

# Neighborhood Assistance Corporation of America (NACA)

**Purchase and Home Save program processes and  
Purchase Mortgage Product Comparison, Rate Buy-  
Down Feature, and Portfolio Performance Analysis**

*January, 2014*

# Promontory's Work With NACA

- NACA engaged Promontory in May of 2013
- Promontory has provided
  - General management consulting
    - Organization
    - Process mapping: We worked with NACA to map their Purchase and Home Save programs processes
  - Analysis of NACA's purchase mortgage vs. comparable products
  - Analysis of Buy-Down Feature in the NACA Purchase Mortgage
  - Analysis of NACA purchase mortgage performance

# NACA's Home Save Loan Modification Process

- NACA works with servicers and investors to modify existing mortgages to affordable payment levels
- Homeowners reach NACA by telephone, NACA website, NACA offices and large-scale “American Dream” events around the United States
- The Home Save process features:
  - Same-day solutions for many borrowers at NACA’s American Dream Events
  - A mix of in-person and remote services
  - Affordability counseling
  - ‘Live’ file assembly for presentation to servicer
  - Direct advocacy with servicers or investors
  - Continued support to reach a satisfactory modification through NACA’s Servicer & Investor Team

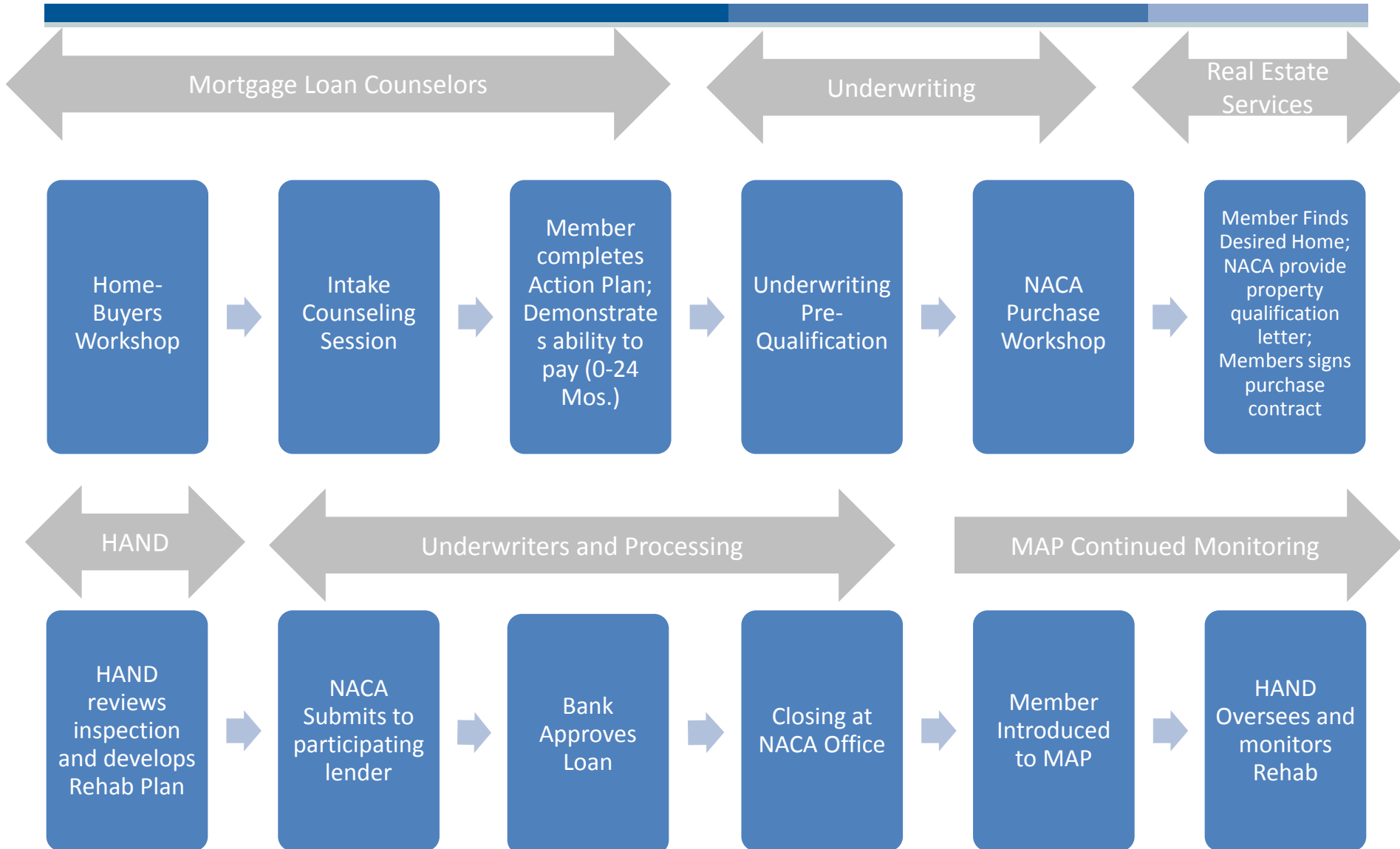
# NACA's Purchase Mortgage Product

- NACA's mortgage product, "America's Best Mortgage," offers its members a 30 year mortgage to purchase a home
- Purchase and Purchase-Rehab for one to four family properties
- Benefits include:
  - Starting interest rate below market rate
  - The opportunity to "buy-down" the interest rate substantially
  - No required down payment
  - No closing costs
  - No application or origination fees
  - No private mortgage insurance
  - Perfect credit not required

# NACA's Purchase Mortgage Origination Process

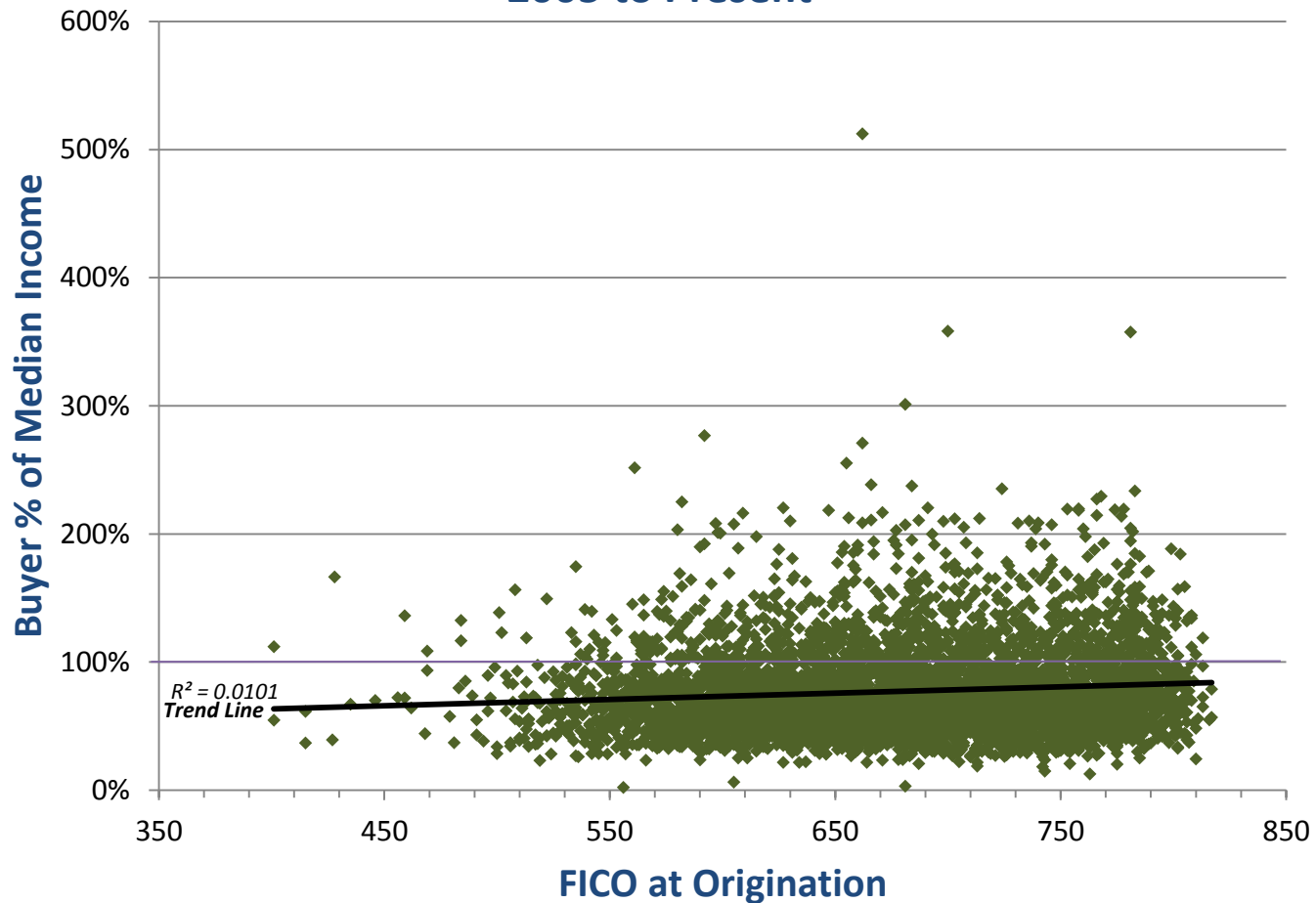
- NACA designed its Purchase process to maximize sustainable, responsible homeownership.
- NACA seeks to ensure that Members can meet their ongoing obligations by having an affordable monthly mortgage payment.
  - Prospective homeowners attend an Intake Counseling Session with a NACA counselor. NACA will provide anyone counseling on housing; however, to access NACA's America's Best Mortgage, you must become a NACA member, which includes a \$20 annual fee. Per household until closing on a NACA Mortgage.
  - Counseling focuses on determining the buyer's affordable payment and producing an Action Plan of steps necessary to demonstrate that the Member can sustain that level of payment, which may require changes in spending and saving habits. Depending on the Action Plan and the Member's success in following it, it can take 0-24 months to complete, with additional counseling sessions along the way.
- NACA ensures that every home purchased is, or will be rendered, habitable and in good repair.
  - Home and Neighborhood Development (HAND): HAND reviews the property inspection and generates a list of required repairs. A seller may address repairs prior to closing or HAND will create a rehab budget and work with the borrower to determine the source of funds. NACA allows borrowers to include the rehab costs into the loan up to 110% LTV. In cases where rehab is necessary, HAND will closely monitor the process and completion of the repair work.
- NACA reaches out to Members having difficulty paying their mortgage to help keep the Member in their home.
  - Member Assistance Program (MAP): MAP staff contacts NACA Homeowners who are late on their mortgage payment or who need assistance to provide: budget counseling, assistance with loan modification, foreclosure advocacy and, in some cases, financial assistance.

# Walkthrough of NACA's Purchase Process



# Weak Relationship Between Buyer Income and FICO

## Median Income vs. FICO at Origination 2005 to Present



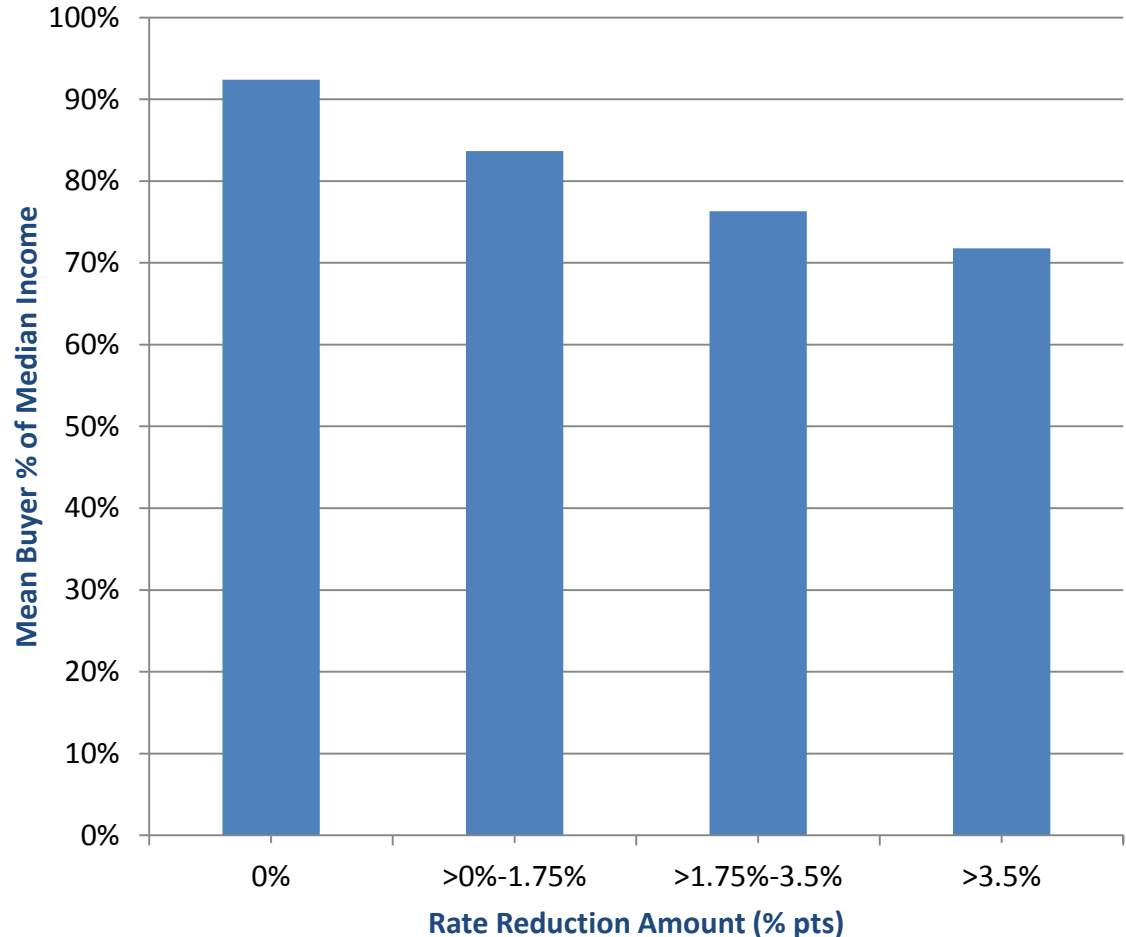
This graph shows the individual's income level, as a percent of local median income vs. the individual's FICO score for loans .  
Source: NACA Data.

# NACA Serves the Lower-Income Home Buyer

Average Buyer income  
as a percent of median  
local income for all  
NACA loans since  
1/1/2005 is  
**82.22%**

This graph shows the average income level of borrowers who purchased four levels of rate reduction. For example, the left-hand vertical column shows that the average income level of borrowers who purchased no rate reduction was slightly over 90% of the local median income at the time. Source: NACA Data.

Mean Median Income vs. Rate Reduction Amount (% pts)  
2005 to Present

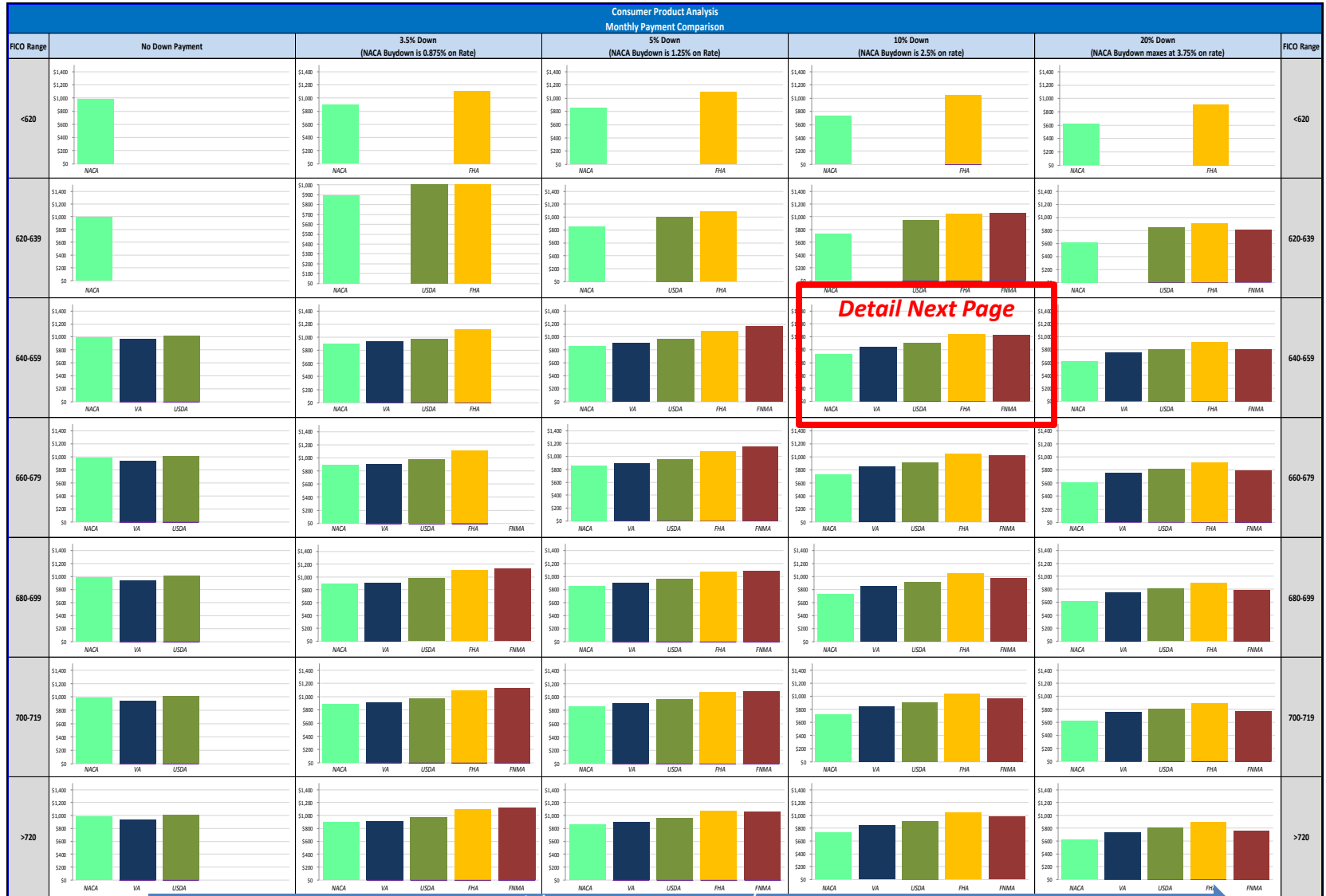
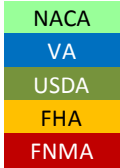




# NACA Mortgage Product vs. Loans Available to LMI Borrowers

- We compared the cost of the NACA mortgage product to other mortgage products designed for first-time or low-and-moderate income (LMI) borrowers, such as VA, FHA, USDA, and FNMA loans.
- We created a matrix of multiple borrower scenarios reflecting differences in FICO score and down payment amount and assumed a purchase price of \$200,000 across all scenarios.
- We obtained actual quotes\* from online lenders, using the most competitive quotes available, and priced each scenario separately. (\*LA County; Summer 2013)
- For the NACA scenarios, we assumed that the down payment funds would be applied to buy-down the interest rate, recognizing that NACA borrowers often take advantage of NACA's continuous rate buy-down feature to obtain a very low interest rate.
  - NACA's buy-down is continuous. It allows permanent borrower buy downs at a rate of 1 point (1% of loan amount) for each 25 basis point (.25%) reduction in the rate to as low as 1/8%
- Total monthly payment figures include any monthly mortgage insurance premiums or other costs.

# Product Comparison Results (all FICO / Down Payment scenarios)



Lower Credit-Score

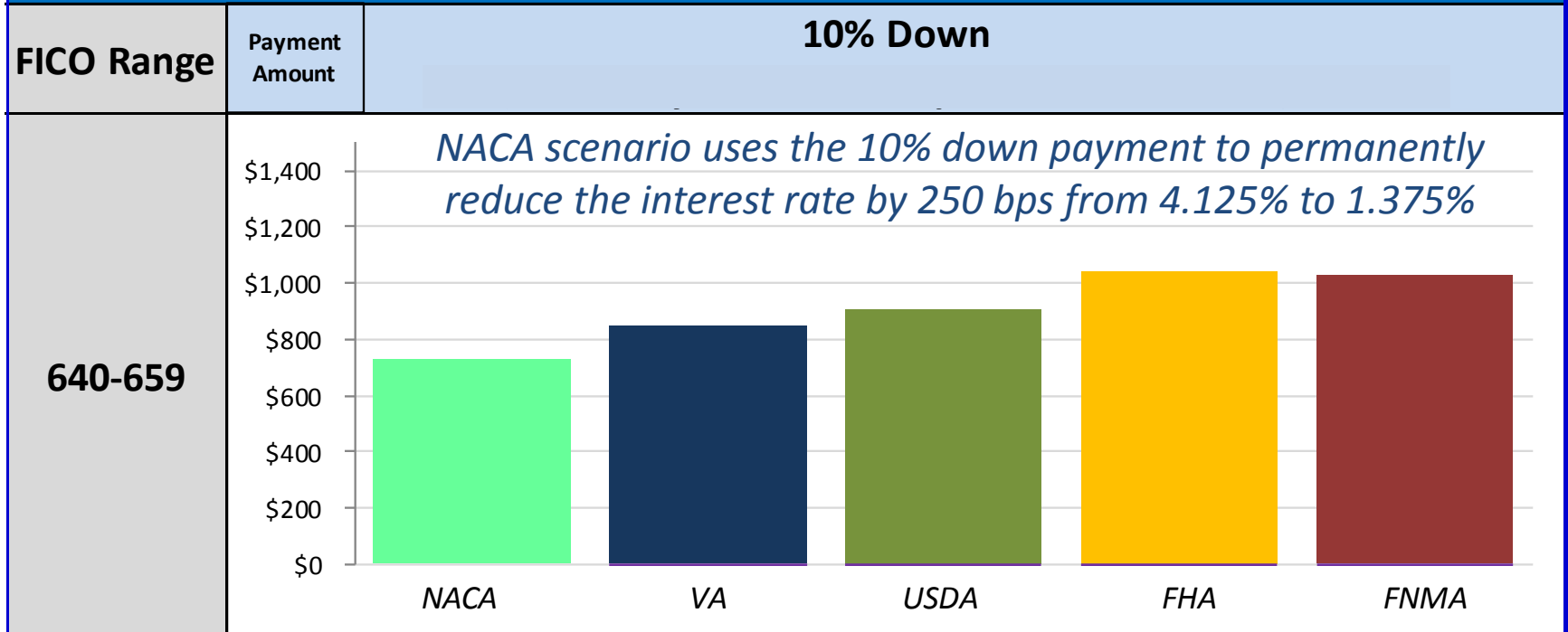
Higher Down-Payment / Buy-Down

In Almost all FICO-Range vs. Down-Payment / Buy-Down combinations, the NACA loan results in the lowest monthly payment. (Not all competing products are available at low down payment / low credit score combinations.)



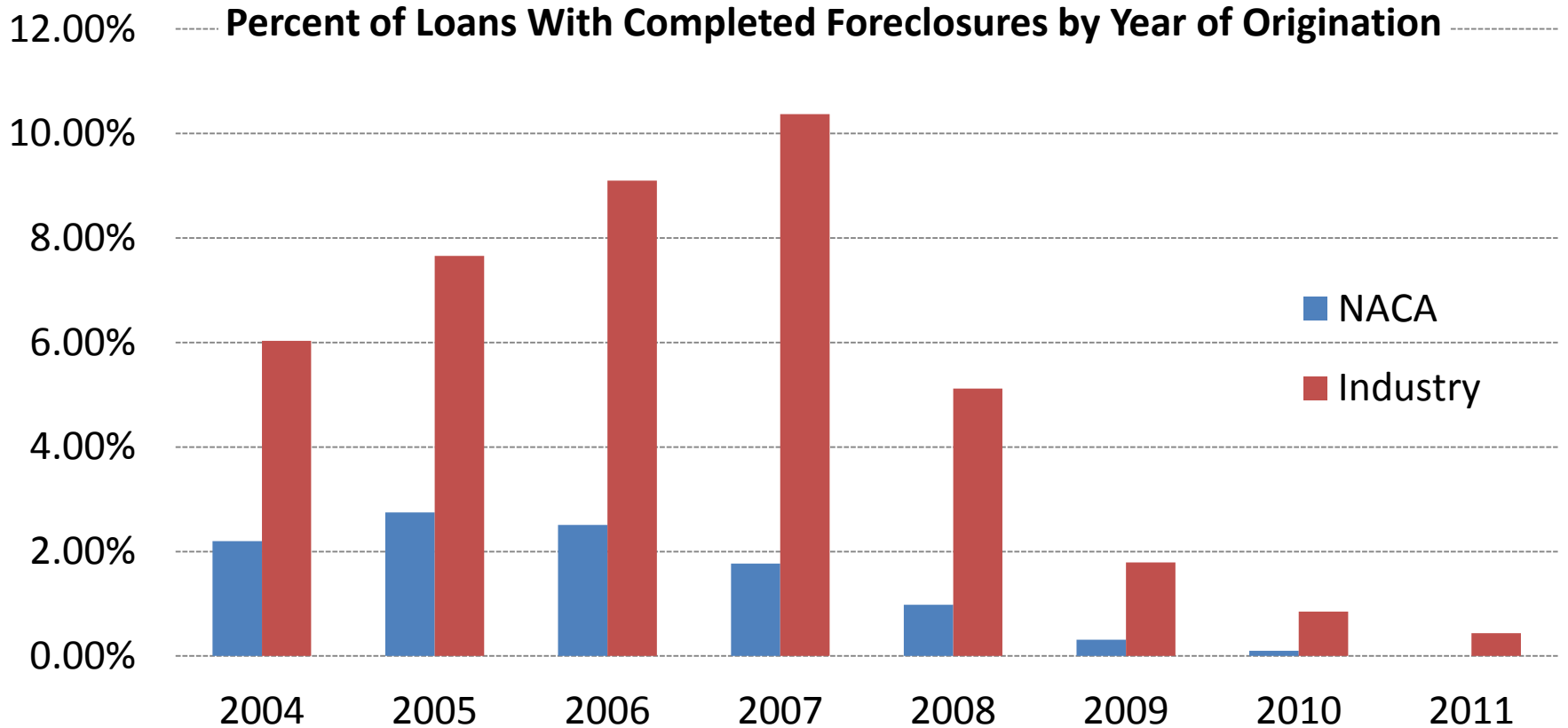
# Product Comparison Results (Detail)

## Consumer Product Analysis Monthly Mortgage Payment Comparison



This shows the monthly payment for comparable loans for borrowers with FICO scores in the 640-659 range who have \$20,000 available at closing (10% of a \$200,000 loan). NACA borrowers are assumed to use their cash for rate buy-down, while others use their cash for a down-payment. In this scenario, all loans except NACA require additional closing costs up-front that range from \$510 to \$3,772 and include in their payment PMI amounts that range from \$0 (VA) to \$195 (FHA).

# NACA Keeps More Borrowers in Their Homes



The graph above shows the percent of loans originated in each year that resulted in a foreclosure sale. We estimated industry data by using 90+ delinquency data, and estimating an industry foreclosure completion rate using a methodology published by the OCC (completions/starts 6 month prior). Part of the decline in recent years likely results from a combination of changing risk-tolerance by lenders and the foreclosure backlog built up in the Great Recession. There may be many reasons for the difference in foreclosure rates between industry and NACA. However, the aggressive NACA Member Assistance (debt counseling and repayment assistance) and Home-Save (loan modification) programs represent very different approaches to delinquency resolution from those typical of the mortgage industry. Source: NACA data, Promontory industry analysis.