Financial Innovations for Homeownership in Distressed Communities

Setting the Context

Dekonti Mends-Cole, Director of Policy  February 3, 2017
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

Setting the Context: A pattern that began before the foreclosure crisis
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
- 2009: 53%
- 2010: 54%
- 2011: 58%
- 2012: 62%
- 2013: 68%

City of Detroit
- 2009: 62%
- 2010: 29%
- 2011: 34%
- 2012: 37%
- 2013: 51%

Source: Zillow analysis of Federal Financial Institutions Examination Council (FFIEC), Home Mortgage Disclosure Act (HMDA) data, 2009-2013
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
19,088 affordable housing units
$1.7 million people served
73,000 jobs created or retained

73,000 jobs created or retained
Community Reinvestment Fund, USA (CRF)

EMPOWERS

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

SUPPORTS

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

Loan capital deployed by state:
- $0M - $4.9M
- $5M - $24.9M
- $25M - $49.9M
- $250M - $349.9M
- $350M +
- $50M - $99.9M
RESIDENTIAL MARKET IN DETROIT
MARKET NEED AND POLICY CHALLENGE - 488 MORTGAGES

2014 Mortgage Originations
3-12-15

Sources: Detroit Land Bank Authority, 2015; MLS, 2014; U.S. Census Bureau, 2015.
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
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

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Backing</th>
<th>Approved</th>
<th>Denied</th>
<th>Withdrawn / Closed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase</td>
<td>Conventional</td>
<td>504</td>
<td>197</td>
<td>66</td>
</tr>
<tr>
<td></td>
<td>FHA/VA/RHS</td>
<td>809</td>
<td>183</td>
<td>69</td>
</tr>
<tr>
<td>Home Improvement</td>
<td>Conventional</td>
<td>442</td>
<td>1,639</td>
<td>63</td>
</tr>
<tr>
<td></td>
<td>FHA</td>
<td>18</td>
<td>111</td>
<td>11</td>
</tr>
<tr>
<td>Refinance</td>
<td>Conventional</td>
<td>2,642</td>
<td>988</td>
<td>564</td>
</tr>
<tr>
<td></td>
<td>FHA/VA</td>
<td>823</td>
<td>267</td>
<td>179</td>
</tr>
</tbody>
</table>

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
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 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

CRF USA

Capital for Communities –
Opportunities for People®

The Kresge Foundation

Ford Foundation

AAA Banking

Citizens Bank

Flagstar Bank

Chemical Bank

Huntington

Independent Bank

Liberty Bank

MSHDA

Michigan State Housing Development Authority

DETOUR HOME MORTGAGE
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 inquires 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

<table>
<thead>
<tr>
<th>Feature</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>Address the appraisal gap</td>
<td>Up to $75k above appraised value in a second mortgage for homeowners in Detroit</td>
</tr>
<tr>
<td>Widely available</td>
<td>Five banks offering the same terms</td>
</tr>
<tr>
<td>Affordable</td>
<td>Low, fixed interest rate with no bank fees</td>
</tr>
<tr>
<td>Informed borrowers</td>
<td>Mandatory free homebuyer counseling on various program aspects</td>
</tr>
</tbody>
</table>
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%