Transcript
Fed Talk: Small-Dollar Mortgages: Increasing Affordable Housing Options for Lower-Income Households
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Presentation

Opening remarks:

Tracey Mason, Assistant Vice President and Director, Community Development Outreach and Operations, Federal Reserve Bank of Cleveland

Panelists:

Kimberly Kreiss, Data Scientist, Federal Reserve Board of Governors

Gabe del Rio, President and Chief Executive Officer, Homeownership Council of America

Edward Seiler, Executive Director, Research Institute for Housing America at the Mortgage Bankers Association

Jaime Rice, Managing Director, Single-Family Programs, Kentucky Housing Corporation

Greg Perelka, Executive Vice President of Lending, CHN Housing Capital

Moderated by Faith Weekly, Community Development Advisor, Neighborhoods and Housing, Federal Reserve Bank of St. Louis

Tracey Mason:

Good afternoon. Thank you for joining us and welcome to today's Fed Talk. I am Tracey Mason, the Assistant Vice President of Community Development at the Federal Reserve Bank of Cleveland. And it is my pleasure to kick off today's Fed Talk session on small-dollar mortgage. Fed Talk is Cleveland Fed's speaker series in which we share research that is relevant to our community. Past events have covered subjects on racial wealth gap, access to the labor market, as well as financial literacy. All of our events can be found at clevelandfed.org or on our YouTube channel. June is national home ownership month. This topic on small-dollar mortgage is extremely relevant and timely as we focus on expanding equity, access to housing. Again, thank you for joining us. I will now pass it off to our moderator Faith Weekly, who is the Senior Community Development Advisor at the Federal Reserve Bank of St. Louis.

Faith Weekly:

Thank you, Tracey, for that introduction. Hello and welcome everyone. I am Faith Weekly, Community Development Advisor within the Institute for Economic Equity at the Federal Reserve Bank of St. Louis. A few housekeeping items before we begin. During this team's event, your microphone and camera are disabled. Please type and submit your questions to our panelists in the chat. In case the Microsoft Team's meeting drops, please use the dial-in info provided in the invitation to join the call. Today we have with us five panelists: Kimberly Kreiss, Data Scientist at the Federal Reserve Board of Governors; Gabe del Rio, President and Chief Executive Officer of Home Ownership Council of America; Edward Seiler, Executive Director at the Research Institute for Housing America at the Mortgage Bankers Association; Jaime Rice, Managing Director of Single Family Programs at Kentucky Housing Corporation; Greg Perelka, Executive Vice President of Lending at CHN Housing Capital. I will now turn it over to Kimberly Kreiss.

Kimberly Kreiss:

Thank you, Faith. So I'm going to go ahead and share my screen and do a demo of a tool we created to visualize and explore trends in small-dollar mortgage lending. So we use publicly available data to create a unique and interactive dashboard to visualize and explore trends in small-dollar mortgage lending across time, geography, institution, and county level demographics. Okay. There we go. So all mortgage data in the tool right now is up to 2018 HMDA data and we generally define small-dollar mortgages as those originated for under $100,000. This tool allows us to easily identify places with high or low shares of small-dollar mortgage lending and allow for further analysis within or across these locations. The small-dollar mortgage dashboard is a unique tool for policymakers and practitioners to understand national and community trends and small-dollar mortgage lending. The tool's not currently public, but we do have aspirations for it to be public at some point.

So I'll go ahead and jump right in, starting with the geography tab that you see on the screen, which shows the geographic distribution of small-dollar mortgages nationally by federal reserve district or by state. This page allows us to see where small-dollar mortgages are concentrated geographically. Currently the map displays the share of mortgages originated for under $100,000 nationally. And we can use this map to zoom in and see large concentrations of small-dollar mortgages throughout the middle of the country and the south. And in regions such as Appalachia and the Mississippi Delta region. We can also use the radio buttons on the right-hand side to change from share to count of small-dollar mortgages. And you'll see the map update and look a little bit different, likely reflecting where there are high population areas.

You can also look at the total number of mortgages as opposed to just small-dollar mortgages, but I'll go ahead and turn it back to share, since I think that metric's a little bit more relevant for what we're looking at. And I'll point next to the right-hand side, which shows the top five and bottom five counties with the highest and lowest share of small-dollar mortgages. So you can see the top five counties show the counties with high shares of small-dollar mortgage lending and the bottom five counties shows counties with low shares of small-dollar mortgages. So I'll go ahead and point to the last row here, which shows San Francisco County, California, which unsurprisingly has a really high number of total mortgages, but a very low share of small-dollar mortgages under our definition.

So I'll point now to the federal reserve district tab, which you can click on and will allow you to explore trends within a specific federal reserve district. So you can zoom in, and as an example, look at what small-dollar mortgage lending looks like in the Boston Federal Reserve district. And you'll see the two tables on the right-hand side update with counties just within this area. And finally, we also have a similar function for state, so you can select up to five states to show on here, and you can zoom in again and look at trends in small-dollar mortgage lending within that region. And again, the tables on the right-hand side update. So the last thing I'll show on this tab is the ability to hover over one of the counties and get specific information about that county, including county name, geography, information about mortgage lending, and then some demographic information, including median family income, total population, and then a demographic breakdown of the population.

So I'll go ahead now and turn over to the year tab, which shows trends in small-dollar mortgage lending over time. So in particular, we were interested in being able to compare small-dollar mortgage lending trends over time by different geographies. So the main feature of this page is the chart that you see in the center, which shows the share of small-dollar mortgages by specific geography. Currently it shows the share of small-dollar mortgage lending nationally, but we can see options on the left-hand side to specify the amount and type of mortgage and to add additional geographies to the plot as well. So, as an example, you can select mortgages either under $100,000 or mortgages under $70,000, and you can also filter down to a specific product type, so either home purchase, home improvement, or a finance.

And then finally you can add additional geographies to compare what small-dollar mortgage lending looks like across geographies. So as an example, you could add a specific federal reserve district. So you'll see, this is what small-dollar mortgage lending looks like in the Cleveland Federal Reserve district. It looks similar in terms of trends to the national level, but higher levels. You could also go ahead and add in any Metro area. So as an example, I'll add in Washington DC, where I'm based, and you'll see that update as well. And then you can also go ahead and add in any county in the U.S. as well. So it's a nice way to be able to compare what small-dollar mortgage lending looks like across different geographies over time. And instead of looking at, just share, you can also look at the count of small-dollar mortgages within all these areas. And then finally a percent change from the previous year for each area. And the last option is a table option to just view the underlying data. And then you can copy or export it as a CSV or Excel file.

So I'll go ahead now and turn to the demographics page. And this page in particular allows us to look at correlation between small-dollar mortgage lending at the county level and specified county level demographic variables. So the plot in the center graphs the share of small-dollar mortgages on the horizontal access against a specified demographic variable for each county on the vertical access. Each point on the chart represents a county and is weighted by population. So currently the chart shows the correlation between median household income and small-dollar mortgage lending in a specific county. And we can see that counties with high median household incomes have low shares of small-dollar mortgage lending, and you can hover over a county to get specific information about that county. So as an example, this point up here is the highest median household income county in the country and that's Loudoun County of Virginia, which you'll see has a really low share, unsurprisingly, of small-dollar mortgages.

So on the left hand side, we can select different X and Y variables as well as filter down to specific geographies. So the option for the X variable is just different definitions for share of small-dollar mortgages. So either mortgages under $100,000 or mortgages under $70,000, and you can select a different Y variable to include on the graph from median household income or percent of the county population that falls within different race or ethnicity categories.

And then finally below that you have the option to not weight the points by population, and then you can filter down the counties to specific years, so starting in 2012 through 2018. And then you can filter down to specific geographies. So you might be interested in looking at small-dollar mortgage lending in rural counties. So you'll see that the trend, again, unsurprisingly changes for the correlation between meeting household income and share of small-dollar mortgages. And then you can go ahead and take it a step further and filter to a specific state. So as an example, you might be interested in just rural counties in Georgia and what the relationship might look like there. And you can also filter to a specific federal reserve district instead of state, if you wanted to. And then finally you have the option to be able to change the Y variable again as well.

And so from there, I'll go ahead and turn over to the last tab, which is the institution size tab. And I'll point to this tab because we were interested in what types of lenders are making small-dollar mortgages within different geographies. And this is particularly true for us for smaller banks. And we wanted to provide a way to explore and visualize small-dollar mortgage lending by institution asset size, across different geographies. So this page allows us to see what lenders of different sizes are originating small-dollar mortgages in different counties. So the plot on this page shows a distribution of small-dollar mortgage loans within each county by lenders of different asset sizes for the top 25 counties in the selected geographies where the plots are ordered by the count of small-dollar mortgages in each county.

So you can use the left hand side as well to change to a different type of small-dollar mortgage. And again, you can filter down to specific geographies. So I'll go ahead and show as an example, Georgia again, so you can see what small-dollar lending looks like in there. And you'll see that a lot of these counties in particular have higher shares of smaller banks making small-dollar mortgages. You can hover over to get some specific info about the account and share of lending within that specific county. And again, you can take it a step further by looking at rural areas as well. And again, you'll see the trends change a little bit there as well. And finally, we also have count in here and we also again have the table option where you can export underlying data and look at the data in your own software if that's something you're interested in. So with that said, I will go ahead and wrap up and turn it over to Gabe. Thank you.

Faith Weekly:

Gabe, I'm sorry, Kimberly, before you turn it over to Gabe, I know you're not staying for the Q and A, and we had a question. Someone wanted to know what underlying data were sourced from the Kansas City fed district?

Kimberly Kreiss:

So that is just a data set that has information about which county belongs to which federal reserve district.

Faith Weekly:

Okay. And also, can you remind people about the availability of this link?

Kimberly Kreiss:

So it's not publicly available right now, but we do have aspirations to make it available at some point.

Faith Weekly:

Thank you, Kimberly. I will now turn it over to Gabe del Rio.

Kimberly Kreiss:

Thank you.

Gabe del Rio:

Thank you, Kim. Thank you, Faith. Let me bring up my PowerPoint. There we go. So Kim and I met and went over that system and we're certainly going to provide these findings back so that can be considered in different ways to slice and look at small-dollar mortgages or small mortgages. We partnered with Polygon Research, which is a consistent partner of ours. We use their system for data analysis pretty much on a daily basis, and they have the latest HMDA data as well as census and American community survey, but we're using HMDA vision, which is the system for this study and this view, this look, that we're taking on small loans. We're focused in on single family owner, occupied financed by a first lien, which would include home purchase, refi, cash out refi, Reverse. Oh, sorry, we're excluding HELOCS and Reverse and we're excluding home improvement. So this was a look at really standard first mortgages for purchase or refi.

And what we did with the data is we took a cut at the 10% quantile, so basically distributing the loan amounts and the property values across a chart, and then looking at the lowest 10 percent, that would be the 10 percent quantile. We'll share this around, so folks can also see the methodology and definitions of how we looked at geography and market share. So what we found was the small loans is a term that varies and ranges by market and lender type, and so here are the high-level findings. Nationally, we're much in line with Kim there, we're in the 10 percent quantile, the small-dollar loan size average was $115,000, so really close to the $100,000 figure that Kim and team were using. And that was lower than when it, when we looked at this data in 2020, so we are using 2021 data, HMDA LAR and this number surprisingly dropped from 125 to 115.

The small-dollar loan size ranges from $75K to $195,000, and that really depends on region. I'll show you a picture of that and we'll look all the way down at the lowest and the highest as well. Nationally, we could see that the median loan size was $255,000, and that ranges from $125 to $395, depending on region. So this is looking at the 10 percent quantile on the left versus the 50 percent quantile, which is the true median on the right.

Okay, here we're looking at the low end of small-dollar loans and we found that in Indianola, Mississippi, and that loan amount was $35,000. We found the highest small-dollar range in the 10 percent quantile in San Jose, Sunnyvale, Santa Clara, so this is the Bay Area, and that was a $305,000 loan amount that was the 10 percent quantile measure.

So when we map that out over the country, this is what it looks like, we tried to box things into ranges. You see that mustardy color is the $85 to $95K range, that's the darkest areas, if you look at Kim's heat map of the under $100K you would see those line up there. The $105 to $115 is that light blue, also again, lines up with that heat map, although we start peeking into the $115 size. And then the dark blue, which is the darkest color on the map there, that's the range of $125,000 to $155,000 in the 10 percent quantile. So you can see in some, in some coastal states, in places where property values are higher on average and the median property value is higher, that the 10 percent quantile also goes higher than the national average. And finally, in the orange, some of our highest priced states, and you see that the 10 percent quantile looks like $165,000 to $245,000, that's in as an average there.

Okay. So let's take a look at small loans from an LMI minority perspective. We wanted to take a peek at, what is the LMI usage of small loans versus non LMI? And so you see that the share of small loans, the majority or 53 percent do go to LMI, but there is a great number that, 47 percent, that do not, and that are reaching income limits above 80 percent of the median income for that area. We also wanted to take a look at minority use of small loans and their closing rate. And so we can see that we still have a higher percentage of non-Hispanic white using small loans, and they do have a higher closing rate, but we have a fairly strong percentage there with 43.2 of minority usage. And this does correlate and sort of align with the Urban Institute's findings around what small-dollar loans who they can benefit. And we're going to share ... I'm going to give you a reference to that study at the end of my presentation.

This is a look at the LMI plus minority, so overlaying both, and this would be all races and ethnicities that are not non-Hispanic white, that are combined in the minority lens and then the LMI is based on the 80 percent area median income. So we can see that LMI and non-Hispanic white really did get the lion's share of small-dollar loans. And while we're reaching 19 percent in LMI minority, it isn't the majority and it certainly could be larger.

This is taking a look similar to Kim's institutional size. We were looking at the institutional types of who produces the most, we've got small loans on the left-hand side there, and all other loans, everything else on the chart, to the right. And we do see that independent mortgage banks, which was a bit of a surprising finding, are actually originating the most in this space. So this has traditionally been a bank and smaller bank and credit union space and independent mortgage banks are certainly getting into that market share, which is what the entire mortgage market looks like, IMBs are the leaders in volume. You can see that all loans, IMBs are 66 percent, banks 23, but it's a much greater share for banks and credit unions, double almost for credit unions. It is double and a third more for banks in small loans.

This is taking a look at what the product mix DTI, CLTD, and rate spreads look like on small loans. So just wanted to see what kinds of loans were being used, what type of loan. Was that conventional? FHA? Was it a VA loan or a USDA loan? And you can see that predominantly they're in conventional lending, so these are conventional loans by and large. The next step is FHA, a small amount of VA, and rural housing. The debt-to-income ratios were not dissimilar on the distribution here, interestingly enough, though there is a slightly higher amount of lower DTIs on small loans, which isn't too surprising. But this is a fairly equal presentation here when looking at the two. Here's the CLTB spread, small loans on the left, other loans on the right. This one isn't that surprising either, where we do have a lot more lower LTV and CLTV on small loans. And then as you compare that to other loans, that average tilts up past the 60 percent range.

Here's looking at the rate spread over APOR, and we see small loans on the left there for home purchase had a 0.81 rate spread versus home purchase and all other loans, which only had a 0.29 rate spread in the home purchase side. So certainly folks are charging more or are bringing in more margin on a small loan it looks like on average when they're looking at home purchase. There is a slightly higher amount too, you see that the cash out refis are at 0.5, seven versus 0.30 for other loans. And then finally, 0.41 for refis versus 0.13. So this was across all of the loan usage types, that there is a higher rate spread on average for small loans.

So the thinking about what else can small loans do? I think one thing to refer you to is an article and research from the Urban Institute, which looks at financing for low-cost homes and the need for small-dollar mortgages in order to help folks get into these mostly entry-level homes that are in the affordable range. And so it's really critical that our lender partners out there are active in the low-dollar or small-dollar lending space. And there is clearly opportunity with rate spread and less competition for that market.

Want to highlight, everyone, the SPCP toolkit. So if you haven't heard about this yet, this is the special purpose credit program toolkit. Potentially a small-dollar mortgage or a small loan could be an SPCP. If you found that there, your geographic area, that these loans were not being deployed yet there was need in the market and that folks were therefore less likely to receive credit and that was related also to a small loan type or a loan size. And as you look at your own lending activity, how does that then ... where is the nexus between the market issues and your own products, is your ability to deliver that, that could develop into an SPCP or a Special Purpose Credit Program.

And so if you're considering that, we worked with our partners at the MBA and NFHA to put this together, this is the SPCP toolkit for mortgage lenders. There's all kinds of great information on there. We all poured in our best insights. We've got lots of legal resources from the legal teams, and then you've got lots of how tos and examples from folks like us. If you are working on this and need some help, our organization has SPCP engagements for lenders. And so we help with data analysis, the product and credit analysis and design, and then we work with the teams between credit policy, operations for monitoring and sales and marketing, to develop a SPCP plan that combined with your legal review can support your SPCP.

A little bit about us. We're a national nonprofit organization. If you hadn't heard of us before or seen us, we're happy to meet you, but we are 501C3, we're very uniquely experienced in this space with a focus on mortgage lending and home ownership in general. But our team is a combination of mortgage banking and nonprofit CDFI lending experience that's very specialized. And so we bring that insight to everyone we work with, and we're all about facilitating growth in this space, so that we meet our mission of increasing access to credit for underserved communities.

This is a little preview of our exciting new national SPCP down-payment assistance program, equity DPA, find out more on our website, homeownershipcouncil.org. And this is open to any lender who wants to participate in the program. We've designed a product and a process that is scalable beyond any program that has ever happened in private down-payment assistance in the country. So we're really excited to get this pilot launched this year and we're bringing on lender partners as we speak.

Finally, our polygon research partners, really great system that any lender or user can log into and subscribe to. And you will have the latest HMDA data, as well as other census and American Community Survey data at your fingertips and all with the latest releases. Now you saw we had up to 2021. And that's it, appreciate you having me here. I'm going to turn the mic over to Eddie Seiler. Eddie is now the Executive Director of the Research Institute for Housing America at the Mortgage Bankers Association, one of our favorite partners to work with, and Eddie and I have had the pleasure of working together on their Convergence program. Pleasure to introduce him and pass the mic.

Eddie Seiler:

Thank you, Gabe. Gabe actually stole some of my thunder there, because I was going to thank Gabe for working with us on Convergence. And I really wanted to motivate the reason that I'm working with small-dollar mortgages, small-balanced mortgages, is because of Convergence. So first of all, I want to thank the Federal Reserve of Cleveland and of St. Louis for including MBA and me and this program. And let me just get straight into it and talk about what Convergence is. So MBA is joining the community in looking at affordable housing and how can we close the affordable housing gap? And as part of that, how can we also close home ownership rate gaps between white homeowners and minority homeowners? So as part of this, we started Convergence and Convergence, the name given, Convergence, is because we're trying to bring together many different parties to work in cities in order to reach these aims.

The first place-based pilot, we started a Convergence. We started very timely, of course, in March of 2020 in Memphis. Since then, actually during the pandemic, we started working in Columbus, Ohio, and a couple of weeks ago we were able to announce that the third site that we'll be working with is in Philadelphia. And actually, some of the kickoff meetings we've had for Philadelphia have been with the Philadelphia Fed and the people there are also very interested in the topic of small-balance mortgages.

So let me talk a bit about Convergence, and as I've already said, Convergence is there to increase minority home ownership rates and to close what we've been defining as home-ownership gaps. So what are these gaps? So first of all, we talk about trust gaps. Minorities don't often trust those of us in the industry and we have to be able to overcome those trust gaps, knowledge gaps. We're talking about people who may be the first member of their family in any generation to own a home. And for some of us, for instance, when I bought my home, I was able to talk to my parents, my parents-in-law, friends who'd bought homes and to get information and to understand the process. And of course I was working at Fannie Mae at the time, so I had people to talk to, but a lot of people don't know how to approach getting the mortgage. There's market gaps, definitely in places like Memphis, where the housing supply is lacking or in many respects unstable. And finally, we also talk about resource gaps and resource gaps include the opportunity to get small-balance mortgages.

So why is it difficult to get small balanced mortgages? And as I was preparing for this talk, there was a headline on CNBC from May 25, and I'm going to read the headline: "Banks and financial institutions aren't issuing enough small-dollar mortgages that help families with modest incomes to purchase a property." And why is that? Well, first of all, it's expensive. It's expensive to originate a mortgage. We can think of the two costs involved in originating a mortgage, there's fixed costs that are there irrespective of the size of the mortgage, and there's variable costs. Fixed costs are lot negligible. And so whether you're originating a mortgage of $70,000 or $700,000, those costs are there and they're the same.

The other thing we also have to think about from a lender's perspective, from our members' perspective, there's really two income streams from originating a mortgage, there's the origination and then there's a servicing rate. And servicing is paid for a through a strip. So usually, when we think of the GSCs, a servicer is paid 25 basis points of the interest that's paid through. Now, of course, that's a flow of income and that actually creates an asset that we call a mortgage servicing rate, an MSR. And an MSR is much smaller for a small balance mortgage than for a larger mortgage. So that's another reason that originators don't want to go into these things.

I'm actually going to talk a bit about the origination data from Memphis. And it was great to see the tools that Kimberly and Gabe showed, and I'll actually focus in on specific parts of the data. But before I do that I just want to make a couple more points that need to be reiterated. And these are again taken from some of the great research that has been done at Urban, and the first paper I want to talk about is from 2019. And this paper, it was an important paper because it was about debunking the myth that small-data mortgages are riskier due to poor loan performance and borrower credit. So the myth out there is that small-dollar mortgages go to people with worse credit.

And the paper actually showed, the deep analysis that Alanna McCargo and Sarah Strochak did from Urban, shows that small-dollar mortgage borrowers post relatively the same risk as those with mid-size mortgages, and that those loans after they're originated, perform similarly. Another paper from Urban, by Laurie Goodman and Bing Bai, show that there are different denial rates for small-dollar mortgages and other mortgages and they put this down to the type of lender. And the data is really interesting, one of the slides that Gabe showed show the different types of lenders, whether it's IMBs, independent mortgage bankers or small banks, credit unions, et cetera. But the research from Urban showed that a lot of the small-balanced mortgages are in rural and no-cost communities that are traditionally served by small banks and credit unions, which tend to only originate through the conventional channel.

And this actually led to the final piece that I read from Urban and its title says everything, it says, "Making FHA Small-Dollar Mortgages More Accessible Could Make Home Ownership More Equitable." So there's a lot of things going on, but I think some of the important points are here that the approval rates for small-dollar mortgages are lower than for larger mortgages. So let's actually dig down and see what we have from Memphis.

So my analysis from Memphis comes from the 2020 HMDA data. And when we looked at the purchase loans originated, there were about 19,000 purchase loans originated, these are close-end mortgages, and their approval rate was about 90 percent, so that's the number to remember is the approval rate overall of 90 percent. And the average loan size was approaching a quarter million dollars, $243,000, and of these loans, 70 percent were above $150,000, 15 percent between $100,000 and $150,000, so again, in Memphis, we have a large proportion of loans, 15 percent that were less than $100,000. So it's not a negligible market, it's 15 percent, one in six, one in seven loans, is less than $100,000 in Memphis. And 8 percent in fact were less than $75,000. So we have a lot of homes in Memphis that are valued at $100,000 or less, and 15 percent of the mortgages originated in 2020 were less than $100,000 dollars. Now, the important number, just to remind you, that overall, the approval rate was 90 percent.

For loans less than $75,000, the approval rate was 59 percent, 90 versus 59, a drop of 31 points. For loans between $75,000 and $100,000, the approval rate was 75 percent, that's a drop of 50 points. And for loans between $100,000 and $150,000, the approval rate was 83 percent, so that's a drop of 7 percent. So we can see that the approval rates are dramatically less for small-dollar mortgages.

Let me just put another layer onto that, and here I'm just going to focus on purchase loans, so again, remember the overall rate of approval was 90 percent. For purchase loans in the Memphis area, the approval rate for mortgages that were less than $100,000 was around 78, 79 percent. If I look at the Black and African American lenders, again, this is using HMDA data, so I'm able to look at that, the approval rate overall was 83 percent. So we had 90 for all loans, 83 percent for Black and African American loans. And if we look at the approval rate for mortgages, less than $100,000, the approval rate was 60 percent. So we're talking a difference of 83, and this is only for the Black African American home lenders, sorry, borrowers, we went from 83 to 66 for them. And if we compare overall, we have 90 down to 66 percent or so. So there is a tremendous gap.

So let me just conclude with a few points, because I think I've given you a lot of information very quickly and you may think it's strange that an economist is getting on and not sharing slides. I started to make slides and I go, "You know what? Let me just tell the story," but let me reiterate the main points before I turn it over. So the importance of small-dollar mortgages, especially to anyone in this call, is not missed by anybody. Okay. In Memphis, about 15 percent of the originations in 2020 were beneath $100,000. The numbers have dropped since 2011, but they're still majorly important.

Lenders have mixed variable and fixed costs of originating and so small-dollar loans will cost more with respect to interest rates. Also, the mortgage servicing rights, the mortgage servicing asset is worth less for small lender mortgages and these are two of the reasons that we need to be able to think about, how can we facilitate getting these loans through different lenders? And this is where Convergence comes, in that we are also working with many of the lenders in these areas to try and think of how we can overcome these hurdles.

Again, the big difference is not credit ratings, as the Urban paper showed, but its approval rates. And as we said, the approval rates in Memphis in 2020 was around 90 percent. It was 78 percent for purchase loans that were less than $75 or $100,000. And for Black African American households, that approval rate for small balance mortgages less than $100,000 dropped to 66 percent. And finally, just to reiterate the title of that 2021 Urban paper, "Making FHA Small-Dollar Mortgages More Accessible Could Help Make Home Ownership More Equitable." And I think that's the message I want to leave you. So with that, I want to thank the organizers of this webinar and let me pass the baton over to Jaime. Thank you.

Jaime Rice:

Thank you, Eddie. Can everyone see my slides? My slide? Great. Well thank you all for having me. My name is Jaime Rice, I am the Managing Director of Single Family Programs for Kentucky Housing Corporation. Kentucky Housing Corporation is the state housing finance agency. We are celebrating our 50th year of serving the Commonwealth of Kentucky this year. Our mission is to invest in quality housing solutions for families and communities across Kentucky. We work with many different housing initiatives from homeless services, shelters, rental programs, housing development, and my area of expertise, single family mortgage financing. We work with a network of approved lenders across our state. We do not directly originate loans. We offer FHA, VA, USDA, and Fannie Mae conventional financing on first mortgages as well as down payment assistance up to $7,500.

So in preparation of today, I pulled some numbers of our production. In calendar year 2021, we had 3,352 loans, of those, 423 loans were at or below $100,000, 880 loans were at or below $125,000. Our average loan amount was a little less than $157,000 and our smallest loan was just under $30,000 in calendar year 2021. In calendar year 2020 through mid-June, we have 1,365 loans, of those 125 are at or below $100,000, 263 are at or below $125,000. Our average loan amount has gone up to $168,000. Our smallest loan is also up $38,838. I believe this is directly a reflection of what we're seeing in the sales prices in our market.

I would be remiss if I did not highlight that this is not a friendly market for any first-time home buyer, but especially any home buyer who has limited financing options or buying power. The cost to build new homes is very high, the supply of existing homes is low. What we're hearing in our market, and I believe other states, I've heard the same coming from other state agencies like me, each new listing is receiving multiple offers, which drives up the sales price. The president of one of our mortgage or board of realtors in Kentucky recently shared that the sales prices have increased by 40 percent since 2019, and on average homes are selling for 102 percent of the list price.

Interest rates are also increasing. We are also hearing that sales contracts that list government financing like FHA, BA, USDA, are being rejected outright. And the preference is going to cash offers, and beyond cash offers, conventional financing. And what we're hearing about the cash offers is it's typically parents who are taking the equity out of their homes to help their children enter into the home ownership arena to be more competitive with their offers, which is hard to do if you're a first-generational home buyer and you don't have a family who has equity and a home to cash out. We're also seeing that sales contracts that list home inspection contingencies are likewise being passed over. Sellers are not typically offering closing cost assistance or they're not offering as much because it's a seller's market. And inflation in general is making it harder for lower-income families and individuals to enter into this arena.

If that was not bad enough, rents are also becoming less and less affordable. According to rentdata.org, Kentucky Fair Market rent for 2021 ranges from $582 to just under $1,100 per month, based on the number of bedrooms for the Louisville Jefferson County market, which is our highest populated county. Those rents are higher, ranging from $760 to $1000 to about $1400 per month. So what would a mortgage look like for a home that sold at $100,000, looking at both FHA financing and conventional financing this chart shows what the maximum allowed first mortgages would be as well as the cash to close after factoring in our down payment assistance program. The interest rates that I used were based on our rates a couple of weeks ago, and they have gone up a quarter comparatively, they're a quarter higher today, but the cash to close even factoring that in the cash to close counting our down payment assistance on an FHA loan is about $1500 and it's $680 for a conventional loan.

FHA financing requires a three point a 5 percent minimum required investment paid down on that mortgage of which a state housing finance agency down payment assistance program would qualify toward that three point a half percent minimum required investment. A conventional loan requires a 3 percent down in comparison, but look at that total house payment at the bottom line in yellow, counting the escrow for property taxes and insurance and counting the payment on a down payment assistance loan for that $100,000 home, regardless of FHA or conventional financing, then house payment is under $900 per month. Even in today's rate environment, it's cheaper to own a home at $100,000 than it is to rent a three bedroom home or apartment in Kentucky. But there are challenges with those lower-priced homes.

Number one, how many of those homes are available at that price? And number two, what is the condition of that home at that price? We typically see the lower-sales-priced homes. A lot of them do require more repairs, or there may be more repairs that may be needed in the future and our lower-income home buyers, particularly first-time or even first-generational home buyers prepared to maintain their home when repairs are required, like replacing the HVAC, water heaters, the roof. This is where we see many first-time home buyers stumble in the first few years of their purchase.

Home ownership remains the primary way that most Americans create generational wealth, but only if that homeowner is a successful homeowner. One way Kentucky Housing Corporation is committed to increasing access to successful home ownership opportunities is through our supportive housing education and counseling programs in our state. KHC is an intermediary for the HUD comprehensive counseling grant. We also invest our own dollars each year to support the state's housing counseling network. Our state's counselors can accommodate clients with a variety of delivery methods. They're also required to have language access plans for their clients with limited English proficiency, whether that means contracting with an interpreter service or local colleges, housing counselors can assist their clients with addressing barriers to housing through basic financial literacy, such as budget and credit, but also through rental counseling, fair housing, homeless services, pre-purchase home buyer education, post-purchase non default counseling, which would include home maintenance and even default counseling.

Here's a list of the partner counseling agencies we work with in Kentucky. They're all required to be nonprofit agencies. If they are doing any counseling associated with any HUD program, they're required to be a HUD-certified housing counselor. And one way that lenders across the country, I'm in Kentucky, that's the boundary of where I serve, but most of you are across the country, but one way that you can contribute to the success of first-time, first-generation home buyers in your area, especially at lower-income, lower-priced homes is by supporting your housing counseling network. They are nonprofit agencies, but they have to cover their costs. And there are not enough counselors to properly address the needs. They do have grant dollars through HUD that support this work, but many organizations also provide funding to support their local agencies.

Some examples I've seen include national banks, lenders, independent mortgage companies, but also utility companies and other community-based organizations. Since 2013, KHC has administered nearly $2.3 million in HUD counseling grant funds across the state. Since 2014, we've invested over $750,000 to the state's housing education and counseling network. We use our own dollars as leverage funding when we apply for the HUD grant. But between those sources, we support our sub-grantee agencies and serving roughly 2500 clients and households each year. So I say questions, but I lied because I think we're saving the questions to the end. So with that, I will hand off to Greg Perelka from CHN Housing Capital, Greg.

Greg Perelka:

Thank you, Jaime. And thank you for allowing me to speak today. Coming to you from the home of the Rock and Roll Hall of Fame, Cleveland, Ohio, and we are CHN. And I'd like to show you a little bit about what we're doing here in Cleveland with small-dollar loans. So CHN Housing Capital is our lending arm for our parent CHN Housing Partners. We were founded in 2019 and our parent company has been in existence for 41 years now. We are a certified community development, financial institution, CDFI, by the U.S. Treasury. Our main focus is on down-payment assistance, home-repair loans, home-purchase mortgage loans, as well as access to counseling and education. We are a HUD approved, HUD certified home buyer education course lender, and so we provide that on a monthly basis as well.

Our parent organization, as I said, is our CHN Housing Partners, Cleveland-based nonprofit. We are a housing developer as well as a housing services provider. We were founded in 1981 by six community development organizations. And really what we wanted to do was to address housing, abandonment, and affordability. Our mission is to leverage the power of affordable stable housing to change lives and improve communities. And then our core values that we try to live by each day is our customer commitment, respect, integrity, teamwork, communication, dedication, and empowerment.

What is our impact here in Cleveland? We've served 50,000 annually. We've developed 7,000 homes and we've touched 27 new homeowners within the Cleveland market. What are some of our products that we concentrate on the lending side? So CHN Housing, we provide first mortgage loan products, which one is our Believe Mortgage, which I'll touch upon here in a moment. We also have what is our Year 16 Loan Fund, it's a lease purchase product that we utilize through ... Oh, let me go back here. That we utilize through low-income housing tax credit LIHTC. And so we allow our borrowers to live and rent our properties and at year 13, we start talking to them about home ownership and then in year 15, if they want to go ahead and buy that property, we are helping them in regard to credit counseling, what it looks like for down payment assistance and being able to save and they have stable employment. And then they're able to buy that property in the 16th year.

We also offer down payment assistance where we manage the funds for the city of Cleveland and then MNTI DPA program, Cuyahoga County Down Payment Assistance Program. We also have home repair, which again, we managed through Cuyahoga County here in Cleveland, as well as through the Cuyahoga Land Bank, which is called our Housing Plan Home Repair Program. And then coming soon, which I think is critical, especially in this market, looking at the middle neighborhoods acquisition rehab, where we are going to look at properties that need some loving care within our community, that we're able to rehab those loans for up to $100,000 in rehab. And we'll be doing that within certain communities here in Cleveland and then a refinance product that would go with that as well.

So just to touch upon each of our products, our Down Payment Assistance Program with the City of Cleveland is our mayor's neighborhood transformation initiative. And this particular program allows a borrower to qualify up to $20,000 in down payment. There's no income restrictions for the buyers to participate.

Buyers must have ability to secure a first mortgage with a private lender, such as ourselves as a CDFI. Buyers must occupy the home for a period of five years after the sale, and if they do that, if they live there for the five years, that 20,000 will be forgiven, and it's a 0 percent deferred second mortgage that is filed. Eligible homes must be located within the City of Cleveland. Right now we have a program that is through Glenville-Circle North neighborhood, and we are working with two builders as well as one developer who does rehabs. And so the homes must be purchased from either these two developers on the new construction or the one that does the full rehab of the property.

The other property, or the other program I should say, that we manage is through our Cuyahoga County Down Payment Assistance. And this is home dollars where HUD will each year establish what the AMI would be for the area meeting income, and then as well as what the purchase price would be. So right now, applicants can qualify for up to $16,600 in down payment assistance, which is based off of 10 percent of a home purchase price. So right now the maximum purchase price in Cuyahoga County would be $166,000. Buyers must be at or below the 80 percent AMI that area median income to participate. They do have to participate in home ownership classes, such as the ones that we offer here at CHN Housing Capital, and then they must not have owned a home in the past three years. And then our eligible homes are really within 51 communities within Cuyahoga County and it must be single family owner occupied. You can go to our website, which will be in our, in the chat, and you can see which 51 communities are eligible for this down payment assistance.

Our Home Repair Loan is something that we also do with Cuyahoga County. And this particular program has been oversubscribed since spring of 2021. We have served 84 households in the past two years, and we've been in conversations currently with several funders regarding additional monies for another round of home repair dollars here within this marketplace. What we have here, it's a loan provided as 0 percent deferred second up to $20,000, and it is payable upon the resale of the home. The borrower has to be at 120 percent AMI to participate or less, and then they must be current in their county taxes or within some type of payment plan with the county. Homes are located in Cuyahoga County must be single-family, owner occupied. And so really the repair is not for something that would be for a remodel of the home where you just want to get a new kitchen or new bathroom. We're looking at health and safety reasons of why we would be doing the repairs. So the larger type of projects would be roofs or porches, gutters, HVAC, plumbing, electrical, maybe the walkways as well as your driveways.

The Believe Mortgage is our flagship product that we have for first mortgages. And really what we put into place here was a product where we wanted to see home ownership reached within those historical areas or individuals who were left out of the market. So this is another small-dollar lending tool that we use within our communities, and we want to be able to go within the communities of color to be able to provide that small-dollar loan.

Eligible buyers, they don't have to be a first-time home buyer, but we want to make sure that they don't currently own their property that they are living in. Well, they only have to pay up to 3 percent on a down payment. There's no private mortgage insurance with that, so that's another great benefit. They must complete first-time home buyer classes, even if you know, they're not a first-time home buyer, we want them to do that. And then we look at their entire borrower profile. Again, we don't want to just look at credit scores. We just don't want to look at what their income requirements are, but we'll talk more about those guidelines that we look at. And so right now, those are eligible within Cuyahoga and Lorain counties here in Cleveland.

Here's some of our, on a high-level underwriting criteria. So first mortgage purchases of single-family dwellings or duplex, they have to be owner occupied homes within Cuyahoga and Lorain. No LMI borrower or LMI census track requirements, 15 to 30 year terms are available. We have a $20,000 minimum loan amount up to $250,000 maximum loan amount. And we're working with other investors in regard to tweaking what those loan amounts look like within our marketplace. Interest rates are risk-based priced BA by banks, based on the FICO score and LTV bands. And then we can, again, go up to that 97 percent with no MI. Our qualifying debt-to-income ratio for this product right now is 40 percent right across the board. So there's only one ratio that we look at, whether it's housing-to-income or debt-to-income ratio. We also allow for up to 7 percent seller contributions, which has been very helpful within our market, where you have a landlord who is currently renting to that particular tenant, and they want to sell that property to that renter. Many of these landlords have been helping them with seller contributions for closing costs, as well as their down payment.

We will also look at credit scores as low as 570, that doesn't mean that everyone of course will receive a loan at 570, because we look at the total profile of the borrower, but we want to make sure that there's a good consistency as you're layering risk within that borrower profile. We also can combine our Down Payment Assistant Program that I mentioned before with this first mortgage, as well as other down payment assistant programs that are available nationally or within our community. Another nice product piece for this particular mortgage is that we allow a simultaneous second mortgage for home repair up to $8,000. So if the property needs a point of sale, or maybe it needs some type of work that is necessary before it can close, we will allow for a five year term available in service by CHN housing capital up to $8,000.

So how do we do on this in regard to executing on our Believe Mortgage? We've really looked at a couple of corresponding agreements with regional banks, and I would recommend that to any of you out there that are CDFIs, it's a great way to get started before selling to the agencies. So we are a non-delegated correspondent, which we originate alone, our investors will underwrite the loan with us, and then we close in our name and then we're able to sell directly to those investors, those banks that we're working with.

We negotiated the underwriting criteria for the Believe Mortgage to create flexible alternatives, for our borrowers, because we wanted to make sure that these weren't your typical CRA programs that banks were offering. After the close, we sell the loan within a 15-to-30-day flow basis on a warehouse line and then these investors the service loans following the purchase. The great thing is CHN, we have the capacity to also service these loans, but right now we decided to let these banks service them. In the future. We are looking at selling to Fannie and Freddie and other agencies and that's the long term goal of CHN Housing Capital.

Here's some quick stats in regard to our product and what we've seen within our market. Our average loan amount is $85,000, which I thought was interesting when Gabe was presenting. If you remember, the Ohio map was mustard and the range was $85,000 to $95,000. That's what we found with small-dollar loans in our market. We've seen a loan as low as $24,600 up to $227,000. Of those borrowers 47 percent, almost 50 percent are female headed households, which is, again, a great story when we're talking about going into the communities here and serving the communities that we want to be able to help.

And we have not seen one low appraisal within our market, which I know that's not the case throughout the country, but we have been very deliberate in regard to the vendors that we work with when it comes to an appraisal management company. And so even though the company that we work with is a national firm, they're right in our backyard, so they understand as they're deploying appraisers, and those appraisers on their panel truly understand the Cleveland market and Cuyahoga and Lorain County. And so that's why we've seen individuals or appraisers who have given us fair values with the markets that we serve. At this time that's my presentation. I'm going to turn it back over to Faith Weekly, our moderator, as we get into some of the questions and answers at this time.

Faith Weekly:

Thank you to all of our presenters for your outstanding presentations. And we already do have a couple of questions. First, Greg, I have two questions for you. One is, "Can homeowners use repair loans for retrofitting, for aging in place, or for changes in disability assistance needs?"

Greg Perelka:

Absolutely. So with our programs here in the Cleveland market, we definitely are working with aging homes and for individuals that might have a handicap, or maybe it could be an elderly person that now needs a railing, a guardrail, a ramp right up to their property, there's other great organizations within the Cleveland market and nationally that also offer those type of loans. And so we've seen many of those, Faith, those types of repairs for safety, for the safety of those individuals that need those home repairs.

Faith Weekly:

Okay. And Greg, there was another question someone was curious about, "What is the distribution of the risk-based interest rates for the on the Believe Mortgage?" Yeah. "What it looks like for the on the Believe Mortgage?"

Greg Perelka:

Sure. So I would say that based off of FICO and risk-based pricing and what we get from the banks, it's very comparable, if the person is at a 750 to 800 credit score, you're in the low sixes right now, based on what the rates have done in the last couple of weeks. And then of course, if we're talking about the 570 band, you're probably going to go up maybe a full percent in regard to interest rates, so closer to a 7 percent at this time. But, again, that's varying as the market changes on a daily basis, but it is very competitive in regard to what we're offering to these individuals.

Faith Weekly:

Thank you, Greg. And I have a question for any of the panelists, do you know of any innovative products that actually allow for borrowers to escrow for emergency savings or repairs? As Jaime mentioned, this is one of the concerns about LMI borrowers, if there are repair issues, post-closing, will they have the resources to be able to address those repairs?

Jaime Rice:

I think there are some when you get into the low-income, particularly folks who may be on Section Eight, I think there are some programs that offer some matched savings type of situations. But I would encourage anyone working with a low to moderate-income home buyer, particularly where assets, you're doing the lending, you see the bank accounts and you see what they have in reserves, I would encourage you really to form good partnerships with your HUD counselors. And the counselors can work with the home buyers on developing a budget plan that would include a savings plan for such emergency repairs, because that is where we see a lot of first-time home buyers stumble.

Faith Weekly:

And Eddie, I do have a question for you also, how might higher interest rates that we're seeing now may affect small-dollar mortgages and LMI borrowers?

Eddie Seiler:

So that's a great question. The higher interest rates are actually ... We've had to move up in the interest rates, hand in hand with really high house price appreciation in the last year, year and a half, two years. And so especially this year, starting in January, when I look at the weekly applications data at MBA, the payments for homes has gone up by over 30 percent. So taking into account the increase in interest rates by over 2 percent, together with the larger loan amounts, and this is even when we take into consideration income growth. Incomes have been growing at around 5, 5 and a half percent of the last year over year, so it is particularly difficult.

In addition, one of the nice things we can do with the weekly applications data is I may not be able to identify who is a first-time home buyer, but I do have the data at loan levels. So if I look at the 25 percentile, meaning that if I look at the applications, the 25 percent of the applications have a lower amount, 75 percent have a higher amount, those have been moving up also rapidly. So definitely the first five months of the year, we have dated through May, have been extremely difficult for first-time home buyers and for people wanting to get onto the home ownership ladder.

Faith Weekly:

And I wanted to follow up about that with you in terms of, I think Jaime, you actually said that you see homeowners taking out equity from their homes to purchase for their children to help their children be able to purchase their first home. But what we've heard recently is there's a lot of competition from corporate investors who are buying these lower-priced homes. And I wonder, anyone can address this, what do you feel can be done to address this, this competition from institutional investors?

Gabe del Rio:

Well, one idea, that could be an SPCP too, maybe something that we're cooking up, is to advantage a buyer with an investor cash purchase. So you pre-qualify the person for the mortgage and you are providing bridge financing and stepping in with a cash purchase. And so to the extent that an institution can host something like that, or whether that's a local CDFI or great organization like Greg's that's doing this work, that cash purchase position could be the same, put that home buyer on equitable standing and put them in competition with those investors for a cash close. There's a variety of things to manage as far as risk goes in that, but I do think it is navigable and certainly consumers will be interested in that. There are some models of that around the country right now, and they weren't necessarily SPCP angled, but this is a loan type and a loan product design that is emerging because of this.

Jaime Rice:

Another thing that we're doing in Kentucky, and Faith, initially when we were hearing about the cash offers over, and the government offers being rejected outright, my concern was, are these investors coming in? And what we're hearing in Kentucky is I'm sure there are investors, but there are also the parents with the equity. We are attempting to work on an FHA expert designation that KHC will offer to our lenders just to try to educate our lenders, our real estate agents, that FHA financing is a strong financing tool for low- to moderate-income families for any, it's a strong first-time home buyer product, and it's a big product in Kentucky. They're harder to get through, they're going to take longer, the contracts are going to fall through, and that's simply not the case. If you've got an experienced lender who knows the program, that should never be the case. And so we're trying to educate real estate agents on that, we've not launched it yet, but that's something that we're working on in Kentucky.

And also we've kicked around just really a campaign with our real estate agents, because they are the connection to the sellers when they're faced with multiple offers and they're picking which one, just remind them today's first-time home buyer is your seller five years from now, that investor's never going to let that property go. And so it is in their best interest also to help support that first-time home buyer market and not necessarily get the quick sale. And maybe that cash offer is a great one today, but that home's never going to come back on the market three years from now, and so we're all going to have that business gone. So I think that's something, a message, that we need to work on nationally and make sure that our real estate partners are our partners as well. We need them, they need us, our buyers need all of us to be on the same page. And I think that's an avenue or an approach we should collectively take as well.

Faith Weekly:

Thank you, Jaime. Greg, there was a question about, "Is CHN Housing Capital doing work on a national level, or are you only in the Cleveland market?"

Greg Perelka:

Great question. So right now we are just in the Midwest. We are also a developer with some surrounding states and so we are not national today. Faith, next year, we will be rolling out in another local market that is similar to ours. And so we are looking at some other like-minded cities, if you will, within the Midwest, that we will also be rolling out the Believe Mortgage. We're talking to many city officials around down payment assistance within these cities too, in those states. So more to come. And so we are definitely looking to branch out into some surrounding states.

Faith Weekly:

And Greg, I wanted to ask you, you're a CDFI, and it seems as though a CDFI may be better suited to do this type of financing. What would you say to maybe an organization interested in perhaps doing some small-dollar mortgage lending in their neighborhood? What advice would you give them?

Greg Perelka:

Yeah, so great question. I'd say that definitely take a look based on the needs of your community. It's a lot of research that goes into what makes sense for your organization. So CHN housing partners are our parent company, we've been doing lending for a number of years on the lease purchase side, because we own those properties, that's the Year 16 Program I was talking about. And because of the fact that we are looking and branching out as a mortgage company, as a lender, the CDFI piece, as we're working with several different banks and funders within our market, it's really the gold standard, if you will, for lending. It allows us as an organization to scale better in regard to small-dollar loans. And it's finding the right partners as we've partnered with a couple of different regional banks, and they have like-minded type of mission that we do in regard to reaching our communities.

Having that CDI designation has also, in the mind of many of these funders and banks, taken some of the risk maybe out of their minds, the mitigation of the risk, that the fact that we understand our community and how to lend and how to serve our borrowers, that they're willing to give us more dollars for small-dollar loans, allow us to get more programs as well, to get into the communities.

The other thing that a CDFI allows for, if you go to their website for the CDFI fund, they also provide funding for CDFIs on an annual basis. So that too will allow any organization to be able to scale within their communities, to be able to sell those programs, again, that are impacting the borrowers for good. And so that's something that we took a long look at, and that was something that we definitely wanted to do and make a difference within the Cleveland market.

Faith Weekly:

Thank you. And this is a follow up. Gabe, can you share with the audience, the services that HCA provides? Let's say you're a faith-based CDC or a community-based organization in a rural area, developing new housing, new, affordable housing. Does HCA provide any resources or services that would help that type of nonprofit enter into affordable housing development or being a lender?

Gabe del Rio:

For sure on the lending side. So our CLIMB Program is community lending initiatives and mortgage banking. And when we're working with nonprofits, we're generally moving them up the lending ladder, which starts at one end in packaging and then in down payment assistance lending, goes to first mortgage brokerage gets the next step, non-delegated correspondent where Greg is then fully delegated correspondent. And we've even worked with an organization, Fahe, that's in 17 states to get them approved for Fannie and Freddie seller servicer status and up and running there. So we work with nonprofits on any end of that spectrum, mostly CDFIs that are nonprofits, but a lot of groups that are trying to become a CDFI as well. And they need that one to two year strategic plan and the business plan to get there so that they will qualify at the end of that period of time. So we do a lot of work like that with nonprofits.

On the for profit side, whether that be, well, actually credit unions qualify as a nonprofit, but mortgage companies and investors, those are, we really tend to use CLIMB for SPCP or for a special affordable product that they're doing, whether that be a CRA program or an affordable commitment. And we help them to design that program, document it, go through all of the internal steps for approvals and buy in, and then write up a nice plan for them. That's what we deliver to folks.

Faith Weekly:

Thank you, Gabe. Jaime, we do have a question for you, "Is the equity down payment assistance a product that could be matched with a-"

Jaime Rice:

I'll save you, Faith. That's my assistant director asking that question, so I know it's not for me, it's probably for Gabe.

Faith Weekly:

Oh, okay. I'm sorry.

Gabe del Rio:

So right now, equity DPA is designed to leverage a conventional loan. So as long as it's a conventional execution on the HFA, then yes, we are not planning to add FHA until a good year of pilot on that. So we want to do everything we can to get people into a conventional loan and that's what this is designed to leverage. If you are using a premium price product, like an HFA program, you can layer this, it does meet a community seconds guideline, goes up to a 105 percent CLTV on the product, and it provides 3 percent or up to $9,000 in down payment assistance that is zero interest, zero payment, and fully forgivable after five years of owner occupancy. And that's all thanks to donor funds. Really, we are facilitating private donations going into LMI and BIPOC homeowners, and the majority of funds that we hold and can continue to receive from donors on this is related to BIPOC. So we're looking for Black Indigenous people of color, basically all the minority categories, but we do have funds for LMI as well.

Faith Weekly:

Thank you, Gabe.

Gabe del Rio:

On the BIPOC side, I should say, that goes up to 140 percent meeting income, so that's our line right now. And I liked, Greg, that you all didn't have an income limit, which is really great to see, we don't see that enough. And I'm always explaining to folks that while low-income and minority do have a Venn diagram overlap, it's not nearly as great as people think. And if you want to serve communities of color in home ownership, you had better go up income and not be LMI focused. And I think your numbers are a great portrayal of that, Greg, with the 93 percent. Well done. Bravo.

Faith Weekly:

I do have a question also, "Can borrowers purchase modular manufactured homes, tiny homes under these small-dollar mortgage programs, or like KHC, CHN? Does it apply to those types of homes as well?"

Jaime Rice:

Absolutely. We've done them all, except I don't know that we've done a tiny home yet, but we would do them. Appraisal comparables will be your challenge there, I believe, but certainly modular manufactured homes, that's a big market for Kentucky.

Gabe del Rio:

Yeah. And in general, anything that's become real estate. So if it's real estate and fee simple, we can lend on it.

Faith Weekly:

Well, I think we have addressed all of the questions. Thank you to our panelists for an informative discussion. And information about today's program will be sent in a follow up email and a recording of the event will also be posted on clevelandfed.org. Probably want to check back in a week, at least a week or two. And also want to invite you to join us for our next Fed Talk on July 7 from 3:00 to 4:00 pm, Building Black Communities, Investment and Opportunity. A registration link will be provided in our follow-up email and we hope to see you there. Thank you all for joining us today and have a great day.