

NACA IS REINVENTING MORTGAGE LENDING

ELIMINATING BARRIERS TO AFFORDABLE HOMEOWNERSHIP

Affordable homeownership has historically been inaccessible to millions of minority and disadvantaged Americans but a transformation is now occurring. The non-profit Neighborhood Assistance Corporation of America (“NACA”) has created an unprecedented model of affordable homeownership on a large scale for those who have been historically prevented from accumulating wealth and achieving personal security through homeownership. 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.

NACA has built an unprecedented track record of over 60,000 successful homebuyers – 85% of whom are minority – with an extremely low foreclosure rate of 0.012% (i.e. about one-hundredth of one percent). NACA is the largest HUD certified counseling organization in the country and provides about a third of all counseling. With 47 offices nationwide and growing and 2.7 million members, NACA is creating a new national standard for affordable homeownership. To follow-up on this success and to meet the pent-up demand for affordable homeownership, NACA has been touring the country with its “Achieve the Dream” day events to provide its purchase program on a massive scale. These four days events are a streamlined, one-stop mortgage operation that draw thousands of homebuyers and provide pre-approval for NACA’s Best in America mortgage.

NACA has been at the forefront of fighting predatory lending and providing affordable solutions for over 250,000 homeowners with an unaffordable mortgage. NACA is often met with resistance or skepticism by “housing professionals” due the borrower focused lending model and aggressive advocacy. However, NACA’s success has come through word of mouth, especially in minority communities, and a combination of fear and respect in the lending industry. For more information please visit www.naca.com.

Barriers to Homeownership

NACA has done more than any other organization to reverse the history of racism and exclusion that has prevented minority homebuyers from obtaining affordable homeownership. NACA’s Purchase Program provides a solution to address the major barriers in the housing market that have resulted in historically low homeownership rates for African Americans, which are:

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

1. **Barrier: High Savings Requirement**

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 many low- to moderate-income (LMI), hard-working people. 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 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 a unique option to permanently buy-down the interest rate 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 obtain a grant or accumulate the savings 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's Purchase Program does not use the mortgage industry's risk-based price underwriting model. Their underwriting does not account for homebuyers' personal circumstances and does not accurately measure many homebuyers' 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 and everyone receives the same below market interest rate and extraordinary terms. This means that NACA counselors and underwriters consider the life realities of LMI borrowers that do not neatly fit into the "standard" underwriting criteria.

NACA does not consider a borrower's credit score. Instead NACA reviews the actual payments 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 that are 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 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. NACA works with borrowers who are unable to meet their desired payment for as long as it takes for them into financial readiness for homeownership.

4. Barrier: Racism & Biases

NACA Solution: Pre-Approval & Advocacy

The pervasive racism and biases in the homebuying process, stemming from slavery, creates significant barriers to affordable homeownership for African-Americans and other minorities. While the NACA mortgage is outstanding and open to everyone, an essential transformation in addressing embedded racism lies in changing the sequence of the home buying process. The standard 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. 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. Borrowers must start with a rigorous counseling and budgeting process that requires full-documentation and a comprehensive evaluation of their financial circumstances to verify that they are ready for homeownership with a mortgage payment that is affordable over the long-term. Borrowers complete realistic, verified budgets that lays the foundation for improved personal financial management and stable homeownership. Once the borrower is pre-approved, virtually all applications submitted to the lender successfully close their mortgage, whereas the standard in the industry is about half are denied. 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.

While NACA provides solutions to overcome obstacles for individual borrowers, NACA also organizes its membership to fight for economic justice and build a community in support of one another. Where the benefits of pre-approval cannot overcome racist actions, NACA mobilizes its membership to fight such discriminatory and predatory practices. In addition, NACA's over six hundred staff are largely hired directly from its membership, making it personal for them that borrowers are treated with respect and fairness in achieving this life changing home purchase.