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Loan arranger

Gadfly Mortgage Firm Feels Surge in Growth And Sting of Scrutiny

Boston Based NACA Helps Its Low-Income Clients, But Methods Draw Flak
Terms to Good to Be True?

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BOSTON -- Neighborhood Assistance Corp. of America has the feel of a ragtag community group. NACA, which helps low-income clients get mortgages, runs its operations out of an old electrical-supply warehouse. Its chief executive, Bruce Marks, rides to work on a mountain bike. And the group requires its borrowers to become activists, attending protests sending out mailings to politicians.

But in the past five years, NACA has grown into a powerful force in the banking world -- one of the nation's largest nonprofit distributors of first-time home loans to low- and moderate-income borrowers. Now, as it grows bigger and richer, NACA no longer has to rely on its stock-in-trade: fierce attacks on banks with a weak record for providing credit to poor communities. At the same time, though, it is coming under just the kind of scrutiny it used to level at lenders.

Mr. Marks has been able to put pressure on banks because of the Community Reinvestment Act -- which is aimed at addressing the dearth of bank lending in low-income neighborhoods -- and fair-lending laws. NACA, which is based in Boston, used protests and public-relations savvy to influence banks worried about their merger applications, ceasing only when the banks agreed to fund the NACA loan program.

Growth Trajectory

With that leverage, NACA has won $3.8 billion in loan commitments from Bank of America Corp., First Union Corp., Fleet Financial Group Inc. and others. NACA also receives revenue from the banks for each loan it places -- sometimes a flat fee, sometimes a percentage of the loan. In addition, it often shares in sales commissions collected by the borrowers' real-estate brokers.

None of this makes anyone at NACA rich. The annual budget is only $12 million, and Mr. Marks is paid $85,000 a year. But the way he has built the organization -- parlaying its corps of street-smart loan counselors and amenable protesters into regular funding and fees -- has put NACA on a growth trajectory, and one geared to ensure that it will become a permanent part of the banking landscape.

NACA's current budget is double last year's. The organization, which already has 20 offices around the country, plans to have operations in all 50 states by the year 2001. NACA's current level of loan pledges means it can broker more than 30,000 mortgages over the next decade -- compared with 5,000 during the past five years -- yielding at least $80 million in revenue for the organization.

Bruce Marks

Largely because of its backing from big banks, NACA has rocketed past Acorn Housing Corp., a better-known, 13-year-old nonprofit that operates in many of the same cities. NACA expects to distribute about $400 million in loans this year, about 40% more than Acorn.

"We are never going to go away," Mr. Marks says. "We are big enough and strong enough that we can survive when a lot of the other groups can't."

Mr. Marks sees NACA becoming a kind of Wal-Mart of low-income mortgage lending, with sophisticated computer systems, 800-numbers and branches that can reach just about every U.S. community. He says several banks, which he declines to identify, are interested in making additional pledges that will boost his commitments to $5 billion over the next couple of years.

Eric Belsky, who directs Harvard University's Joint Center for Housing Studies, says rising home ownership among low-income people demonstrates the effectiveness of programs such as NACA's. More than a trillion dollars has been doled out in hard-hit communities in the 1990s since passage of the 1977 Community Reinvestment Act. Home ownership among poorer people rose faster than it did for the nation as a whole between 1995 and the end of last year, and now stands at 51% of households with incomes below their area's median.

Some banks say groups like NACA are better than the banks at finding borrowers in low-income neighborhoods. Catherine Bessant, president of Bank of America's Community Development Banking group, says NACA's counselors have expertise and trust in low-income neighborhoods that the bank can't match. "The lending we do with NACA represents new markets," she says. "Let's face it. Traditional banking approaches just haven't been working."

NACA also keeps the clients coming in by ensuring liberal loan terms, agreed to by the banks as part of their NACA contracts. Down payments aren't required. Bad credit histories rarely disqualify a borrower, though loans may be delayed for months while clients clean up their credit records. NACA allows much higher ratios of loan payments to income than conventional mortgage brokers. Interest rates are either in line with, or lower than, market rates. And borrowers who can't make their payments can temporarily tap an emergency fund financed by levies on all NACA borrowers.

The liberal terms have caused some people to wonder whether NACA is saddling its clients with too much debt. Fleet has rejected a demand from Mr. Marks for a new $500 million commitment because of concerns about loan quality and the no-down-payment terms. Sen. Phil Gramm, chairman of the Senate Banking Committee, calls the money-for-no-protest tradeoff a form of "extortion" that could lead to too many mortgage defaults in the future.

The banks that work with Mr. Marks aren't joining Mr. Gramm in condemning NACA. Fleet spokesman James Mahoney says NACA's attacks have become a predictable part of the merger process, but they are still threats to be taken seriously. "Banks are vulnerable because delays in the merger process can cost a substantial amount of money," he says. NACA has resumed its protests against Fleet since the initial $140 million was exhausted.

And Fleet executives still smart from Mr. Marks's fighting words in the early 1990s, including NACA T-shirts emblazoned with Fleet CEO Terrence Murray's picture and the words "loan shark." "Those kinds of tactics are discouraging and make the process more difficult," Mr. Mahoney says.

Bad Behavior?

For his part, Mr. Marks doesn't really dispute Mr. Gramm's extortion label, saying banks' behavior justifies his approach. "If banks prey on working people," he says, "they're going to live with it seven days a week, 24 hours a day."

(OVER)

Mr. Marks, 44 years old, has an M.B.A. from New York University and worked briefly as a regulator with the U.S. Federal Reserve. After a stint as a Boston union organizer, he turned to rallies and other public protests in the early 1990s as a way to increase pressure on banks, which he viewed as mostly avoiding low-income borrowers, or gouging them when they did make loans.

In 1994, Fleet made $140 million in loan commitments to Mr. Marks following a string of anti-Fleet rallies, and lots of detective work by Mr. Marks on the bank's financing of second-mortgage lending that got some poor people in over their heads. He fed the information to the media, fueling a rash of bad publicity for Fleet. NACA agreed to drop protests when it obtained the loan agreement. It also agreed not to intervene with regulators against Fleet merger applications -- a meaningful concession, as the CRA obligates the Fed to consider any community-group opposition to takeovers.

But Mr. Marks's biggest coup came in July 1998, when Bank of America quietly agreed to a pledge of $3 billion in loans over 10 years. The nation's No. 2 bank also agreed to provide NACA with $750,000 in cash gifts each year through 2009 to open offices in Memphis, Tenn., Dallas and Kansas City, Mo., and other places where the bank operates. Mr. Marks says he got the deal done with none of his prior pyrotechnics, following a meeting with Chief Executive Hugh McColl Jr. Ms. Bessant says Mr. McColl was drawn to what the bank sees as an effective program. The Bank of America agreement also includes a no-protest, no-intervention clause.

'The March Goes On'

When opening offices in a new city, NACA doesn't advertise for clients; it contacts local churches and asks to address Sunday services. All loan applicants must first attend a four-hour workshop featuring a video called "The March Goes On" -- with gospel music and highlights of Mr. Marks's battles with the banks -- and a sermon promising that home ownership is within the reach of everyone.

About 400 people packed a high-school auditorium at a recent workshop in Boston. Mr. Marks, dressed in his trademark yellow T-shirt emblazoned with "Stop Loan Sharks," paced in front of the crowd booming into a microphone. "NACA may sound too good to be true," he says. "But scratch the surface and it shines like a sunny day."

NACA lets clients take out loans with monthly payments up to 40% of their gross income for a single-family house, 60% for multifamily houses -- and, in rare cases, can stretch the limits further. Conventional lenders will generally let home buyers use only 28% of their income for housing, 36% for all debts. Because of NACA's loose terms, banks can't generally resell the loans to investors and must instead hold them in their own portfolios.

On a recent weekday at NACA's Boston headquarters, Jean Riguel Ulysse, a loan counselor, asks Elvire Saint-Juste many questions, jumping between Creole and English, about Ms. Saint-Juste's rent and household expenses. NACA provides counseling in Spanish, French, Creole and Portuguese, and plans to add Chinese.

Ms. Saint-Juste, who emigrated from Haiti 12 years ago, is a nursing-home aide who works two jobs and earns $38,000 a year. She has five children, ages seven through 19. Her husband, a taxi driver, still lives in Haiti.

"It looks good, very good," Mr. Ulysse says, typing Ms. Saint-Juste's responses into a computer. After an hour and a half, he approves a loan of up to $228,000 for a three-family house. The interest rate will be 7.88% -- about half a percentage point below the market rate for a no-points, no-closing-cost loan that day. Ms. Saint-Juste's monthly payment on $228,000 is $2,070 -- almost three times her current rent -- but she figures she will add to her income by renting out the two extra units, and is elated at the prospect of owning her first home. "I feel like I'm dreaming," she says.

Supporting the Mission

Once approved, borrowers by agreement are on call for activities "to address financial exploitation and other issues in support of NACA's mission." One such event was a recent rally protesting Fleet's plan to buy BankBoston Corp., which NACA says will lead to sparse lending in low-income areas. NACA called 150 activists to show up at a hearing at the Boston Fed branch.

NACA builds its business by taking a cut-under the Fleet agreement, the bank pays NACA 2.75% of each loan. Fleet also agreed to donate $200,000 to NACA to cover other expenses. In the Bank of America agreement, NACA receives a flat fee of $2,000 per loan.

Revenue also comes from about 15 real-estate buyer-brokers, who work as contractors for NACA and help about 15% of the group's borrowers shop for homes. On a typical purchase, the seller pays a 5% commission, which is then divided among the seller's agent, NACA and the buyer's broker. On a $100,000 loan, NACA collects about $1,000.

NACA homeowners must also pay $50 a month for five years into a Neighborhood Stabilization Fund. Borrowers can tap the fund for up to three months if they fall behind on their mortgages. Until the money is repaid, NACA places a lien on the homes of those dipping into the reserve.

Foreclosure Rates

Some people familiar with low-income housing believe too many of NACA's loan recipients are falling behind on their mortgage payments. John Anderson, a Boston real-estate analyst, has been keeping track of Fleet loans made through NACA in 1994 and 1995 -- the first two years of that program. Mr. Anderson's list, confirmed by a review of real-estate records, shows that Fleet initiated foreclosure proceedings for 17 NACA-brokered Fleet loans in Boston during that period. A study by one local housing group said NACA made 431 loans in those years, mostly through Fleet. So, by Mr. Anderson's reckoning, the foreclosure rate of NACA loans would be at least 4% -- or four times the industry standard. With the economy going gangbusters, there should essentially be none," he says.

Mr. Marks says the 4% figure is wrong and that none of the borrowers in those two years ended up losing their homes. Overall, he says, 99.75% of NACA borrowers are still in their homes. He also notes that many working people have long spent half or more of their monthly income on rent.

But he has steadfastly declined to disclose delinquency rates -- that is, how many NACA borrowers are behind in their loan payments. He refused to provide the information to the Massachusetts Community and Banking Council, a group of bankers and housing advocates, for its study, the one cited by Mr. Anderson. James Campen, a University of Massachusetts economics professor who led the study, says, "We ask banks to be accountable. Bruce should be held accountable, too."

Fleet says NACA's delinquency rates are higher than the 4% to 7% rates of other affordable-housing loan programs, although the bank declines to say how much higher. (Nationwide, the delinquency rate -- the percentage of borrowers who are 30-, 60- or 90-days behind on their payments – is about 4%.) Agnes Bundy Scanlan, the bank's community-development chief, says it hasn't made an additional commitment to NACA because of "safety and soundness" concerns about no-down-payment loans. The original deal "didn't work as well as we thought" it would, she says.

Falling Behind

Renea Swain-Price is one NACA borrower who has felt some financial strain. With her husband in prison and a blemished credit history, she got a $137,500 loan to buy a three-family home in Boston's Dorchester neighborhood in 1995. The $1,400-a-month payment was more than half her monthly salary as a supervisor at the Massachusetts Port Authority.

With her mother living in one unit and a tenant paying $725 a month in the other, she figured she could keep up. But two years after she moved in, she fell months behind on her mortgage payments and her water, light and gas bills. Collection agencies kept calling. The phone company cut off her service. In June 1997, she quit her job, taking a buyout of several months' salary, using it to pay her mortgage and repair bills. Dejected, she says she went on an eating binge and gained 50 pounds.

Earlier this year, when Fleet Mortgage Corp. began foreclosure proceedings against her, Mr. Marks and NACA counselors helped her negotiate with the bank so she wouldn't lose her home. Under a work-out agreement, she will pay Fleet $1,879 a month, over $400 more than she did before, to make up for her missed payments.

"If it wasn't for NACA, I would have thrown in the towel," says Ms. Swain-Price, 38. "They stick with you until the end."