



Financial Innovations for Homeownership in Distressed Communities

Setting the Context



Dekonti Mends-Cole, Director of Policy

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About us



Center for Community Progress

- The national nonprofit focused on building a future in which entrenched, systemic blight and vacancy no longer exist.
- Serve communities through technical assistance, education and training, policy, and research. Focus on systems-level change.
- Snapshot of our work: In 2015, fielded 250 technical assistance inquiries, supported policy and programmatic change in dozens of communities and states, reached 5,500 through trainings & presentations, distributed 1000s of publications

Local innovators:



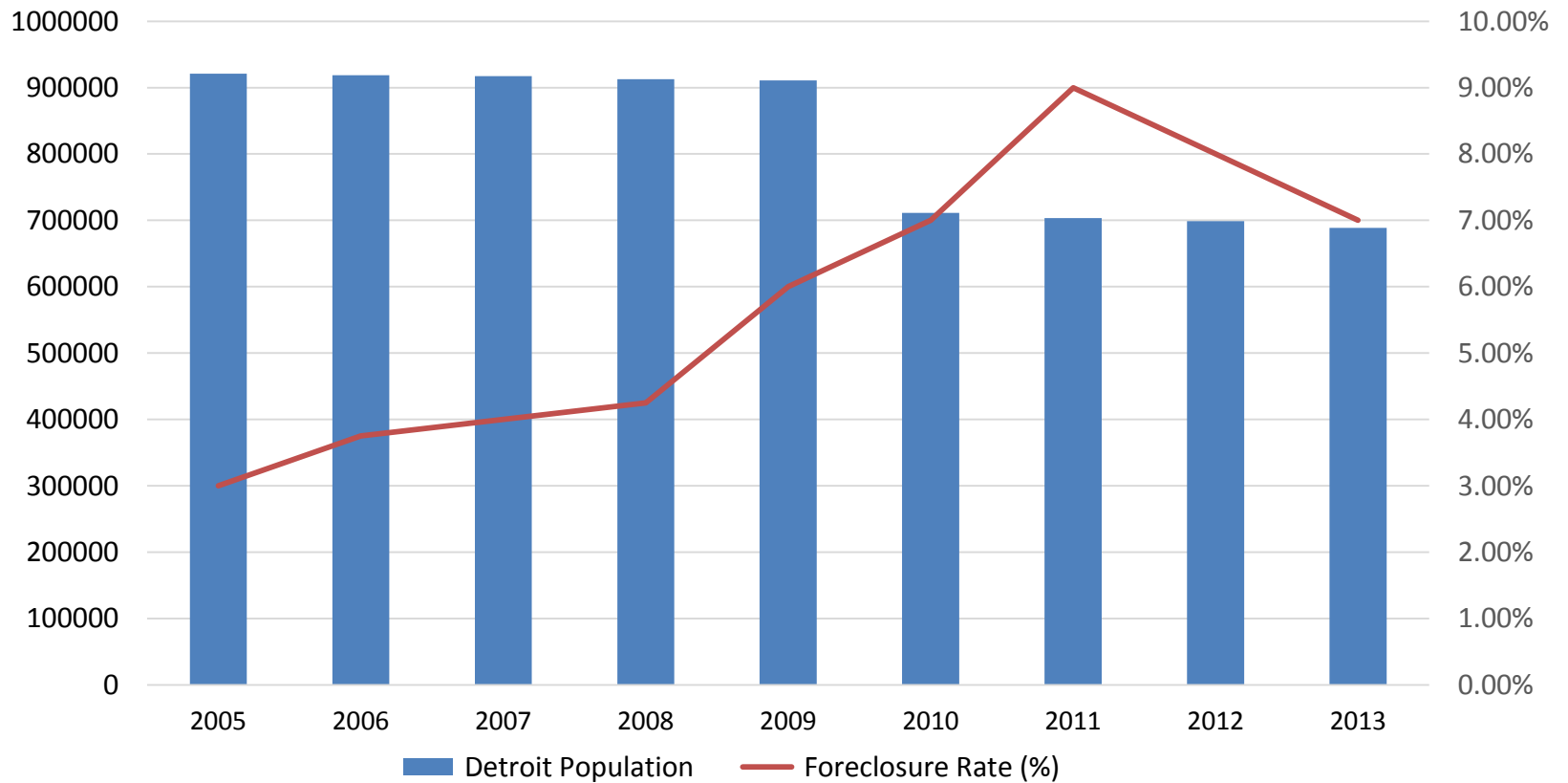
**Kirk Mills, CFA, President,
St. Louis Community Credit Union**

**Suzanne C. Hough, Vice President - Community Development,
Carrolton Bank**

**Colleen Schwarz, Vice President of Affordable Housing,
Community Reinvestment Fund, USA**

Setting the Context: The impact of the foreclosure crisis on neighborhoods and access to mortgages

Detroit's dramatic population decline and mortgage foreclosure crisis



Data: US Census and Urban Institute (2015)

2009



Source: Google Street View, Goobingdetroit.com

2011



Source: Google Street View, Goobingdetroit.com

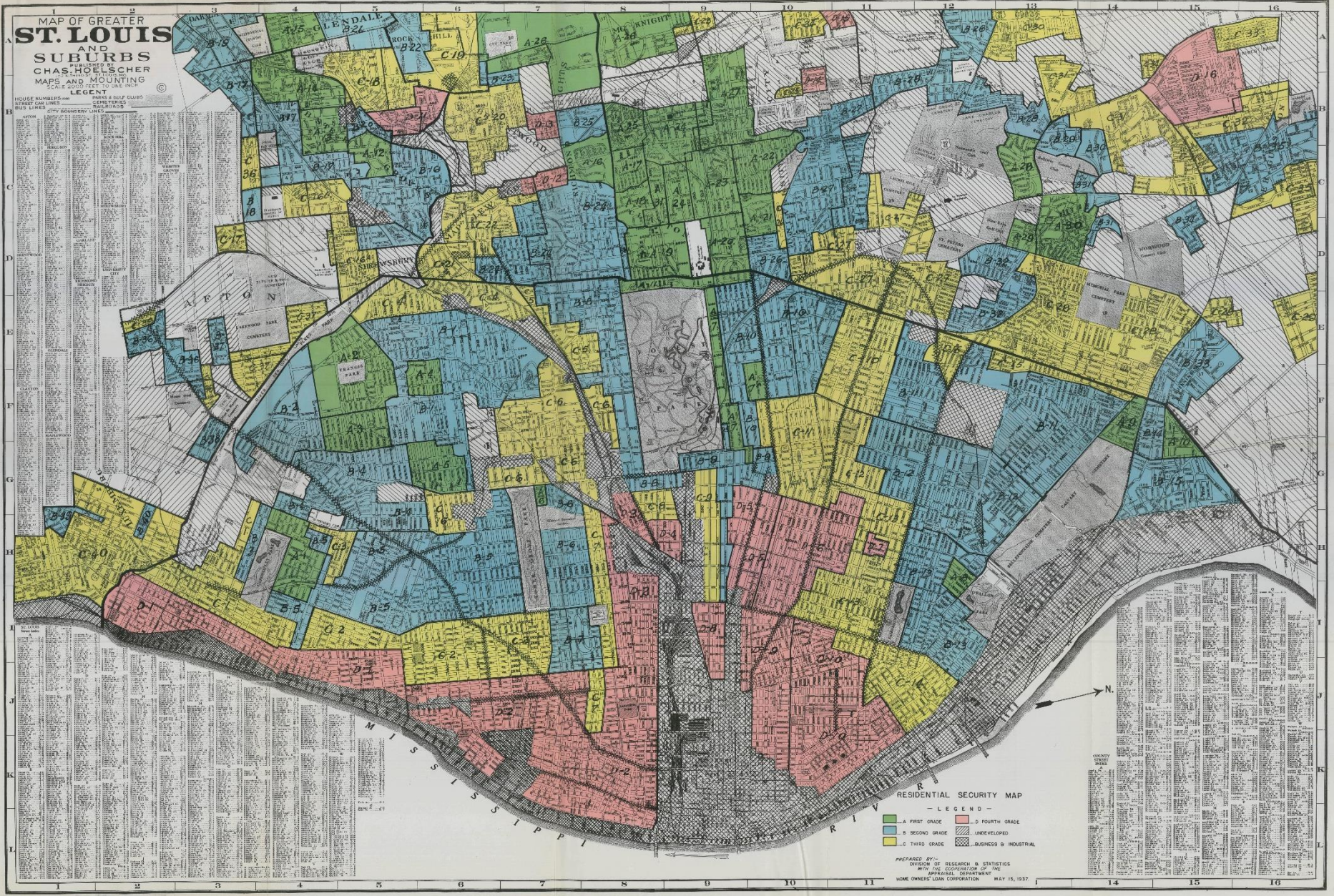
2015



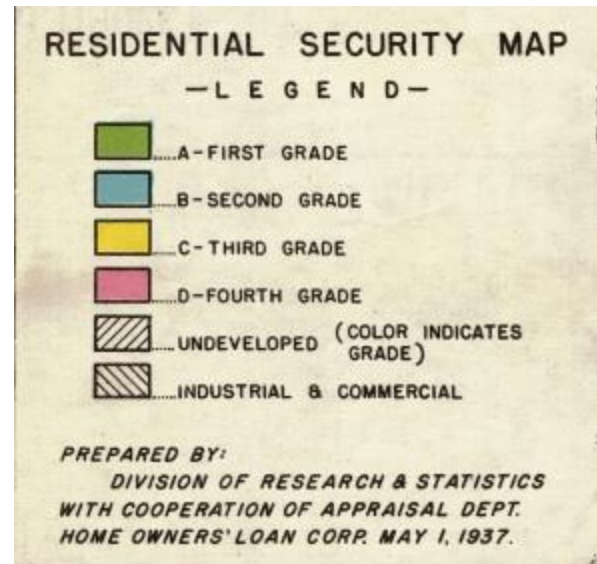
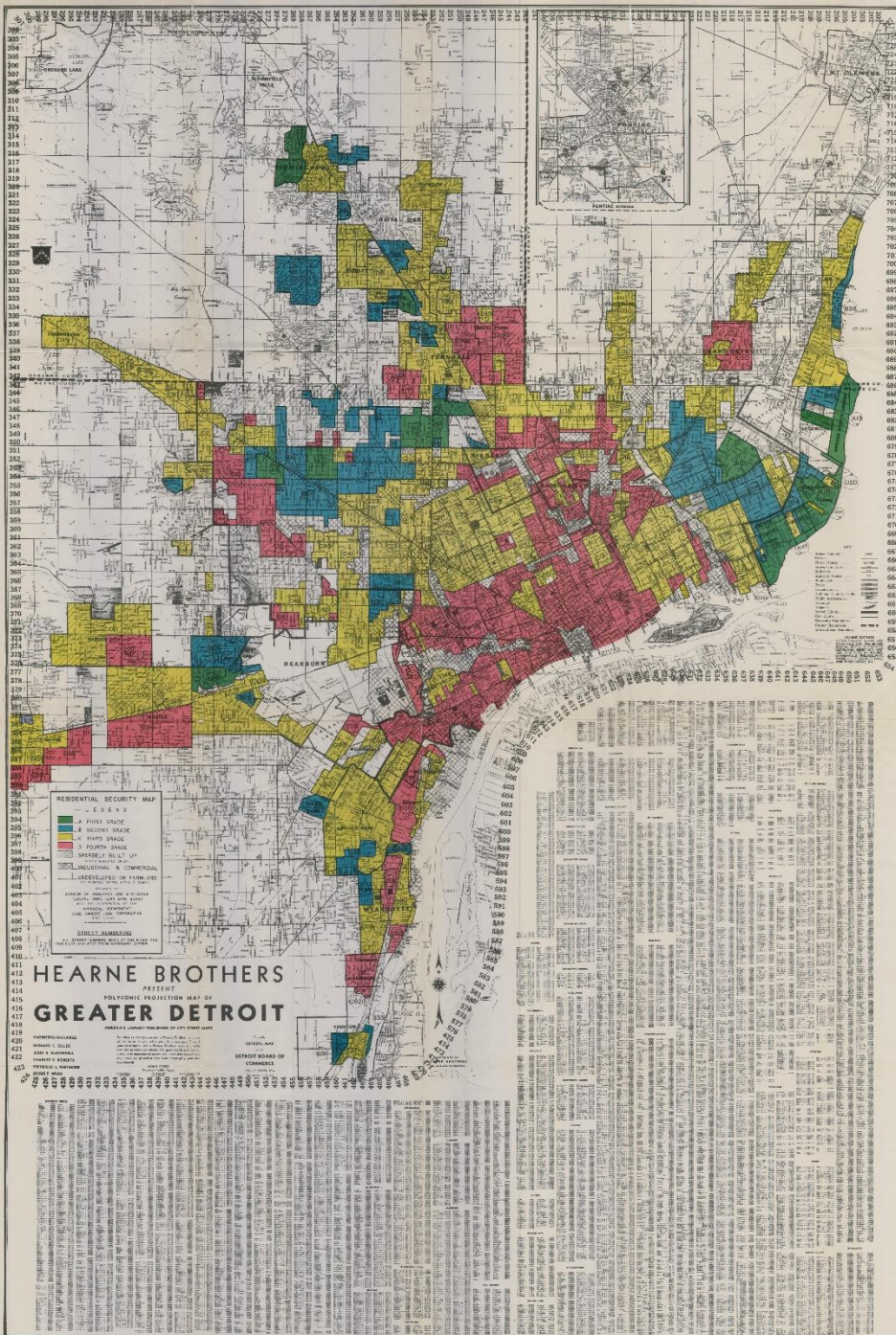
Source: Google Street View, Goobingdetroit.com

Setting the Context: A pattern that began before the foreclosure crisis

St. Louis, Home Owner's Loan Corporation Map, 1937



Detroit, Home Owner's Loan Corporation, 1939

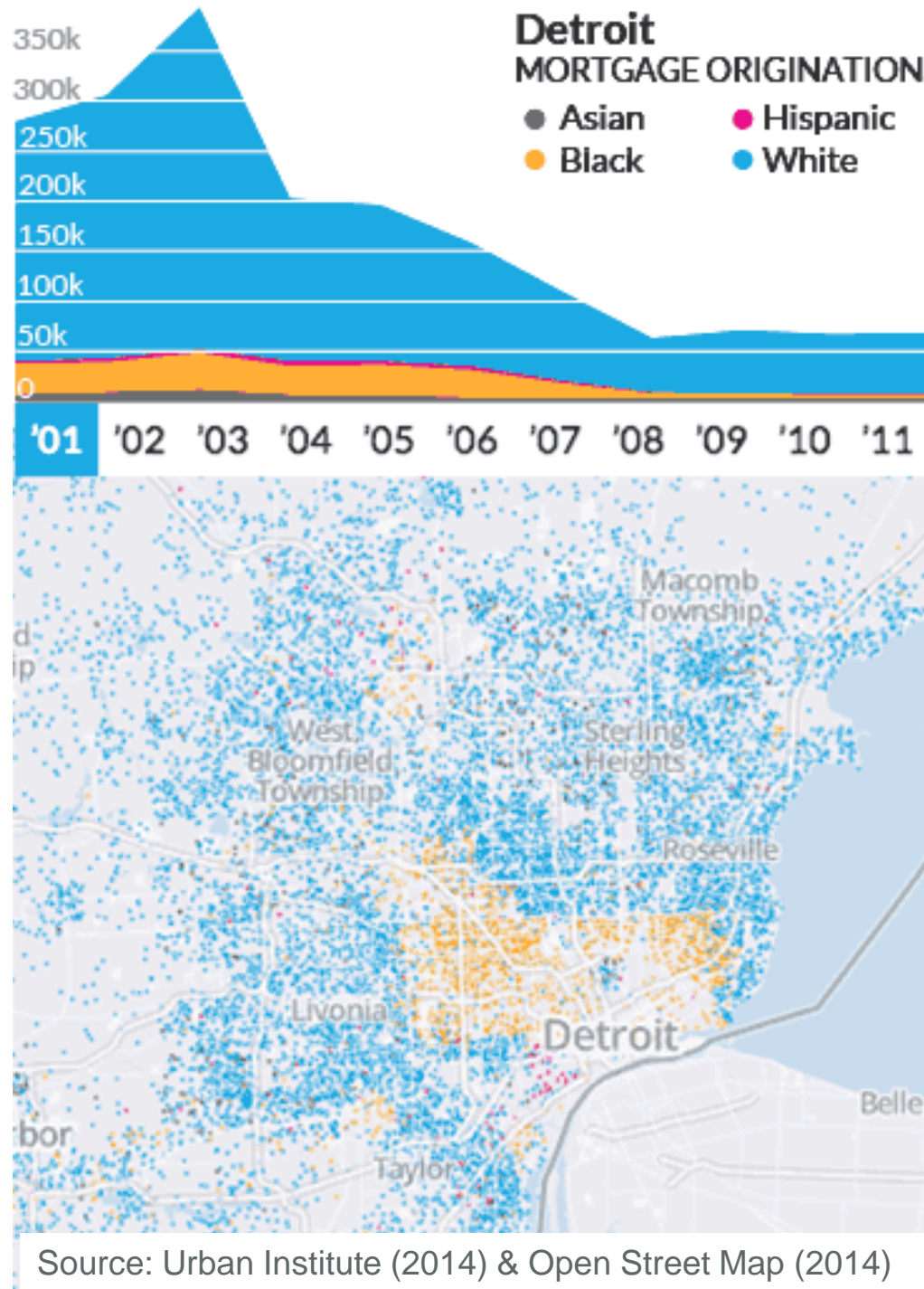


Setting the Context: Redlining in its latest incarnation

New Era of Redlining

Redlining that relies on appraisals and underwriting anchored in the decimation of values and equity in communities of color

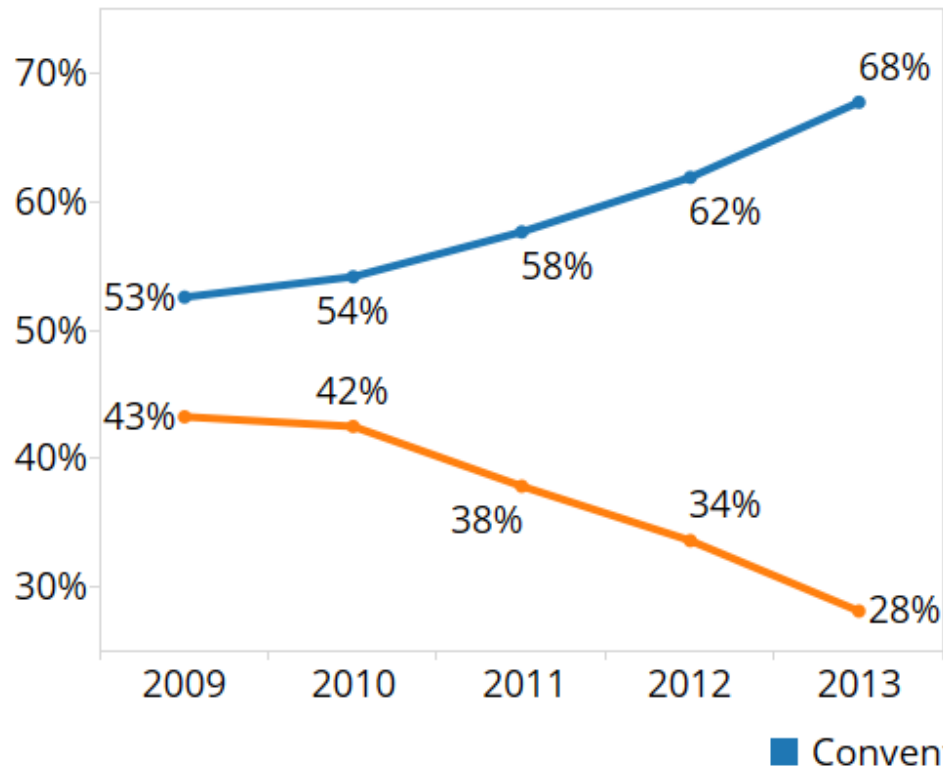
From 2006-2012 – Metro region mortgages originations fell 79% for African American applicants. By comparison, mortgage originations dropped only 11% for white applicants. (Urban Institute, 2014)



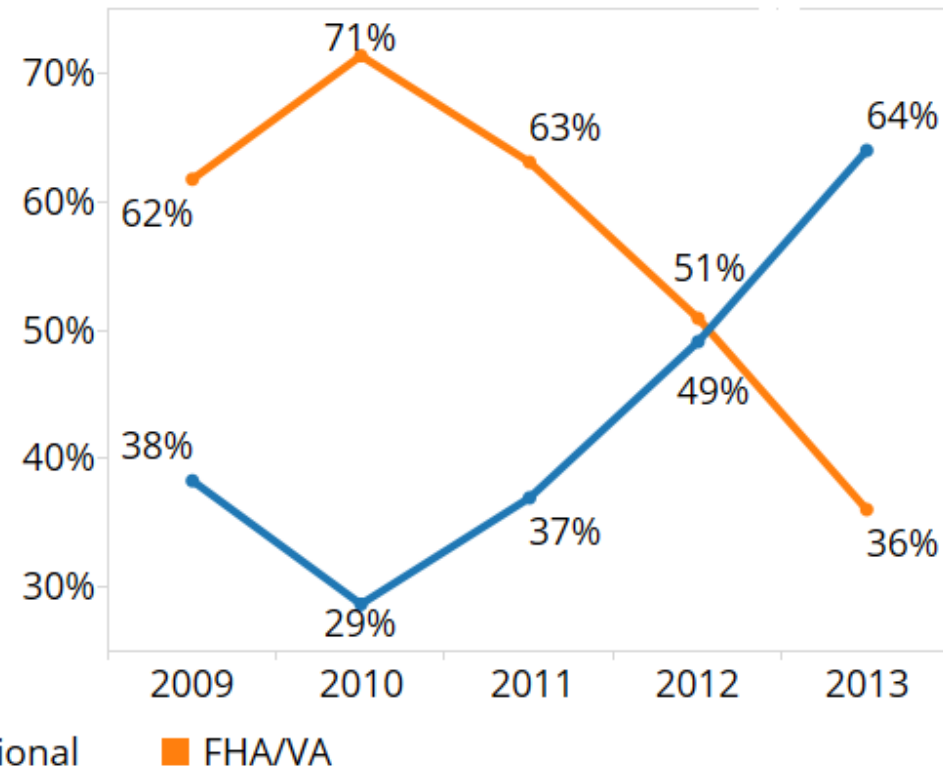
Decline in FHA loans



United States



City of Detroit



Source: Zillow analysis of Federal Financial Institutions Examination Council (FFIEC), Home Mortgage Disclosure Act (HMDA) data, 2009-2013



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DETROIT HOME MORTGAGE OVERVIEW

16TH ANNUAL NEW PARTNERS FOR SMART GROWTH CONFERENCE
FEBRUARY 2, 2017





DISCUSSION FLOW

- Introduction to Community Reinvestment Fund, USA (CRF)
- Description of residential real estate market in Detroit
- Detroit Home Mortgage partnership – how created
- Impact to date and next steps



Measurable, Transformative Community Impact

Improving lives and strengthening communities

Our Mission

To empower people to improve their lives and strengthen their communities through innovative financial solutions.

\$2 billion

in financing

48

states and DC
with loans

1,688

loans to small businesses

73,000

jobs created
or retained

19,088

affordable
housing units

\$1.7 million

people served



EMPOWERS

SUPPORTS

COMMUNITY ECONOMIC DEVELOPMENT

We support the development of healthy, vibrant communities where people want to live, work and educate their children.

Small Business

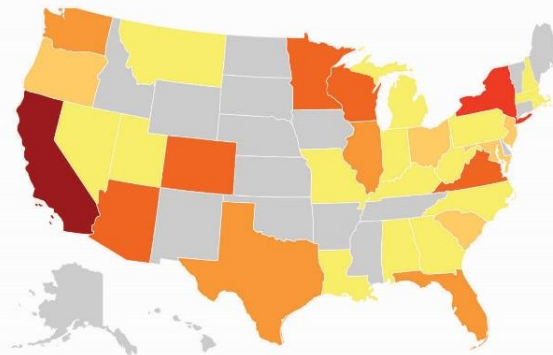
- Job creation
- Entrepreneurship
- Wealth building

Affordable Housing

- Creation
- Preservation

Community Facilities

- Community centers
- Charter schools
- Health facilities



Loan capital deployed by state



MISSION DRIVEN ORGANIZATIONS

We work to strengthen other mission driven organizations by helping them build capacity and increase efficiency.

Access to Capital

- Long-term, fixed rate debt
- Participation in loans

Operational Efficiencies

- Technology & consulting services
- Loan servicing

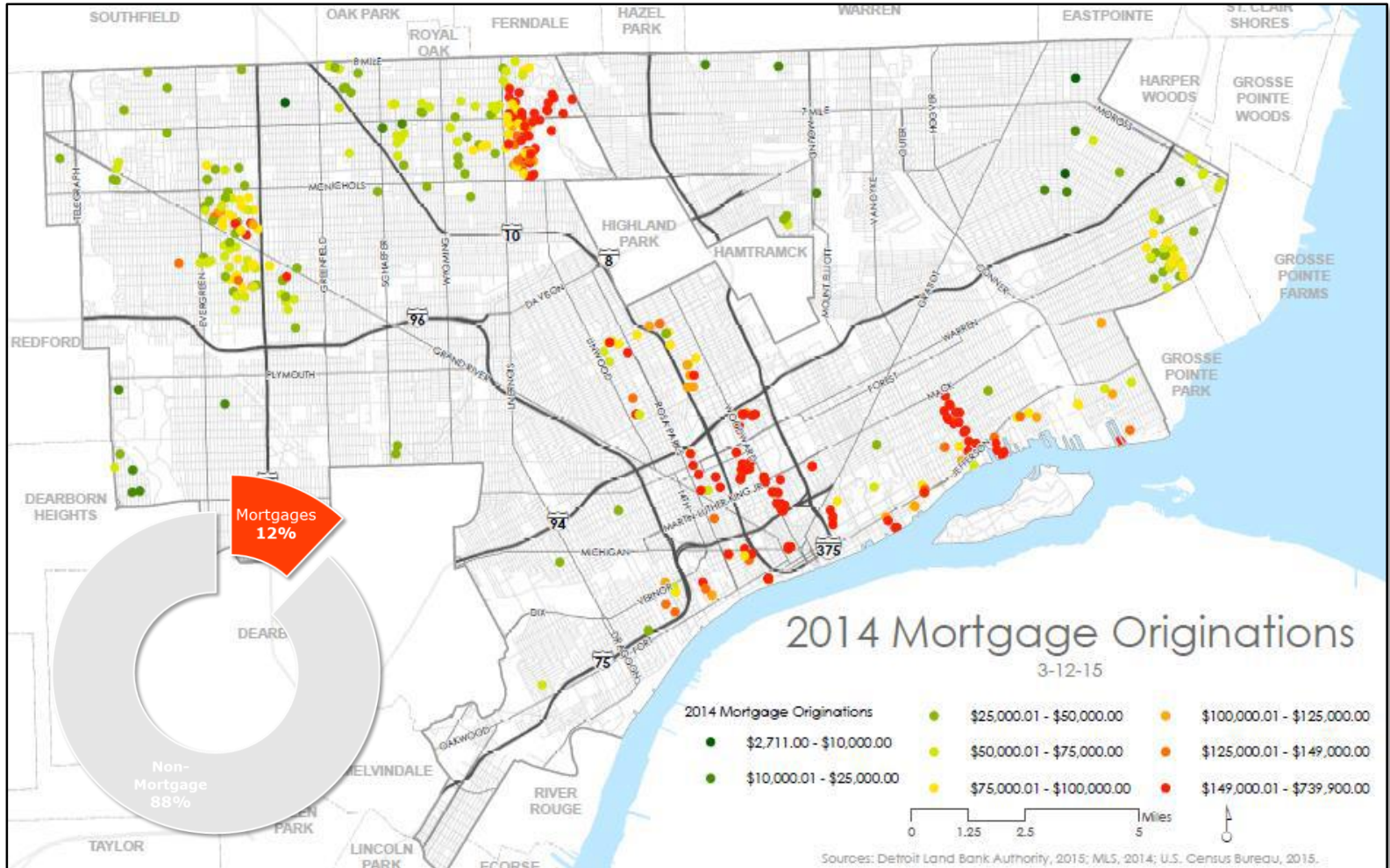
Complementary Lending Solutions

- Larger loans
- Credit challenges
- Geography limitations

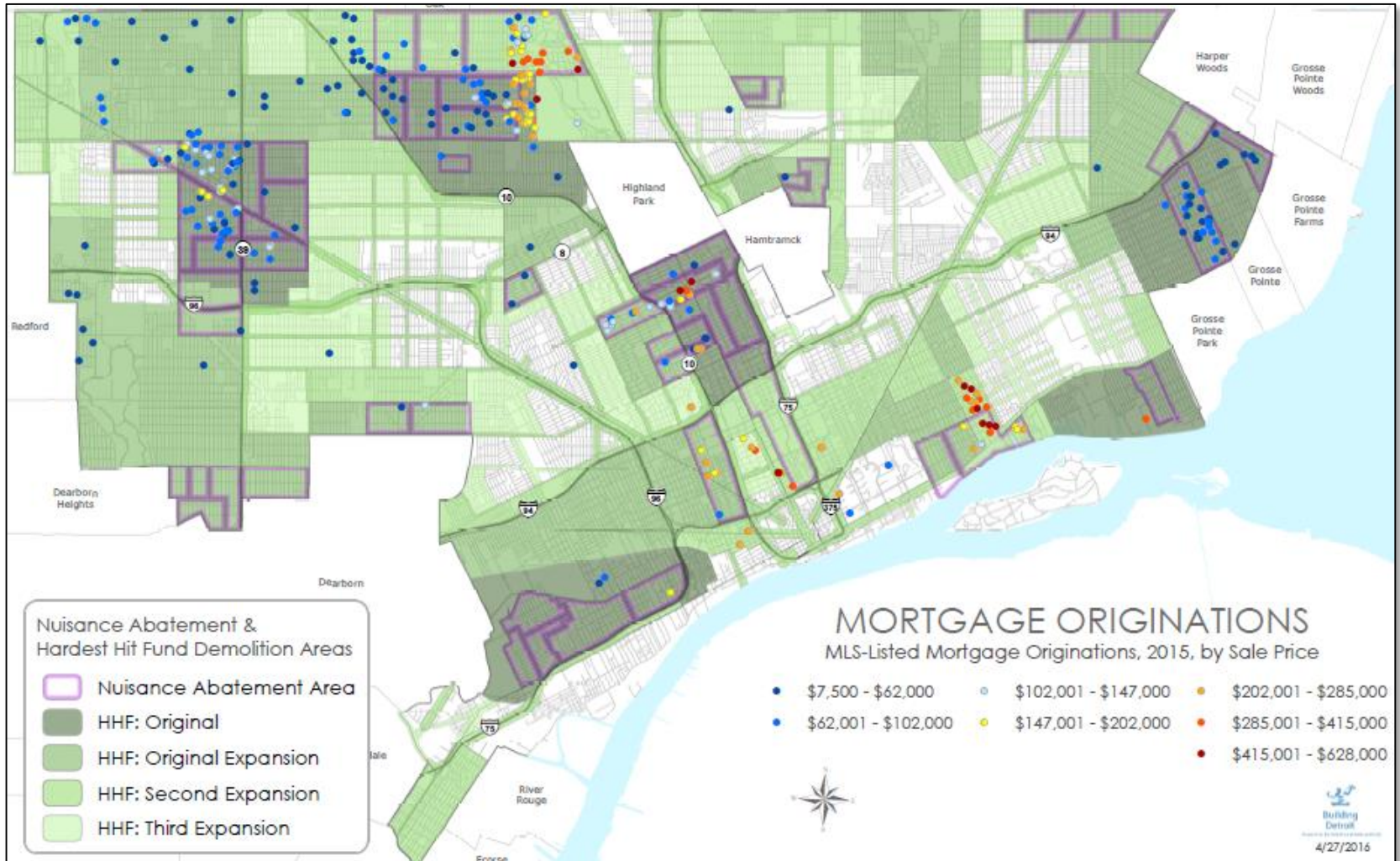
RESIDENTIAL MARKET IN DETROIT



MARKET NEED AND POLICY CHALLENGE- 488 MORTGAGES



DETROIT MARKET - 2015 MLS DATA – 557 MORTGAGES

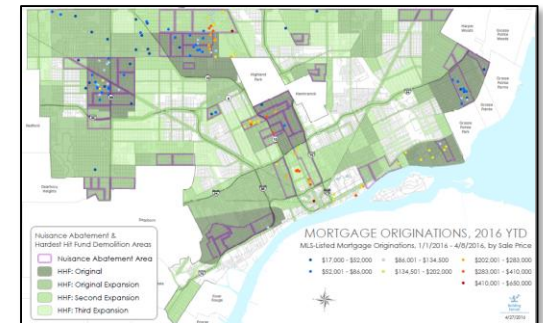
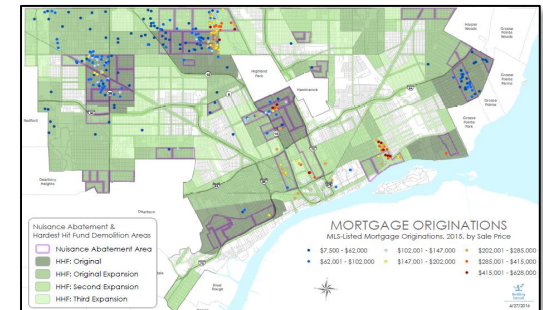
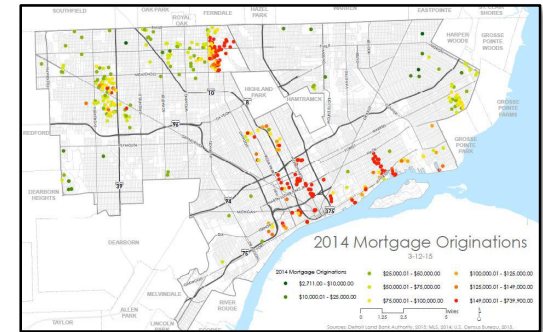




REAL ESTATE MARKET TRENDS

Notice...

- The maps are nearly identical
- Mortgages only work in a few areas
- All other areas of the city are cash sales





MARKET NEED AND POLICY CHALLENGE

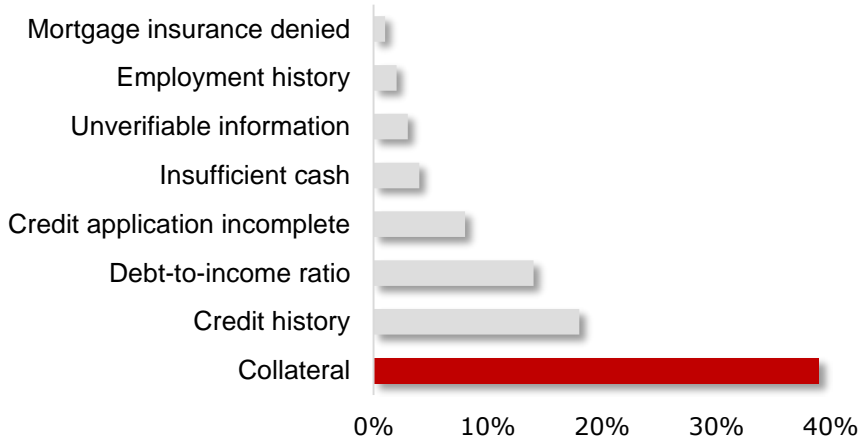
Denial rates for home improvement loans are very high.

Approximately **80 percent of applications were denied** for conventional and FHA-backed home improvement loans.



Loan Approvals and Denials

| Loan Type | Backing | Approved | Denied | Withdrawn / Closed |
|------------------|--------------|----------|--------|--------------------|
| Purchase | Conventional | 504 | 197 | 66 |
| | FHA/VA/RHS | 809 | 183 | 69 |
| Home Improvement | Conventional | 442 | 1,639 | 63 |
| | FHA | 18 | 111 | 11 |
| Refinance | Conventional | 2,642 | 988 | 564 |
| | FHA/VA | 823 | 267 | 179 |



Across all mortgage lending, the most commonly cited reason for mortgage denial was **insufficient collateral**.



PROGRAM GOAL: INCREASE HOME OWNERSHIP IN THE CITY OF DETROIT

- Address the appraisal value gap associated with the renovation of properties
- Increase number of conforming mortgages.



PROGRAM GOAL: INCREASE HOME OWNERSHIP IN THE CITY OF DETROIT (CONTINUED)

- Establish a 2nd mortgage product that could be combined with a conforming 1st mortgage to assist in the funding of rehabilitated single family homes → DHM
- Address mortgage need for move-in ready, purchase plus rehab and refinance plus rehab



PROGRAM DEVELOPMENT PROGRESSION



PROGRAM DEVELOPMENT PROGRESSION

Concept Discussion at Clinton Global Initiative – June 2015

- Detroit Mayor Duggan brought the issue forward
- Invitees to the discussion - White House Working Group, Detroit philanthropic groups knowledgeable of the homebuyer ecosystem, non-profits with mortgage and lending experience, Detroit bank presidents

Discussion continue with Detroit banks and housing leaders– July 2015

- Bank CEOs and mortgage division leaders, homebuyer counseling leadership, city and land bank leadership, demographic experts, housing experts at state and city level



PROGRAM DEVELOPMENT PROGRESSION (CONTINUED)

Program development with multiple working groups – July 2015

- Structure of program and program manager role scoped out
- Bank CEOs gather discuss concept and provide feedback
- Bank Partners Identified and form working groups – origination, servicing, marketing
- Investors and Credit Enhancement providers identified and early discussion
- Homebuyer Counselors Identified and form working group

Program event and announcement to public – February 18, 2016

Hire program staff in Detroit /open office in Detroit – April 2016





LEVERAGING COMMUNITY EFFORTS – PROMOTING BORROWER SUCCESS

- The approach leverages other related efforts – Down Payment Assistance from employers and others.
- Collaboration with education and counseling programs. All participants will receive the following homebuyer education:
 1. Basic homebuyer counseling as required for FHA loans and first time-home buyers
 2. Detroit Home Mortgage High Loan-to-Value education
 3. Detroit Home Mortgage Rehab education for participants rehabbing a home
- Detroit Land Bank and CDC home rehab efforts.
- City efforts through County Tax Assessors Office, Department of Neighborhoods and Religious Ministry
- Realtor and Developer education
- DHM brand awareness has created awareness that mortgages are available





PROGRAM PARTNERS



Capital for Communities –
Opportunities for People®



FORD FOUNDATION



IMPACT & NEXT STEPS



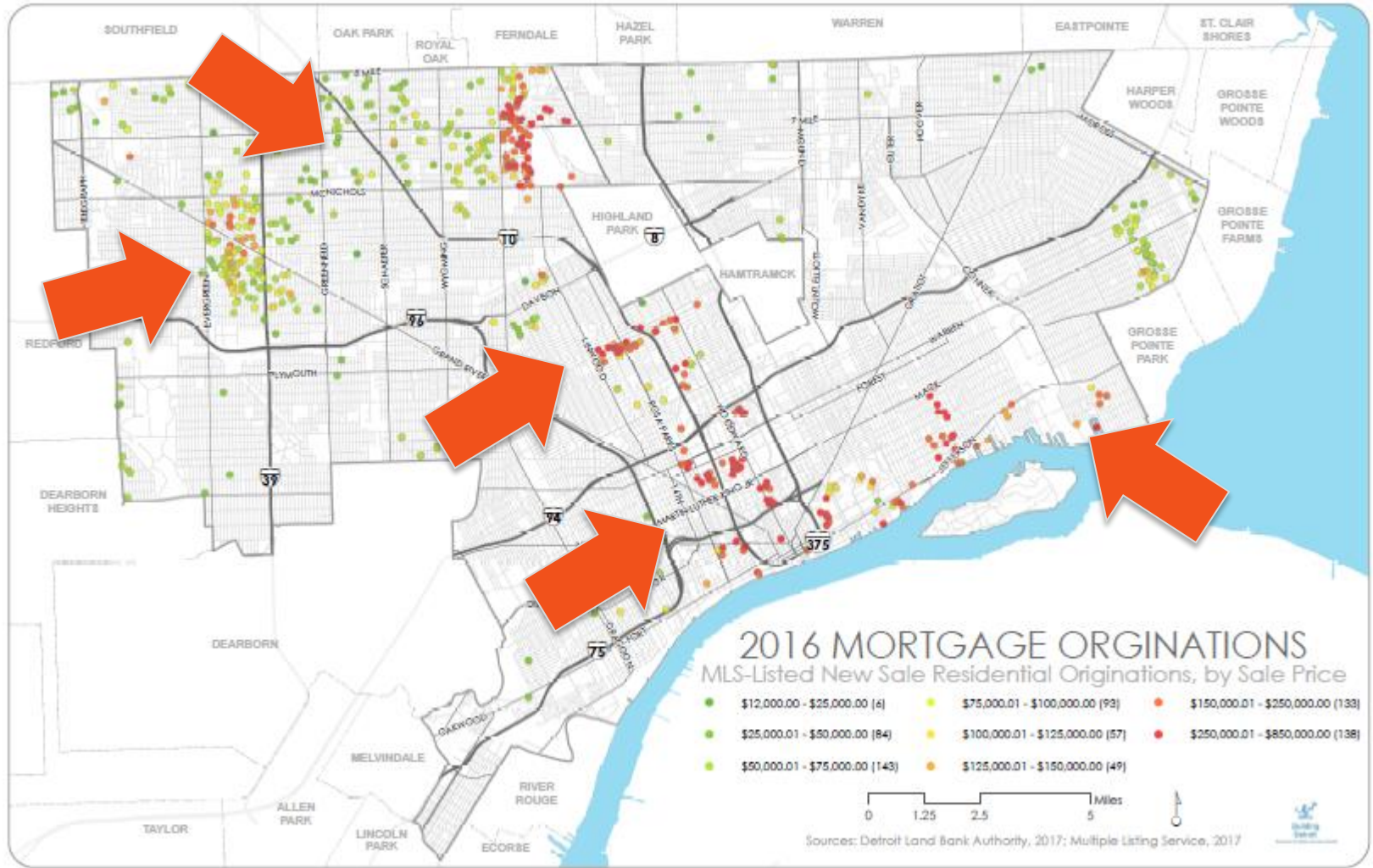
2016 - IMPACT TO DATE – TEN MONTHS AFTER LAUNCH



- Closed loans plus closing in process 41 loans
- Prequalified and shopping for a home 149 borrowers
- Average second mortgage (financing beyond appraisal \$36,700)
- 87% of the DHM borrowers lived in Detroit, 13% came from suburbs or elsewhere
- Mortgages in Detroit up 146 since 2015 and DHM direct and indirect is 31% of that change
- DHM website is intake source for all inquiries and averages 4000 unique visits per month
 - Half are direct inquiries
 - Quarter are links from social media



DETROIT MARKET – 2016 MLS DATA – 703 MORTGAGES



WHAT HAVE WE SEEN? WHAT'S NEXT?

Program traction after launch:

- Over 2 million impressions on Facebook. Social media key driver with targeted population.
- Detroit Home Mortgage website averages 4,000 hits per month. Key funnel for information and pipe to participating banks.



WHAT HAVE WE SEEN? WHAT'S NEXT?

Looking forward:

- Increased and enhanced program marketing efforts
- Banks have increased staff to do more community marketing
- Banks launched co-branded marketing efforts in a variety of media
- DHM marketing moving from brand awareness to evidence of delivery on brand promise and heavy community level campaigns.
- Address need for move-in-ready homes with developer line of credit pilot
- State of City address and Anniversary event



DETROIT HOME MORTGAGE PRODUCT SUMMARY





DETROIT HOME MORTGAGE PRODUCT FEATURES

- Address the appraisal gap ➡ Up to \$75k above appraised value in a second mortgage for homeowners in Detroit
- Widely available ➡ Five banks offering the same terms
- Affordable ➡ Low, fixed interest rate with no bank fees
- Informed borrowers ➡ Mandatory free homebuyer counseling on various program aspects



DETROIT HOME MORTGAGE PRODUCT FEATURES

- Protect borrower's financial health → Equity Protection guards against borrowers "being underwater" if a hardship requires he/she sell their home
- Manage construction process → Bank will disburse funds and administer construction process at no cost
- Assist homeowner in rehab → Project Manager will scope the work, vet contractors and advocate for homeowner should problems arise
- Community Outreach → Extensive ongoing marketing campaign, bank co-branded marketing efforts



SAMPLE DETROIT HOME MORTGAGE TRANSACTION

1st Mortgage = \$38,600 @ 96.5% value

- Estimated at 3.2% for 20 years

Down Payment = \$1,400 @ 3.5% value

2nd Mortgage = \$20,000 (amount above value)

- Interest at 5% for 20 years

Combined P&I monthly payments = \$349.95/month

CLTV = 146.5%

