

Making New Mortgage Markets: Case Studies of Institutions, Home Buyers, and Communities

David Listokin, Elvin K. Wyly, Larry Keating, Kristopher M. Rengert, and Barbara Listokin

Introduction and Executive Summary

HOMEOWNERSHIP ACCOMPLISHMENT AND CHALLENGES

The United States currently enjoys its highest homeownership rate ever (66.8 percent in 1999), and significant progress toward realizing the American dream of owning one's home has been made in recent years by traditionally underserved populations—racial and ethnic minorities, recent immigrants, and low- to moderate-income (LMI) households.

Progress is uneven, however, and stark disparities remain. In 1999, 73.2 percent of non-Hispanic whites owned their own homes, compared with 46.7 percent for non-Hispanic blacks and 45.5 percent for Hispanics. Certain groups and areas are particularly challenged. For instance, through 1994, not a single conventional home mortgage had been closed on the Navajo Nation, an Indian reservation with a land area (17 million acres) larger than that of nine states.

The traditionally underserved face complex barriers, including discrimination, limited economic resources, and problems in communication and information. Each of those problems is challenging. For example, as of 1995, black and Hispanic renters in the United States had average household incomes of only \$20,917 and \$23,027, respectively, and had average assets of a paltry \$1,601 and \$2,000, respectively.

The often mutually reinforcing and self-perpetuating nature of the barriers make the challenge even more daunting. For example, language difficulties and discrimination constrain earning and assets, making it hard to secure homeownership, which historically has “bootstrapped” household wealth. Further adding to the challenge is the tension between the mortgage industry's trend toward standardization and efficiency and the traditionally underserved market's tremendously diverse needs, which often require time-consuming, custom-crafted responses.

CASE STUDY INSTITUTIONS AND ILLUSTRATIVE STRATEGIES

This study, building on a 1998 investigation funded by the U.S. Department of Housing and Urban Development (HUD), examines the lending and other strategies (hereinafter referred to as *illustrative strategies*) of a cross section of institutions that are among the leaders in the effort to expand homeownership opportunities for the traditionally underserved. The institutions were selected mainly on the basis of reputational nominations from financial institution regulators, secondary market funders, industry groups, and advocacy and community groups and activists (e.g., Federal Reserve Banks, Fannie Mae, American Bankers Association, and fair housing councils). The 16 case studies include the following subjects:¹

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| 1. Three national lenders and one regional lender | Bank of America (BoFA); Countrywide Home Loans, Inc.; Norwest Mortgage Inc.; and People's Bank |
| 2. Four community lenders, including minority-owned banks and banks specializing in particular areas, particular products, or both | Berean Federal Savings Bank (minority-owned), First National Bank of Farmington (FNBF; service to Native Americans), Industrial Bank (minority owned), and Trent Financial (mortgage broker concentrating on Federal Housing Administration [FHA]–insured mortgages). |
| 3. Two of the nation's longest-running lender consortia | Atlanta Mortgage Consortium (AMC) and Delaware Valley Mortgage Plan (DVMP) |
| 4. Six nonprofits (many partnering with lenders) that provide homeownership opportunities for some of the most destitute populations in the United States, such as Haitian immigrants and Native Americans | Asian Americans for Equality (AAFE); Chattanooga Neighborhood Enterprise, Inc. (CNE); Little Haiti Housing Association (LHHA); NAACP–NationsBank Community Development Resource Centers; Navajo Partnership for Housing (NPH); and Neighborhood Housing Services of Chicago (NHSC) |

The case study institutions are briefly described, and their accomplishments are summarized, in table 1.

ILLUSTRATIVE STRATEGIES TO EXPAND HOMEOWNERSHIP AMONG THE TRADITIONALLY UNDERSERVED

From the case studies, we synthesize illustrative strategies to extend and sustain home mortgage lending to minority, LMI, immigrant, and other underserved populations.

¹Nine of the case studies were originally examined in an analysis for HUD (Listokin et al. 1998). These nine have been expanded and updated.

Table 1. Case Study Institutions: Profiles and Accomplishments

Case Study Institution	Year Founded	Service Area	Description	Illustrative Accomplishments
For-Profit Lending Institutions				
<i>National/Regional Lenders</i>				
Bank of America ^a	1904	National	As of 1997 (prior to its merger with NationsBank), the second-largest banking company in the United States, holding about 40 percent of its assets (about \$50 billion) in residential mortgages	Maintains comprehensive program of lending to underserved populations through its "Neighborhood Advantage" affordable products program, launched in 1990. Made a 10-year, \$37 billion commitment to LMI home lending as part of an overall lending goal of \$140 billion
Countrywide Home Loans	1969	National	Principal subsidiary of Countrywide Credit Industries, which provides vertically integrated financial services. One of the nation's leading single-family mortgage originators and servicers	About one-sixth of mortgages made to black, Hispanic, or Native American borrowers. Largest lender to the Hispanic market according to 1998 Home Mortgage Disclosure Act data
Norwest Mortgage ^b	1906	National	As of 1998, the nation's largest originator and second-largest servicer of residential mortgages. Vertically integrated mortgage subsidiary of Wells Fargo & Company	The nation's top mortgage originator to minorities and LMI consumers. Offers integrated initiatives to reach underserved populations and neighborhoods
People's Bank	1842	Regional (New England)	Large regional savings bank in New England and the leading residential lender in Connecticut. Held \$2.2 billion in residential mortgages in 1996	Integrated efforts to reach underserved markets beginning in early 1990s. Offers Building Foundations—a \$200 million initiative comprising state, government-sponsored enterprise, and portfolio affordable mortgages. In 1998, Building Foundations extended approximately \$96 million in affordable mortgage loans and helped 941 people buy homes.
<i>Community Lenders</i>				
Berean Federal Savings Bank	1888	Philadelphia	The nation's oldest minority-owned and minority-operated thrift institution, specializing in single-family lending in the largely minority West Philadelphia area	About 95 percent of mortgages granted to minority borrowers and about 50 percent to LMI borrowers
First National Bank of Farmington (FNBF) ^c	1902	San Juan County, NM	Small commercial bank, located in a border community (Farmington, NM) to the Navajo Nation, providing mortgage and other banking services to Native Americans	A leader in the development of mortgage markets and other financial services to the Navajo Nation; closed the first federally insured mortgage loan on the Navajo Nation
Industrial Bank	1934	Washington, DC, area	Largest black-owned commercial bank in the United States, but with small volume of residential lending in Washington, DC, and Prince George's County, MD	Customized, personalized efforts to outreach, underwriting, and postpurchase retention in minority markets of the Washington, DC, area. Mortgage volume is modest (e.g., 32 mortgages in 1997), but mortgage lending is primarily to black (81 percent in 1997) and LMI (56 percent in 1997) borrowers.
Trent Financial ^d	1986	Los Angeles	Small mortgage brokerage company specializing in FHA lending to LMI, minority, and immigrant borrowers and neighborhoods in South Central Los Angeles and surrounding areas	Makes about 90 percent of its loans to people of color with low or moderate incomes

Table 1. Case Study Institutions: Profiles and Accomplishments *(continued)*

Case Study Institution	Year Founded	Service Area	Description	Illustrative Accomplishments
<i>Lender Consortia</i>				
Atlanta Mortgage Consortium (AMC) ^e	1988	Fulton and DeKalb Counties, GA (including Atlanta)	Nationally recognized consortium established in response to “The Color of Money” redlining study in 1988	Provided outreach and education along with flexible loan products through nine member banks. Closed a total of 1,815 loans with a value of \$95 million. Seventy percent of AMC loans went to minorities with incomes at or below 80 percent of the area median.
Delaware Valley Mortgage Plan (DVMP)	1975	Originally Philadelphia; later expanded to six-county area	One of the nation’s longest-running, collaborative mortgage-loan programs; established in response to local activism that predated the Community Reinvestment Act	From 1975 through 1998, 27,952 mortgages with a total value of \$763 million granted under DVMP auspices. In 1996, 73 percent of DVMP loans were made in Philadelphia, 75 percent were made to minorities, and 60 percent were made to very low income households.
<i>Nonprofit Institutions</i>				
Asian Americans for Equality (AAFE)	1974	Asian neighborhoods in New York City	Community-based, nonprofit civil rights and housing organization dedicated to providing housing development (both rental and owner-occupied), housing assistance (e.g., homeownership counseling and tenant advocacy), citizenship courses, financial counseling, and a variety of other social and economic services to Asian Americans in the New York metropolitan area	Aided its clients in obtaining a cumulative total of \$63 million in home mortgage loans; provides homeownership counseling to about 500 persons annually; raised almost \$18 million of private and public capital to develop 185 affordable apartments; and is currently involved in \$26 million in projects that will produce about 250 affordable rental and homeownership units as well as commercial improvements
Chattanooga Neighborhood Enterprise (CNE)	1986	City of Chattanooga, TN, and Hamilton County, TN	Nonprofit organization that facilitates financing, development, and renovation of affordable housing and prepares home buyers through education and counseling; an affiliate of the Neighborhood Reinvestment Corporation (NRC)	Financed, produced, or renovated more than 4,600 units (\$140 million investment), including origination or facilitation of almost 2,000 home-purchase loans (\$92 million). In 10 years, purchase loan volume grew from 7 to more than 300 home mortgages annually. Leverages private-sector investment, captures public investment, and provides extensive services to borrowers.
Little Haiti Housing Association (LHHA)	1987	Little Haiti (and nearby neighborhoods) in Miami	Uses housing as a primary vehicle to improve the shelter and socioeconomic conditions of Haitians in Miami’s Little Haiti neighborhood. Applies a comprehensive “integrated housing strategy” that produces rehabilitated and new affordable housing and provides both rental and homeownership assistance.	As of February 1999, had provided extensive homeownership counseling to 180 families. Of the 57 families who purchased houses, not one has experienced a foreclosure; and the delinquency rate is zero percent. LHHA is in the process of rehabilitating about 70 multifamily units and building a new 33-unit for-sale townhouse project.
NAACP–Nations-Bank ^a Community Development Resource Centers	1991	Atlanta; Austin, TX; Charlotte, NC; Columbia, SC; Ft. Lauderdale, FL; and Richmond, VA	Partnership between civil rights organization and leading national bank. Provides education, technical assistance, and counseling along with home mortgage, consumer, small business, and community-development lending.	Between 1993 and 1996, made 443 home mortgage loans with a total value of \$32.3 million. About 98 percent of those loans were to minority borrowers, mostly LMI households.

Table 1. Case Study Institutions: Profiles and Accomplishments (continued)

Case Study Institution	Year Founded	Service Area	Description	Illustrative Accomplishments
<i>Nonprofit Institutions (continued)</i>				
Navajo Partnership for Housing (NPH)	1996	Navajo Nation (AZ, NM, UT)	Nonprofit affiliate of the NRC devoted to homeownership on the Navajo Nation. (Through 1994, not a single conventional mortgage had been closed on the Navajo Nation, an Indian reservation with a land area larger than that of nine states.) Offers home-buyer education and counseling, provides intermediation for the buyer with tribal and governmental authorities, and makes available other services.	Involved on many fronts in surmounting the many legal and institutional barriers to collateralized mortgage lending on Indian lands. As of mid-1998, only one home purchase on the Navajo Nation, involving two separate mortgages, had been facilitated, but 13 loans had been approved. NPH had provided individual counseling, group homeownership training, or both to almost 150 people. Developed homeownership education materials especially for Native Americans.
Neighborhood Housing Services of Chicago	1975	Chicago (All LMI areas, with focus in 20 target neighborhoods)	Largest member of the NRC network. Nonprofit organization that administers loan programs to finance home improvement, purchase, and rehabilitation for LMI families; buys and redevelops single-family and multifamily properties; builds new affordable housing; and engages in community-building activities through neighborhood-based programs.	Has provided about 6,800 loans—including home improvement, purchase-rehabilitation, and purchase loans—to borrowers in LMI Chicago census tracts. Sixty percent of the borrowers earned 80 percent or less of the area median income, and 90 percent were ethnic minorities, racial minorities, or both. Other accomplishments include rehabilitation or new construction of 21,000 housing units.

^a In September 1998, NationsBank and BankAmerica merged to form Bank of America.

^b In November 1998, Wells Fargo & Company merged with Norwest Corporation, the parent of Norwest Mortgage. In April 2000, Norwest Mortgage changed its name to Wells Fargo Home Mortgage.

^c FNBF was acquired by Wells Fargo Bank New Mexico in March 2000.

^d Trent Financial ceased operations on December 31, 1999.

^e AMC disbanded in 1997 in response to greater industrywide attention to underserved markets and consortia instability.

The strategies are organized according to the stages of the lending process, as follows:

1. *Overall management strategies*: policies to create an environment conducive to lending to the traditionally underserved
2. *Strategies for seeking applicants*: strategies to broaden the pool of applicants and tap latent demand among traditionally neglected markets
3. *Strategies for qualifying applicants*: strategies to ensure that lending decisions are based solely on repayment ability of the traditionally underserved and strategies to extend that repayment capacity
4. *Strategies for retaining homeowners*: policies to support the long-term success of homeownership by often-novice buyers

Illustrative strategies from the case studies for these four stages of the lending process are summarized in tables 2 through 5. The overall themes and principal actions of the four areas of intervention are as follows:

- *Overall management strategies* are designed to create an environment in which fair and affordable lending becomes an integral part of the institution's mission and day-to-day operational fiber, including how staff are hired, trained, and compensated.
- *Strategies for attracting applicants* aim to identify and develop the social, community, and communication networks that encourage the traditionally underserved to try to become homeowners and to apply for mortgages.
- *Strategies for qualifying applicants* work to address the many barriers historically confronted by the traditionally underserved through many means, including providing home-buyer education and homeownership counseling; expanding the availability of affordable mortgage products, as well as affordable housing; applying flexibility in underwriting that is consistent with sound lending practices; and vigilantly guarding against discriminatory treatment.
- *Strategies for retaining homeowners* seek to realize long-term success in lending and homeownership by building ongoing relationships with borrowers; providing careful monitoring and quick and flexible reaction in the event of missed payments; and, more generally, tackling the many socioeconomic problems bedeviling traditionally underserved populations and neighborhoods.

APPLYING THE ILLUSTRATIVE STRATEGIES

The illustrative strategies “menu” detailed in the accompanying tables involves a changed way of thinking, as well as a compendium of actions. Not everything has to be ordered from the menu; however, its full content should be considered carefully. In fact, the menu

Table 2. Illustrative Strategies for Managing Enhanced Mortgage Lending to Traditionally Underserved Communities: Case Study Examples

Management Strategies	Case Study Examples
A. Management Commitment	
Ensure overall corporate commitment to underserved market	Norwest's corporate goal is to be the largest and most profitable mortgage originator and servicer to LMI and minority consumers.
Stipulate corporate commitment in defining documents	DVMP bank participants (e.g., PNC and CoreStates) have vision statements reiterating commitment to affordable lending.
Involve senior-level management	Countrywide's fair lending committee is composed of the president, the heads of major production divisions, and other senior officials. Norwest established the position of executive vice president of affordable housing; the officer in that position sits on the parent company's executive board. FBNB's Community Reinvestment Act (CRA) officer reports to an executive vice president, with oversight provided by the board of directors.
B. Management Structure	
Allow for creative mix of specialized and companywide units involved in affordable lending	BofA has community-lending underwriters and two special processing units expressly designated to handle low-volume community lending products; however, affordable lending is done throughout the company. Norwest has staff members who focus on affordable lending (e.g., community development sales representatives [CDSRs]) and has an affordable housing underwriting group, although the company in general engages in affordable lending and underwriting. Countrywide has about 20 retail branches in inner-city locations; however, the company's 440 retail offices make affordable loans.
C. Lending Goals	
Set concrete goals for affordable lending	BofA sets three lending goals (for LMI census tracts, LMI borrowers, and minority borrowers) for every operating level. Norwest's performance objectives for division, area, and regional managers include specific numeric goals for LMI and minority lending. People's incorporates CRA objectives into annual goals for each of its business areas.
D. Compensation Formulas	
Set compensation that encourages working on affordable lending	BofA ties compensation and bonuses to affordable loan performance and offers other incentives for such lending (e.g., peer recognition). Norwest links manager compensation to LMI and minority mortgage production and provides its CDSRs with a base salary plus commission. (This system allows CDSRs to perform functions that do not immediately generate loan applications; however, in time, all CDSRs revert to full commission.) Compensation of Countrywide retail loan officers is based on the number (not the value) of the mortgages granted. People's account officers working in central cities have a special compensation system. Industrial loan officers receive a higher-percentage commission on smaller loans.
E. Workforce Development	
Educate workforce on affordable and fair lending and promote workforce diversity and cultural sensitivity	BofA offers a "Fair Lending Challenge" (interactive CD-ROM program) as well as other fair housing–CRA training, and it aggressively recruits minority and bilingual personnel. People's branch account officers and others involved in the lending process (e.g., appraisers) receive in-house training on fair lending. FBNB provides staff training on the Navajo culture.

Table 2. Illustrative Strategies for Managing Enhanced Mortgage Lending to Traditionally Underserved Communities: Case Study Examples *(continued)*

Management Strategies	Case Study Examples
<i>F. Market Research</i>	
Analyze the potential and performance of affordable lending	BofA market research identifies the needs and perceptions of the underserved community and guides the development and promotion of its Neighborhood Advantage Mortgages. Norwest's Market Intelligence Group identifies market opportunities and helps develop marketing strategies.

can act as a useful checklist for institutional self-evaluation, with those actions that most comport with an institution's given situation considered first.

Illustrative strategies vary by institution type and context as explained in the following paragraphs:

1. Because they are based in traditionally underserved neighborhoods, community lenders have less cause to advertise aggressively to reach their constituents. At the same time, making their service role better known to the community will attract depositors and, ultimately, foster the mortgage-provider role. Similarly, many nonprofits, already of and in the community, still must reach out to publicize their mission and services.
2. A smaller lender may very well not be able to afford extensive matched-pairs testing, nor would the lender be able to establish a separate, specialized, affordable lending unit. Yet the smaller lender can incorporate a second review of initial declinations, and its underwriting staff can remain in a general unit but still be trained in affordable mortgage products and underwriting.
3. Lenders' abilities to make affordable loans depend on capitalization. Lenders with deeper pockets can make more affordable loans. Lenders less amply capitalized can concentrate on the many variations of government-sponsored enterprise (GSE) affordable loans and FHA mortgages that the secondary market accepts.
4. Nonprofits tend to do more of the longer-term preparation of borrowers (e.g., educating and counseling) and the custom crafting of housing subsidies and neighborhood building. Once nonprofits make traditionally underserved populations and areas more bankable, lenders can bring to bear the mass efficiency of the standardized financing market.

The menu items should be sampled, with some digested if they work and others discarded if they are less useful. Efficacy may change over time. For example, less-experienced lenders may gain comfort in consortia arrangements with their peers; in time, as they gain experience, the consortia participants may want to act alone or to redirect the group to new challenges (e.g., rehabilitation financing).

Table 3. Illustrative Strategies for Attracting Traditionally Underserved Mortgage Applicants: Case Study Examples

Strategies for Attracting Applicants	Case Study Examples
<i>A. Through Presence in Underserved Communities</i>	
<p>BofA has offices in south central Los Angeles, in Chicago's south side, and in similar areas. Countrywide has retail branches in inner-city locations in Detroit; Newark, NJ; and numerous other cities. Norwest has 800 locations nationwide, many in underserved neighborhoods. Berean and Industrial emphasize their role as community-based and minority-owned lenders. FBNB opened the first full-service banking facility on the Navajo Nation.</p>	
<i>B. Through Informal Gatherings</i>	
<p>BofA sponsors many community-based ethnic events (e.g., Cinco de Mayo festivals). Countrywide sponsors housing fairs following the opening of House America branches. AAFE participates in housing fairs in Asian-American neighborhoods.</p>	
<i>C. Through Different Media</i>	
<p>Trent uses infomercials. DVMP sends press releases to various Philadelphia-area media and distributes brochures and other informational materials to would-be DVMP clients. LHHA hosts a weekly radio program and advertises on Haitian radio broadcasts. AAFE publishes <i>Caring Community</i>, which discusses homeownership and related topics, and encourages articles on its operations in the Asian-American ethnic press. NPH publicizes its program in the <i>Navajo Times</i> and on the Navajo radio station. NHSC advertises on Chicago's black and Spanish-language radio stations and on minority-oriented cable television.</p>	
<i>D. Through Language/Cultural Sensitivity</i>	
<p>BofA advertises in English, Spanish, Chinese, Vietnamese, and other languages. BofA affordable lending materials are translated into Spanish or other languages. FBNB markets in the Navajo-language newspaper and on the Navajo-language radio station. LHHA advertises in Creole. AAFE distributes educational materials in English, Chinese, Korean, Hindi, Urdu, and other languages and is sensitive to language nuances (e.g., different words for <i>mortgage</i> in Mandarin and Cantonese).</p>	
<i>E. Through Working with Neighborhood and Other Institutions</i>	
1. Churches	<p>Norwest partners with local churches (e.g., Sharing Advantage Program and Revelation Mortgage Corporation). People's works with churches, social clubs, and other entities active in minority communities. AMC worked closely with Atlanta's Concerned Black Clergy. Industrial is a charter member of the Collective Banking Group, an organization composed of more than 60 churches in the Washington, DC, area.</p>
2. Community groups	<p>BofA partners with AAFE, Watts Homeownership Center, and other groups. FBNB networks through NPH, Navajo legal services, and Navajo schools. NationsBank partners with NAACP, and Countrywide also networks through NAACP.</p>
3. Real estate agents	<p>BofA networks with minority real estate agents (e.g., sponsors golf tournaments for Los Angeles African-American real estate agents). Trent educates real estate agents in affordable FHA and other products. CNE conducts monthly workshops for local real estate agents.</p>
4. Banks	<p>NPH has received referrals from FBNB, Norwest, and other banks. NHSC works with many Chicago banks and has partnerships with 250 companies.</p>
5. Government	<p>NPH has received referrals from the U.S. Rural Housing Service.</p>
6. Other institutions	<p>Norwest partners with Greenlining Institute and National Association of Affordable Housing Lenders. DVMP is administered by the Greater Philadelphia Urban Affairs Coalition. CNE partners with hospitals and police departments.</p>

Table 3. Illustrative Strategies for Attracting Traditionally Underserved Mortgage Applicants: Case Study Examples (continued)

Strategies for Attracting Applicants	Case Study Examples
<i>F. Through Multiple Points of Contact with Consumers</i>	<p>BofA Presta Linea, a bilingual (English-Spanish) phone center, offers loan information and can intake loan applications. People’s mortgage calling officers meet customers at their homes, its supermarket branches accept mortgage applications, and its video banking provides mortgage services. Trent and NPH offer homeownership seminars at workplaces. Industrial sends loan officers to meet applicants at the location of their choice.</p>
<i>G. Through Employees</i>	<p>Berean recruits customers through its black employees, and FBNB recruits through its Navajo employees. CNE encourages its employees to refer friends and family members to CNE for homeownership and other assistance.</p>

OPPORTUNITY AND CHALLENGE OF NEW MORTGAGE MARKETS

Lending to traditionally underserved markets is required by the Community Reinvestment Act (CRA), GSE production goals, and other mandates. Because of the changing demographics of the United States, such as the growing number of minority, immigrant, and nonnuclear family households, the nontraditional market holds great promise. That market provides considerable growth potential in a period of intensified industry competition.

Daunting challenges remain. The recent progress in affordable lending is largely the result of an economic boom that has extended to some of the underserved; meanwhile, interest rates, energy costs, and housing-price inflation have remained modest. This historically unusual concatenation of events may not last.

Other, more endemic limitations exist:

1. Affordable housing lending may not bootstrap purchasers to the more sought-after city and suburban locations; therefore, those new buyers may not realize the same appreciation in housing value that their predecessors in the post–World War II era realized.
2. The tremendous effort and subsidy that is necessary to make the new markets work is hard to sustain, especially for long periods and at high volumes. For example, over roughly a 12-year period, Miami’s LHHA has been able to achieve homeownership for fewer than 100 families, even with subsidies of \$30,000 per unit.

Table 4. Illustrative Strategies for Qualifying Traditionally Underserved Mortgage Applicants: Case Study Examples

Strategies for Qualifying Applicants	Case Study Examples
A. Provide Education and Counseling	
1. Lender-facilitated instruction	Norwest provides home-buyer education using instructional materials from Fannie Mae, GE Capital, and Mortgage Guaranty Insurance Corporation (as well as instruction conducted by nonprofits). Countrywide distributes a credit repair manual (<i>Your Credit and You</i>), often on referral from Countrywide's House America Counseling Center (HACC). CNE provides FasTrak homeowner counseling.
2. Nonprofit-facilitated instruction (often with lender partnership)	BofA partners in counseling with National Council of La Raza and other community groups. People's refers home seekers to the counseling services offered by ACORN (Association of Community Organizations for Reform Now) in addition to its own instruction. Berean relies on ACORN and other Philadelphia nonprofit counseling agencies. LHHA , AAFE , and NPH all provide culturally sensitive homeownership training (e.g., instruction given in Creole, Chinese or Korean, and Navajo, respectively). NHSC's HomeBuyers Club provides peer support, education, and credit repair.
3. Training and certification	DVMP has trained more than 300 counselors; it also certifies counseling agencies.
4. Telecounseling	Potential borrowers can work with a counselor from the Norwest Mortgage HomeBuyers Club via telephone and mail contact. Countrywide's HACC provides centralized homeownership counseling via a toll-free number.
B. Provide Affordable Financing and Housing Opportunities	
1. Affordable mortgages	Countrywide's lending consists primarily of FHA, Fannie Mae, and Freddie Mac products. NPH , FNBF , and Norwest use federal Section 184 (and other products) to enable lending on Indian lands.
a. Government and government-sponsored enterprise (GSE) affordable products	BofA's Special Allocation program provides financing to LMI borrowers or census tracts not meeting standard guidelines. People's community lending fund, or CRA pool, allows high loan-to-value (LTV) mortgages without mortgage insurance and has interest rate discounts and other affordable features. Berean allows debt-to-income ratios over 40 percent, well above industry standards. Industrial has no absolute debt-to-income ratio maximum on its portfolio loans. AMC allowed a 50-percent total debt ratio (later reduced to 42 percent). Participating DVMP lenders sometimes offered below-market-interest-rate (BMIR) financing and did not require private mortgage insurance on high-LTV loans. AMC participants discounted interest rates by 50 basis points.
b. Lenders' own affordable products	
2. Flexible underwriting	BofA Credit Flex mortgages are targeted to LMI borrowers with lower credit scores, no credit history, or limited credit history. People's allows a strong nontraditional credit record to offset blemished formal credit (typically nontraditional credit is referenced only when formal credit records are unavailable). Trent draws heavily on FHA mortgages because FHA's credit underwriting is less stringent than that of other (e.g., GSE) products. Berean pays little heed to formal credit reports because it frequently finds them to be incorrect or outdated for its LMI borrowers. Lenders financing homes rehabilitated by LHHA did not run a credit score on LHHA's mortgage applicants. FHA, Fannie Mae Community Home Buyer's Program, and Freddie Mac Affordable Gold products offer numerous flexibilities with respect to credit and other underwriting criteria.
a. Credit	

Table 4. Illustrative Strategies for Qualifying Traditionally Underserved Mortgage Applicants: Case Study Examples (continued)

Strategies for Qualifying Applicants	Case Study Examples
<i>B. Provide Affordable Financing and Housing Opportunities (continued)</i>	
b. Property standards and appraisals	To improve the accuracy of appraisals in city neighborhoods, People's uses a combination of in-house appraisers familiar with city housing markets and similarly knowledgeable outside appraisers. Industrial prefers “inside the Beltway” appraisers, who are generally more knowledgeable about Industrial's market. Berean focuses on the particular property being mortgaged and not on the neighborhood or block in which it is located. DVMP underwriting focuses on the block rather than the entire neighborhood.
c. Employment and income	Lenders working with AAFE waived the standard requirement that a mortgage applicant should have been working at least two years (AAFE showed that its Asian-American clientele often had worked abroad for many years). CNE waives a two-year employment requirement under certain conditions (e.g., home buyer previously steadily employed). AAFE lenders waive formal income verification (e.g., a W-2) and instead accept other documentation (e.g., employer letter).
d. Asset verification	A GSE pilot program accepted the informal <i>sous-sous</i> savings of LHHA's mortgage applicants as adequate funds to close. Similarly, lenders working with AAFE accepted savings drawn from the Korean <i>kye</i> . (Acceptance of informal savings later became industry practice.) AAFE also convinced lenders to accept flexible-repayment loans from extended Asian-American families as a permissible asset to close.
3. Housing subsidies	BofA participates in 14 state bond programs offering BMIR mortgages, uses credit certificates in 20 cities and counties, and is approved for approximately 200 local and state down payment assistance programs. Norwest participates in more than 600 mortgage assistance programs (e.g., for down payment and closing cost assistance, insurance writedown, and purchase-cost reduction). In 1996, Countrywide was involved in 448 BMIR mortgage revenue bond programs and 475 soft second mortgages, which reduced down payment and closing costs for LMI borrowers. People's partners with the Connecticut Housing Finance Authority (CHFA) and others (e.g., a CHFA- People's product offers 100-percent LTV-BMIR home mortgages to current residents of public housing). Berean participates in a University of Pennsylvania employee mortgage program that allows loans with up to 105 percent LTV. Industrial participates in D.C. Housing Finance Agency and other bond programs offering BMIR mortgages with closing cost assistance. DVMP participating lenders took advantage of soft seconds from the City of Philadelphia and of BMIR financing from the Pennsylvania Housing and Finance Agency. FBNB gave BMIR financing for Navajo housing through a grant received from the Federal Home Loan Banks' Affordable Housing Program (AHP). AAFE uses a variety of subsidies (e.g., building on city-owned land and using New York City-State BMIR financing). LHHA uses Community Development Block Grant, HOME, AHP, and Miami-Dade County surtax subsidies. NPH used AHP and other subsidies. NHSC partners with the City of Chicago, foundations, and lenders to provide affordable purchase, purchase-rehab, and other financing.
4. Affordable housing	AAFE has developed 185 affordable apartments; it is currently producing about 250 affordable rental and homeownership units, as well as making commercial improvements. CNE has constructed more than 100 single-family homes and has renovated or constructed approximately 400 multi-family units. NHSC has been involved in the rehabilitation or new construction of almost 21,000 housing units, including 334 units of LMI rental housing that it owns and manages.

Table 4. Illustrative Strategies for Qualifying Traditionally Underserved Mortgage Applicants: Case Study Examples (continued)

Strategies for Qualifying Applicants	Case Study Examples
<i>C. Foster Fair Access to Credit</i>	
1. Multiple reviews	Norwest loans not immediately approved by automated underwriting are referred to more detailed manual underwriting. Norwest's Affordable Housing Underwriting Group offers additional underwriting assistance. At People's , any mortgage application that is rejected gets at least two reviews; a special review committee examines rejected LMI and minority home seekers; and a senior vice president further reviews all rejections of minority loans, regardless of income. Lender participants in DVMP had multiple internal bank reviews in addition to DVMP peer review.
2. Ensuring fairness	Countrywide statistically analyzes the "denial disparity index" of its retail branches, performs matched applicant pair (minority/majority) testing, and has a special representative hear fair-lending complaints. CNE annually reprocesses 10 percent of its loans to test for fairness.
<i>D. Other Qualifying Strategies</i>	
	NPH , FNBF , and Norwest are working to address the legal, bureaucratic, and many other obstacles to mortgage lending on Native American lands (e.g., formulation of an innovative homesite lease that allows lenders to protect collateral while addressing the inalienability of tribal lands).

3. We can learn much from the illustrative strategies distilled in this study, but ultimately we cannot separate mortgage lending markets from broader efforts to combat economic and racial inequities in American housing markets. Lending markets are but one part of a broader real estate process; innovative strategies for mortgage lending must be accompanied by actions to expand homeownership opportunities by real estate agents, insurance companies, credit bureaus, appraisers, and other real estate professionals and industries.
4. Strategies for expanding homeownership opportunities are a moving target. Much progress has been made in management practices and in seeking and qualifying mortgage applicants; however, considerably more attention needs to be paid to retaining homeowners. Also, progress on home-purchase financing needs to be accompanied by the more demanding purchase-rehabilitation and home-improvement lending. In this area, many challenges remain; for instance, 60,000 low-income senior households in Philadelphia need loans for house repairs and require technical, social, and other support. (DVMP is, in fact, moving to address such needs.)

GUIDE TO THIS REPORT

The first part of this report provides background and synthesizes the case studies and includes a comprehensive discussion of the barriers faced by traditionally underserved populations and the innovative strategies used by lenders to reach this market. This discussion provides an overall framework for more than 300 pages of case studies, and

Table 5. Illustrative Strategies for Retaining Traditionally Underserved Mortgage Homeowners: Case Study Examples

Strategies for
Retaining Homeowners

Case Study Examples

A. Communication with and Education of Borrowers

A **Countrywide** video, *Living the Dream: A New Homeownership Survival Guide*, covering the basics of budgeting, home maintenance, and similar topics, is required viewing for all retail borrowers. New borrowers are notified by **Trent** that the company is available to help borrowers in times of need. **LHHA's** Homeowners' Club offers new homeowners an opportunity to meet for social and educational activities (e.g., to hear about fire and hurricane safety). **NHSC** mails newsletters to its borrowers to apprise them of ongoing services, programs, and opportunities with NHSC and with citywide and statewide programs.

B. Enhanced Oversight

DVMP lenders would often drive through the neighborhoods where mortgages were granted and “windshield” survey the condition of the DVMP properties. **LHHA's** family outreach specialist visits each borrower bimonthly to inquire about problems with the house or neighborhood. The specialist also notes if repairs are needed on the house, makes a visual inspection of the immediate neighborhood, and attempts to address observed problems (e.g., by referring the homeowner to reliable tradespeople).

C. Quick Response to Delinquency

Many GSE and similar affordable products mandate a quicker servicer response to delinquency (e.g., the servicer contacts the borrower 15 days after a payment is late, rather than wait for 30 days to elapse). On all its loans (portfolio and those sold to the secondary market), **Berean** intervenes before a payment is 30 days past due to work out a solution. **Industrial** acts similarly. Long before it became industrywide practice, participating **DVMP** lenders responded quickly to delinquency. **AMC** closely monitored delinquencies, and the AMC executive director visited the homes of newly delinquent borrowers to initiate workouts.

D. Delinquency Workout

Postpurchase delinquency counseling, often by nonprofits, is required in conjunction with many affordable lending products on an as-needed basis. The borrower authorizes the servicer to share relevant account information with a third-party counselor should the borrower become delinquent. **People's** provides counseling on budget management and debt restructuring to challenged borrowers (e.g., those experiencing a job loss) and also refers those borrowers to an independent, nonprofit counseling organization. On an as-needed basis, People's will work out a delinquent loan to keep it performing by modifying the interest rate or stretching out the repayment schedule. **NHSC's** Foreclosure Intervention Program provides mortgage-delinquency counseling and financial aid (e.g., NHSC can arrange a loan through Chicago's Homeowners Emergency Lending Program).

E. Overall Neighborhood Support

LHHA's Homeowners' Club (described above) sets a framework for collective neighborhood action with respect to public safety, economic activity, and social programs (e.g., organizing block and neighborhood watches). In addition, LHHA provides youth and after-school programs; resource centers for art and computer instruction; and a Service Exchange Program (through which LHHA homeowners barter services, such as providing gardening in exchange for child care). LHHA has also fostered a Little Haiti credit union/economic development corporation. **AAFE** provides many support services for its target Asian-American neighborhoods, including civil rights advocacy, citizenship and other education, landlord-tenant dispute counseling, and economic development through such means as obtaining affordable financing for local businesses and rehabilitating or building new commercial stores. **CNE** improves neighborhood conditions through strategies ranging from commercial development to improved public safety through its Police Officer Next Door Program. **NHSC** supports revitalizing neighborhoods through beautification (e.g., cleanup of a CSX railroad embankment), commercial development (assembling properties in the Roseland neighborhood), and enhancement of public safety (e.g., participating in a “super block” intervention combining enhanced police protection and improved social services and infrastructure).

alerts readers to particular institutions or practices in specific case investigations. (Tables 1–5 in this summary serve a similar role in guiding readers.)

The detailed case studies follow the background and synthesis. Each study is organized using this common framework:

1. *Background*—This section sets the context and includes such considerations as institutional history (including corporate structure and changes in the target market), motivations for lending to the traditionally underserved, and distinguishing characteristics of the area or areas where the lending is taking place.
2. *Strategy*—This information is organized by type of strategy (management framework, attracting and qualifying applicants, and retaining homeowners), with encompassing strategies described in considerable detail. Pertinent subsidies and other bridge mechanisms are included as appropriate.
3. *Discussion*—Each case study includes a discussion of the strategies—how they evolved over time and why they changed, how successful they are in terms of reaching the underserved, costs of implementation, and change in corporate culture and the like—as well as constraints and how they were overcome. Also included in most instances is a discussion of unique aspects of the case study institution and the replicability of the institution’s approach.
4. For easier reading, each case study begins with a one-page description of the organization and its strategies.

In sum, expanding homeownership opportunities for the traditionally underserved requires a broad range of actions on many fronts. The case studies show the way to real-world progress in accomplishing this goal. This report will, we hope, allow others to learn from the experiences of diverse institutions.

References

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