

NACA IS REINVENTING MORTGAGE LENDING

ELIMINATING BARRIERS TO AFFORDABLE HOMEOWNERSHIP

Affordable homeownership has historically been inaccessible to millions of Americans but a transformation is now occurring. NACA has created a model that is providing unprecedented affordable homeownership on a large scale, to homebuyers who have been traditionally locked out of achieving this American Dream. NACA's Purchase Program provides comprehensive counseling with the option to access NACA's Best In America Mortgage with no down payment, no closing costs, no PMI, no fees, and a below market fixed rate. Lenders have committed \$15 Billion so far, including \$10 Billion from Bank of America. NACA is the most successful private sector initiative in providing affordable homeownership.

For too long, affordable homeownership has been inaccessible to millions of Americans and their families. Committed to changing this, NACA has, over many years, developed and refined a way to make affordable homeownership a reality for those who have been prevented from accumulating wealth and achieve personal security through homeownership. For over twenty years, NACA has built an unprecedented, successful track record of over 60,000 successful homebuyers – 85% of whom are minority – with an extremely low foreclosure rate of 0.01183% (i.e. about one-hundredth of one percent). With 47 offices nationwide and growing, NACA is providing the national standard for affordable homeownership.

Achieve the Dream Events

Since early 2018 NACA has been touring the country to provide an unprecedented homeownership opportunity for tens of thousands of aspiring homeowners with its "Achieve the Dream" events. These events provide a streamlined, one-stop mortgage process to be pre-approved for NACA's Best in America mortgage. In one day borrowers complete the following four step process: 1. Attend a Homebuyers Workshop; 2. Upload their documents; 3. Meet with a NACA Housing Counselor; and 4. Meet with a NACA Underwriter to be pre-approved or determine their next steps. This pent-up demand for affordable homeownership is being fulfilled by NACA's "Achieve the Dream" events. The massive turnout at the events is from word of mouth about the effectiveness of NACA's purchase program. Borrowers come together as a group and gain support from others in the process, who in turn come from the same communities and share the same life experiences. We have done fifteen events in 2018 and plan many more nationwide.

Barriers to Homeownership

NACA is the one bright light in reversing the history of racism and exclusion in providing affordable homeownership for minority homebuyers. NACA's purchase program provides a solution for eliminating the barriers that have resulted in historically low homeownership rates for African Americans. These major barriers are:

1. Limited savings;
2. Unaffordable terms;
3. Restrictive underwriting; and
4. Racism and Biases.

1. Barrier: Limited Savings

NACA Solution: No Down Payment & No Closing Costs

The NACA Mortgage overcomes the lack of savings barrier since there is no down payment, no closing costs or fees (these are paid by the lender), and no required PMI. Working people who struggle to save money but are able to meet their living expenses can become homeowners through NACA with a mortgage payment that is often less than their rent. The similar no down payment VA mortgage provided the primary financing tool in building America's suburbs after World War II, but racist government and bank policies prevalent at that time excluded minority borrowers.

2. Barrier: Unaffordable Terms

NACA Solution: Below Market Fixed Rate & Aggressive Buy-Down

Standard lending practices reward those who are better off or come from a tradition of homeownership with better access to affordable financing. These practices lead to the exclusion from homeownership or to predatory terms for people who work just as hard as anyone else. To address this disparity, NACA provides a below-market fixed rate for either a 30-year or 15-year term where everyone who qualifies receives the exact same below market fixed rate and terms. As Forbes magazine noted, where other lenders charge different interest rates, "there is one exception, NACA, that charges the same rate regardless of the credit score."

NACA also provides an aggressive interest rate buy-down to virtually zero percent which is not available with any other lender. This aggressive buy-down permanently reduces the interest rate by 0.25% for each one percent of the mortgage. This is twice the standard buy-down, which is also usually limited to two points. The buy-down is the most effective way for a borrower to afford a higher priced property or to reduce their mortgage payment. While it is not realistic for borrowers to permanently work an additional job or increase their income, it is realistic for borrowers to get a grant or save funds to utilize this extraordinary buy-down.

3. Barrier: Restrictive Underwriting based on Credit Score

NACA Solution: Character Based Lending without Consideration of Credit Score

NACA uses an alternative underwriting approach that does not consider one's credit score. Every homebuyer goes through the same process and receives not only the same below market fixed interest rate, but also does not have to make a downpayment, and the lender pays all the closing costs. NACA Qualification involves comprehensive counseling and full-document underwriting to determine whether a 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 important financial learning experience that lays the foundation for improved personal financial management and stable homeownership.

NACA's purchase program eliminates underwriting based on the standard risk-based pricing model used by the mortgage industry which does not account for homebuyers' personal circumstances that are not reflective of their ability to make a mortgage payment. This industry-standard lending model takes into consideration only three factors: down payment, credit score, and debt ratios. These criteria are put into an algorithm that determines if the borrower is approved and the corresponding interest rate and terms. Instead, NACA's underwriting uses "character-based lending" with compensating factors. This means that NACA counselors and underwriters consider the life realities of LMI borrowers that do not neatly fit into the "standard" underwriting criteria.

While full-documentation of financial income and payments is required with NACA's approach to underwriting, a borrower's credit score is not considered. Instead, NACA reviews the borrower's payment history as provided on their comprehensive credit report and considers only those payments that the borrower controls. Far too many people are locked out of homeownership due to unexpected medical expenses and other debts out of their control. NACA's approach is designed to overcome these barriers since non-payment of these debts is not always a reflection of their readiness for homeownership.

To determine an affordable monthly mortgage payment, NACA uses the borrower's current rent as a more realistic benchmark. Borrowers with a desired mortgage payment higher than their current rent must save the difference over a period of three to six months while maintaining a realistic budget. This "Payment Shock Savings" ensures that they can afford their new payment over the long-term. Further, NACA works with borrowers who are unable to meet their desired payment for as long as it takes to get them into financial readiness for homeownership.

4. Barrier: Racism & Biases

NACA Solution: Pre-Approval & Advocacy

The legacy of slavery, with the continued racism and biases, is pervasive throughout the homebuying process. This is a fundamental barrier to affordable homeownership for African-Americans and other minorities. While NACA's purchase program is open to everyone, the vast majority are minority homebuyers who historically have been locked out of this fundamental generator of wealth. The impact is at a crisis point after millions of minority homeowners were foreclosed on during the recent mortgage crisis and lost billions of dollars in wealth.

While the NACA mortgage is outstanding, an essential transformation in addressing embedded racism lies in changing the sequence of the home buying process. The standard homebuying process – which begins with a real estate agent before moving to the seller and finally the lender – erects significant barriers to minority and LMI homebuyers due to racism and bias. Real estate agents often refuse to work with buyers with lower credit scores, lower incomes, or minorities. Sellers will often not accept offers from these borrowers or may only consider them as a last resort. Lastly, lenders reject about half the applications from minority and LMI borrowers.

NACA upends the traditional process by putting mortgage pre-approval first. To overcome these barriers in traditional home buying, NACA pre-approves borrowers for its “Best In America Mortgage” through counseling and budgeting that requires 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 the lender successfully close their mortgage where other lenders reject half the submitted bank applications. With this solid, document-based approval in hand, the borrower becomes the equivalent of a cash buyer and therefore a desired customer for real estate agents, sellers and lenders.

Another NACA advantage are the relationships of NACA counselors, underwriters, and real estate agents to the communities they serve, most of whom are from the same backgrounds and circumstances. Their dedication and relationship to their Members makes it personal that they achieve this life changing purchase and ensures that Members are treated with respect and fairness in the process.

Where the benefits of NACA’s pre-approval and staff cannot overcome all racist actions, NACA has mobilized its membership and will continue to do so to fight discrimination and predatory practices. NACA has been in the forefront of these fights and was the first to coin the term “Predatory Lending” in its first campaign in 1991 against lenders targeting the equity of Boston’s minority homeowners. With more than 2.7 million members nationwide and the resources to back up our campaigns, NACA is a force that is both respected and feared.

NACA

NACA is the largest HUD certified non-profit counseling organization fighting for economic justice through its homeownership programs and community action. NACA provides about 30% of all the housing counseling in the country and is the most effective in providing affordable homeownership for both homebuyers and homeowners. During the mortgage crisis, NACA’s HomeSave program for homeowners with an unaffordable mortgage established the national standard in providing same day solutions for over 250,000 homeowners facing foreclosure during the “Save The Dream” events.

NACA’s transformative mortgage product, counseling services, and underwriting provides a model for how fair mortgage lending can successfully be made a reality for working families and minorities on a large scale. This historic change in lending provides unprecedented opportunities for affordable, stable, and long-term homeownership. To participate and for more information please visit www.naca.com.