our mission to make homeownership more accessible is an essential ingredient in anybody's recipe for sustainable economic prosperity and for undoing the economic neglect of generations past. In myriad ways we're making it clear that reaching underserved communities and borrowers is at the core of our mission — now and for the long term.

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