

# MORTGAGE FINANCING

**Mortgage financing is the final step on the path to homeownership.** Many Blueprint Partners play important roles in mortgage financing, ranging from outreach to underserved communities to the provision of innovative mortgage lending products. In addition, the Bush Administration's proposal to reform the Real Estate Settlement Procedures Act (RESPA) will reduce mortgage costs for consumers. Ensuring that a steady supply of capital is available to fuel homeownership growth is an essential responsibility of Blueprint Partners who play a role in the primary mortgage market, which deals directly with consumers, and the secondary market, whose role is to ensure a steady supply of capital to lenders. The commitments of these organizations include increasing the amount of funds available to primary lenders – effectively increasing the number of mortgage loans primary lenders can originate. In addition, every Partner who insures, guarantees, or supplies capital for mortgage lending can redouble their efforts to ensure that the local mortgage lending process is fair and completely free of discriminatory practices. Affirmative steps that will benefit both mortgagees and potential homebuyers includes outreach to minority neighborhoods as well as initiating partnerships with faith-based and other community groups. Where appropriate, significant local gains can be achieved through multi-lingual outreach to new immigrant families, who have added to the diversity of hundreds of cities throughout the nation and now call America their home.

OWNER

## COMMITMENTS

### BUSH ADMINISTRATION

*"I was asked who I thought the winners and losers would be as we move forward in reforming RESPA. Clearly, those who dream of buying their first home have the most to gain. And I think the predatory lenders who turn dreams into nightmares are the biggest losers."*

— HUD Secretary Mel Martinez

### Department of Housing and Urban Development

*RESPA Reform:*

Secretary Martinez is spearheading the Administration's efforts to reform the RESPA to make the settlement process more consumer friendly. The proposed rule would increase competition in the market for settlement services and borrows' ability to shop for mortgages. This competition would reduce one of the largest up-front costs of buying a home.

INTEREST





The proposed rule is founded on a set of consumer-driven principles called the "Homebuyer Bill of Rights." This states that homebuyers have the right:

- to receive settlement cost information early in the process, allowing them to shop for the mortgage product and settlement services that best meet their needs;
- to have the disclosed costs be as firm as possible, thereby avoiding surprises at settlement;
- to benefit from new products, competition and technological innovations that could lower settlement costs;
- to have access to better borrower education and simplified disclosure; and
- to know they are protected through vigorous RESPA enforcement and a level playing field for all industry providers.

*Helping Families Through Adjustable Mortgage Rate (ARM) Implementation:*

The Federal Housing Administration will help more low-income families become homeowners by implementing the hybrid Adjustable Rate Mortgage (ARM) product that was enacted into law in the FY2002 Appropriations Act. This program lowers families' initial homeownership costs by combining a low fixed rate in the early years with a rate that later adjusts with the market.

### **Federal Trade Commission**

*RESPA Enforcement:*

Some lenders deceive consumers about loan terms, rates or fees. When low and moderate-income borrowers – the most vulnerable consumers – fall prey to lenders' deception, the results can be severe, including the loss of their homes.

The Federal Trade Commission is working with *HUD* and the *Department of Justice* to aggressively enforce fair housing and RESPA violations. So far, this commitment, which has included increased staff and funding, has resulted in criminal convictions in cities with high rates of predatory lending.

These efforts are helping to root out deception by lenders, lowering the costs of homeownership and making the market safer for first-time homebuyers.

### **FANNIE MAE**

Fannie Mae will invest at least \$700 billion through 2009 to provide home financing to 4.6 million minority households. This expands by 66 percent the specific pledge Fannie Mae



made in 2000 to minority families in its American Dream Commitment plan to provide \$420 billion for three million minority families.

*More information: Fannie Mae originally pledged \$420 billion in minority lending to help three million families. Per the ten-point plan, Fannie Mae increased its pledge to \$700 billion in minority lending to help 4.6 million families. This goal is for minority lending from 2000-2009. It will be tracked as a key corporate objective and reported to HUD annually.*

Fannie Mae will create and market to lenders a new mortgage product designed specifically to meet the unique needs of new Americans, and linked to the Administration's immigration initiatives.

*More information: Fannie Mae enhanced underwriting guidelines to allow more flexible down payments and consideration of non-traditional credit histories and income streams for all non-permanent resident immigrant borrowers. These changes increased access to a broad array of Fannie Mae mortgage products such as the My Community suite of products. Fannie Mae will work with lenders interested in reaching immigrant communities by offering innovative mortgage products for their particular markets. From January 2000 to April 2002, the company purchased 3,278 immigrant loans.*

Fannie Mae will leverage Section 8 homeownership funding by providing secondary mortgage market financing for first mortgages where Section 8 is a source of repayment.

*More information: Fannie Mae is working with HUD, public housing agencies (PHAs) and other organizations to help families participating in the federal Section 8 Homeownership Program finance the purchase of their homes. Fannie Mae currently support PHAs in developing homeownership plans and identifying lenders who can provide mortgage products for Section 8 households. For 2002, thirty-two Section 8 pilots are being developed with PHAs such as the Worcester Housing Authority in Massachusetts, the Oklahoma City Housing Authority in Oklahoma, and the Snohomish County Housing Authority in Washington.*

Fannie Mae will develop and market to lenders products that will help rescue borrowers from predatory lending.

*More information: Fannie Mae's anti-predatory lending initiatives allow families who were victims of abusive lending practices the opportunity to refinance their loans into a more affordable mortgage product. So far this year, Fannie Mae has initiated two Predatory Lending Experiments and three Regulatory Barriers Initiatives. Nine others will be launched later this year.*

## FEDERAL HOME LOAN BANKS (FHLBANKS)

The 12 FHLBanks pledge their ongoing support for making homeownership a reality for 5.5 million minority families by the end of the decade. The FHLBanks are the largest source of private sector grants for affordable housing in the country, with projected grants in 2002 of \$240 million. In addition, the FHLBanks are the dominant provider of wholesale funds for their member financial institutions, with more than \$470 billion in loans currently outstanding to community lenders.

The 12 FHLBanks help to ensure a reliable and steady supply of capital for housing and community development through their 8,000 member financial institutions. Ready access to FHLBank advances and other products enables members to continue being active lenders and investors in their communities. It also makes mortgage credit more readily available to consumers, including prospective minority homebuyers. Moreover, through the end of this decade, the FHLBanks estimate that \$5.8 billion in economic-development lending will be made available for members to fund the creation and retention of jobs, which not only provide income for home purchases, but also offer the ability to maintain a mortgage obligation.

In recent years, the FHLBanks have begun to offer mortgage-purchase programs in which they purchase mortgages originated by their member financial institutions. Through risk-sharing agreements and competitive pricing, these programs have grown to more than \$44 billion in mortgage loans outstanding. Increased competition in the market provided by these mortgage-purchase programs will encourage lower mortgage rates and expansion of areas of the country where mortgage financing is readily available. The FHLBanks also provide mortgage funding through the purchase of residential mortgage-backed securities.

In support of this initiative, the FHLBanks pledge to work cooperatively with member institutions to explore ways to expand the availability of mortgage funds for minority families.

## FREDDIE MAC

Representing a team effort with mortgage lenders, nonprofit housing and community organizations, and other industry leaders, "Catch the Dream" is Freddie Mac's contribution to making the dream of homeownership a reality for millions more of the nation's minority families. The 25 "Catch the Dream" initiatives are designed to dismantle barriers and create opportunity along the entire process of becoming – and staying – a homeowner.

As the purchaser of one in six mortgages, Freddie Mac is committed to providing more than \$400 billion in mortgage financing to meet these needs, an increase of \$160 billion above our



projected purchases. In addition, 12 Freddie Mac "Catch the Dream" initiatives are designed to increase access to low-cost mortgage financing.

*Expanded Approval Rates:*

Continual refinement and improvement of automated underwriting systems is critical to the expansion of homeownership opportunities. Recent changes to Freddie Mac's automated underwriting service are resulting in higher mortgage-approval rates for minority borrowers.

*Solutions for Blemished Credit:*

For many families, poor credit or lack of credit is a key barrier to homeownership. To address this need, Freddie Mac is stepping up efforts to increase access to affordable mortgage products with very flexible credit terms. These include our Lease Purchase Plus program, which helps families become homeowners by eliminating the need for a down payment and allowing them to use the lease period to establish or re-establish their credit. Other products provide viable alternatives to higher-cost subprime financing.

*Section 8 to Homeownership:*

Freddie Mac is promoting new broad-based approaches for using Section 8 rental assistance for homeownership. Working with local public-housing authorities and lenders, Freddie Mac allows 100 percent of the voucher to be deducted from the mortgage payment prior to determining housing and debt ratios.

*Financing for Islamic Families:*

Meeting the home-finance needs of the growing U.S. Muslim population presents a particular challenge. One-quarter of Muslim families manage their finances according to Islamic law, which prohibits the payment of interest. To address this need, Freddie Mac is working with lenders and community-based groups to develop home-financing solutions specifically designed for Muslim families.

*Housing and Mortgage Market Diversity:*

For housing and mortgage industry participants to serve an increasingly diverse consumer base, greater minority representation is needed. Freddie Mac is focused on developing industry-wide internships to attract minority men and women entering the workforce to careers in mortgage banking, real estate, and finance.

APPROVAL

PURCHASE

*Automating the Use of Nontraditional Credit:*

Automating the use of nontraditional credit, such as the payment of rent or utility bills, is needed to ensure that all creditworthy borrowers have access to low-cost mortgage financing. As part of a long-term research and development effort, Freddie Mac is considering ways to access this type of data and build it into statistical underwriting models.

*Multilingual Documents:*

Language has been cited as a major barrier to homeownership for many minority families. To address this need, Freddie Mac is currently translating a number of our key outreach and education materials. In addition, we are seeking to work with market participants in states with large or growing Hispanic populations to translate key mortgage disclosures and other documents into Spanish.

*Cross-Border Credit:*

Many new immigrants must delay homeownership because of the need to reestablish a credit history in the U.S. Working with others in the mortgage and credit-reporting industries, Freddie Mac is seeking ways to enhance the acceptability of international credit reports for U.S. mortgage underwriting.

*Innovative Risk Sharing:*

Sharing risk among various financial partners makes the unimaginable possible. Unfortunately, such arrangements are highly customized and labor intensive, which limits their viability as a broad-based solution. Working with lenders and others, Freddie Mac is seeking ways to streamline the creation of innovative risk-sharing arrangements that expand homeownership opportunities.

*Move Subprime Borrowers into Prime:*

Many families who obtain subprime mortgage financing actually qualify for lower-cost prime mortgages. To create greater access to the prime mortgage market, Freddie Mac is providing automated underwriting tools to a select group of subprime lenders to identify applicants who qualify for conventional financing.

*Ban on 5-Year Prepayment Penalty:*

As of October 1, 2002, Freddie Mac became the first major financial institution to ban the purchase of subprime mortgages with prepayment penalties that exceed three



years. This initiative will significantly reduce the liquidity for the most onerous prepayment penalty loans and permit borrowers to move more quickly into lower-cost financing.

#### *High-Touch Servicing:*

It is not enough to help families become homeowners – it is critical to help them stay that way. To assist borrowers who fall behind on payments, Freddie Mac has developed state-of-the-art tools to help our servicing partners determine which borrowers would benefit the most from timely assistance. We are also developing proactive ways to identify, contact and assist borrowers in Freddie Mac's affordable mortgage products.



AFFORDABLE

## HABITAT FOR HUMANITY INTERNATIONAL

Because Habitat for Humanity keeps homebuilding costs low through the use of volunteer service, donated materials, and homeowner sweat equity, Habitat for Humanity provides one of the nation's most affordable housing options.

Habitat for Humanity is committed to:

- Continuing to provide no-interest, no-profit mortgages that keep housing affordable to low-income homebuyers.
- Continuing to rely on volunteer support and on partnerships with the private and public sectors as a means of financing mortgages that are affordable to low-income homebuyers.
- Utilizing Section 8 vouchers as a means to finance Habitat for Humanity mortgages.
- Sponsoring conferences that address affiliate "best practices" in the provision of affordable mortgages for low-income families in urban and rural settings.
- Conducting a Boston Leadership Conference, in partnership with the Harvard Business School, to study effective national models of financing and servicing mortgages for low-income families.
- Continuing to combat predatory lending by educating affiliates and homeowners regarding deceptive and damaging lending practices.
- Supporting legislative efforts to protect homeowners from predatory lenders.

## MORTGAGE BANKERS ASSOCIATION OF AMERICA (MBA)

MBA will work with its member firms and state and local mortgage banker associations to convene local housing forums in four cities. These forums will include government officials, planners, lenders, realtors, builders, counseling agencies, consumer advocates, and state/county/local housing finance agencies. The purpose of these forums will be to identify key challenges to achieving homeownership – along with the resources and partnership opportunities to address those challenges. The end goal will be to identify concrete steps to promote affordable housing.

*Timeline: MBA will conduct one forum each quarter of 2003 for a total of four forums.*

In addition, MBA will develop a partnership “tool kit” that provides models of successful private, public, and non-profit affordable housing outreach/marketing partnerships. This tool kit will be shared with MBA member firms; these firms will be encouraged to seek out and link with appropriate non-profits, government agencies and others to increase partnership efforts to assist in expanding minority homeownership. MBA also will create a “clearing-house” for its members seeking guidance on partnership opportunities.

*Timeline: MBA will obtain materials, develop, and finalize the partnership tool kit by mid-2003. During this time, MBA also will develop the partnership “clearinghouse.”*

## NATIONAL CREDIT UNION ADMINISTRATION

Through NCUA’s “Access Across America” initiative, which focuses on creating economic empowerment for people from all walks of life, the federal agency is best positioned to empower America’s nearly 10,000 credit unions with over 80 million members to provide outreach to serve the underserved and facilitate partnerships between credit unions and community organizations for developing affordable housing initiatives.

Credit unions are becoming a greater source of mortgage loans for the American public. As the growth in credit union mortgage portfolios continue, NCUA will share information and identify potential partnering opportunities with those organizations involved in preparing individuals for homeownership to provide those individuals with mortgage opportunities. Further, the NCUA will continue to identify programs that provide credit unions the opportunities to mitigate risk in granting loans that are not currently deemed salable. Such programs and opportunities may include the use of government-foundation/non-profit reserve accounts to absorb some of the risk, or the potential of securitizing non-salable portfolios.



## NEIGHBORHOOD HOUSING SERVICES OF AMERICA

NHSA is pledging to:

- *Raise \$750 million in below-market rate investments. These investments will work in collaboration with initiatives of over 200 NeighborWorks® organizations at work in more than 2,000 communities nationally, with an emphasis on service to heavily minority program areas.*
- *Increase by 50% the number of lenders NHSA enlists to serve NeighborWorks® program areas. Each lender will increase the number of homeowners that they assist in becoming homeowners through the use of NHSA's loan products.*
- *Facilitate the use of the conventional secondary markets for non-conventional loan products.*

## NEIGHBORHOOD REINVESTMENT CORPORATION (NRC)

NRC is pledging to:

- *Work with investment and lending partners and others to develop creative loan products to better serve minority populations – including a “conventional market” alternative to predatory loan products currently being targeted disproportionately to minority populations.*
- *Work with other partners to identify, incentivize and expand sources of capital for secondary financing.*
- *Work to implement the Single-Family Affordable Housing Tax Credit proposed by the Administration. It will do this by:*
  - *Providing training and technical assistance to its affiliated NeighborWorks organizations and the broader housing and community development field in the effective use of the Single-Family Affordable Housing Tax Credit.*
  - *Identifying and disseminating information related to ‘best practices’ in the use of the Single-Family Affordable Housing Tax Credit.*
  - *Continue to support and implement an innovative approach in the use of HUD's Section 8 vouchers in support of homeownership – with a specific focus on minority families.*