

REINVENTING MORTGAGE LENDING FOR WORKING PEOPLE

NACA'S ACHIEVE THE DREAM EVENTS

Something miraculous is happening. Thousands of homebuyers have attended NACA'S "Achieve the Dream" events in Charlotte, Miami, Cleveland and Baltimore with many more events to come. Over one thousand households, many of them minority, have been pre-approved for NACA's Best in America Mortgage. This massive turnout demonstrates the impact of racial and economic barriers to affordable homeownership and the effectiveness of NACA's purchase program. Those barriers have prevented the accumulation of wealth for generations of those historically excluded and have created a pent-up demand that the NACA "Achieve the Dream" events are finally fulfilling.

NACA is the largest non-profit organization fighting for economic justice through home ownership and community action. During the mortgage crisis, NACA established the national standard in providing same day solutions for over 250,000 homeowners facing foreclosure at our "Save The Dream" events. Now NACA is transforming mortgage lending for low-to-moderate income (LMI) people and minority homebuyers. Bank of America committed \$10 billion and CitiMortgage, \$3 billion to NACA's Best in America Mortgage. The mortgage requires no down payment, no closing costs and no fees at a below-market fixed interest rate. NACA uses an alternative underwriting approach without consideration of credit score. Every homebuyer receives the same extraordinary terms with the ability to purchase very every type of property including single, condo and multi-family with the ability to purchase and renovate a property.

Eliminating the down payment requirement and closing costs eradicates a major roadblock to homeownership for working people who struggle to save money while meeting their living expenses, including the high cost of rent. Similar no down payment VA mortgages provided the primary financing tool in building America's suburbs after World War II, even as racist government and bank policies excluded minority borrowers.

While the mortgage is outstanding, an essential transformation lies in changing the sequence of the home buying process and traditional underwriting criteria. The current homebuying process erects significant barriers to LMI homebuyers and results in blocking minority borrowers from homeownership. These barriers block mainly low to moderate income borrowers, and particularly minority borrowers, from accessing affordable conventional mortgages including Federal Housing Authority (FHA) and government-sponsored mortgages. NACA revolutionizes the process by putting mortgage approval first and using an alternative underwriting approach without consideration of the credit score.

Process

The current home purchase process begins with a real estate agent, the seller, and finally lender. Real estate agents are only paid for completed sales and are unlikely to work with a borrower who may require more time to find an affordable home, or who may have potential difficulties in securing financing for the deal. Sellers and builders often do not look favorably on LMI and minority borrowers, in part, because of their perceived inability to get financing.

To break down this procedural barrier, NACA pre-approves borrowers for its “Best In America Mortgage” requiring full documentation (i.e. paystubs, bank statements, tax returns, etc.). Once the borrower is NACA Qualified (i.e. pre-approved), virtually all applications submitted to a lender are approved. With this solid, document-based approval in hand, the borrower becomes a desired customer for real estate agents, sellers and builders becoming the equivalent of a cash buyer.

Underwriting

NACA Qualification involves comprehensive counseling to determine that the borrower is ready for homeownership and can afford the approved monthly mortgage payment over the long term. Borrowers complete realistic, verified budgets to determine how they spend their money. This is an invaluable financial learning experience that lays the foundation for improved personal financial management and stable homeownership.

NACA’s underwriting uses “character-based lending” with compensating factors. This means that our underwriters consider the life realities of LMI people that do not neatly fit into standard underwriting criteria. NACA has demonstrated for over twenty years that its counseling and underwriting results in an extremely low foreclosure rate of .00215 (i.e. about one-fifth of one percent).

Traditional mortgage lending outside of NACA is based on risk-based price lending. This lending model takes into consideration three factors: down payment, credit score, and debt ratios. These criteria are put into an algorithm which determines if the borrower is approved and at what interest rate. NACA’s purchase program eliminates all three of these underwriting criteria by fundamentally changing the underwriting analysis.

In determining readiness for homeownership we do not consider a borrower’s credit score. Instead, we review the borrower’s payment history as provided on their comprehensive credit report considering only with the payments that the borrower controls. Thus, for example, if a late payment was the result of an emergency room medical bill, we believe that this is not a reflection of their readiness for homeownership but, instead, the result of America’s unaffordable, dysfunctional health care system.

To determine an affordable monthly mortgage payment, we use the borrower’s current rent as a more realistic guideline and then analyze whether this housing payment equals an affordable

mortgage payment. If the borrower wants a mortgage payment that is higher than their current rent, they must save the difference over a period of three to six months to ensure that they can afford it over the long term. We call this their Payment Shock Savings.

Achieve The Dream Events:

NACA's Achieve the Dream events shatter the structural barriers to homeownership for LMI borrowers, particularly minority borrowers. Borrowers come together as a group gaining support from others in the process and from counselors who come from the same communities and experiences. The massive turnouts in prior events were the result of word of mouth about NACA's effectiveness. We are taking the Achieve the Dream events nationwide planning over twenty more this year.

The transformative NACA Mortgage, process, and underwriting provide a model for Fannie Mae and Freddie Mac, as well as for other major mortgage providers like Chase, Quicken, and Wells Fargo to lend to working families and minorities. This is a historic change in lending that provides unprecedented opportunities for affordable, stable, and long-term homeownership. To participate and for more information go to www.naca.com.