
Working With Homebuyers

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Under contract to NY DHCR/HTFC





Agenda

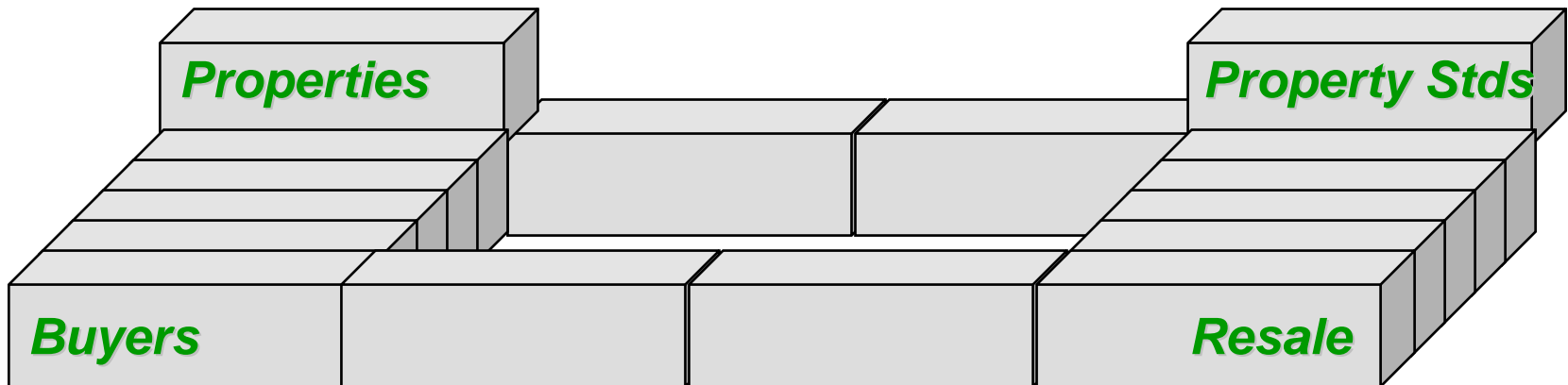
- AM: Understanding the rules & the market
 - DHCR/HTFC requirements
 - Grasping our changing market
 - Understanding lending practices (incl predatory lending)
- PM: Working with buyers
 - The changing face of 1st time buyers
 - Processing buyers & working with lending industry
 - Structuring the buyer subsidy
 - Refinance, resubordination & prepayment

Review of HOME & DHCR Homebuyer Requirements





HOME Statutory Cornerstones





HOMEbuyer Requirements

1. Eligible buyers: less than 80% AMI
2. Eligible properties:
 - Single/family, 2 - 4 unit, coop, condo
 - Value less than FHA 203(b) limit *
 - Lease-purchase: complete w/in 3 yrs.



Homebuyer Requirements 2

3. Property Standards:

- ✓ PJ property standards
 - No health/safety violations at occupancy; all stds w/in 2 yrs
- ✓ LBP if pre-1978 (acquisition or rehab) – January seminar

4. Compliance requirements:

- ✓ Principal residency
- ✓ Resale to low income or recapture \$
 - amortization optional
- ✓ Compliance period: 5 - 15 years
- ✓ No ongoing HQS or income certification



Resale/Recapture Options (92.254)

- Resale to another low income buyer
 - ✓ Affordable to buyer; reasonable return to seller
- Full recapture
- Declining balance recapture
- Shared equity
- Return of equity first



HTFC Homebuyer Asst. Prgms

- Eligible: “assistance to low-income purchasers of 1-4 unit housing, with or without rehabilitation, including housing developed by CHDOs”
 - direct purchase assistance to low-income buyers
 - new construction or rehab of units for purchase
 - CHDO: must be “development” component



HTFC Funding

- Maximum award:
 - LPAs: \$500,000
 - CHDOs: \$600,000
- 2006 per unit:
 - LPAs: generally < \$30,000/unit, with exceptions
 - CHDO: < \$40,000/unit, \$50,000 in high cost areas
 - ✓ Development requirement (e.g., rehab)



DHCR Buyer Subsidy Requirements

- Recapture method
 - Note & Mortgage
 - Declining balance recapture, with shared proceeds if insufficient to pay full amount due
 - Other options require DHCR approval (& maybe HUD)
- (Resale method if only development subsidy)
- Resubordination policy: later

Understanding Today's Market for Homeownership





Major Market Trends

- Rising prices
 - But may have hit market top in June
- “Unaffordability” index
- Rising interest rates
- Possible impact on prices



Rising Prices

- National median price increase in 2004
 - Median home price (US): \$220,000
 - Income needed to afford: \$51,740
 - Average home is 3.1 times average income (record)
- Since 1996, 55% price increase (adj for inflation)
 - \$18.5 T wealth; \$6.5 T from last 8 yrs



Table 1 The Most Expensive And Cheapest Cities

(By ratio of median home price to median income)

| Rank | Metropolitan area | 2004 | 1989-1998 Average |
|------|----------------------------------|------|-------------------|
| 1 | San Diego CA | 9.68 | 5.83 |
| 2 | San Francisco CA | 9.19 | 6.39 |
| 3 | Los Angeles-Long Beach CA | 9.14 | 5.80 |
| 4 | Orange County CA | 9.04 | 5.64 |
| 5 | New York NY | 8.62 | 5.29 |
| 6 | Honolulu HI | 7.78 | 6.81 |
| 7 | Miami FL | 6.84 | 4.06 |
| 8 | West Palm Beach-Boca Raton FL | 6.15 | 3.66 |
| 9 | Boston MA-NH | 6.11 | 4.01 |
| 10 | Providence-Warwick-Pawtucket RI | 6.05 | 3.67 |
| 101 | Dayton-Springfield OH | 2.42 | 2.35 |
| 102 | Akron OH | 2.39 | 2.13 |
| 103 | Little Rock-North Little Rock AR | 2.34 | 2.30 |
| 104 | Peoria-Pekin IL | 2.31 | 1.73 |
| 105 | Rochester NY | 2.22 | 2.25 |
| 106 | Syracuse NY | 2.21 | 2.22 |
| 107 | Buffalo-Niagara Falls NY | 2.19 | 2.20 |
| 108 | Springfield IL | 2.17 | 2.03 |
| 109 | Fort Wayne IN | 2.16 | 1.96 |
| 110 | Wichita KS | 1.98 | 2.02 |

| <i>Most Overvalued</i> | | | |
|------------------------|---------------------------------|--------------------|---|
| Rank | Metropolitan area | Price/Income ratio | Percentage drop required to regain average price/income ratio |
| 1 | Nassau-Suffolk NY | 5.40 | (41.0) |
| 2 | Miami FL | 6.84 | (40.7) |
| 3 | West Palm Beach-Boca Raton FL | 6.15 | (40.5) |
| 4 | San Diego CA | 9.68 | (39.7) |
| 5 | Fort Lauderdale FL | 5.88 | (39.3) |
| 6 | Providence-Warwick-Pawtucket RI | 6.05 | (39.2) |
| 7 | New York NY | 8.62 | (38.6) |
| 8 | Orange County CA | 9.04 | (37.6) |
| 9 | Los Angeles-Long Beach CA | 9.14 | (36.5) |
| 10 | Atlantic-Cape May NJ | 4.04 | (35.1) |

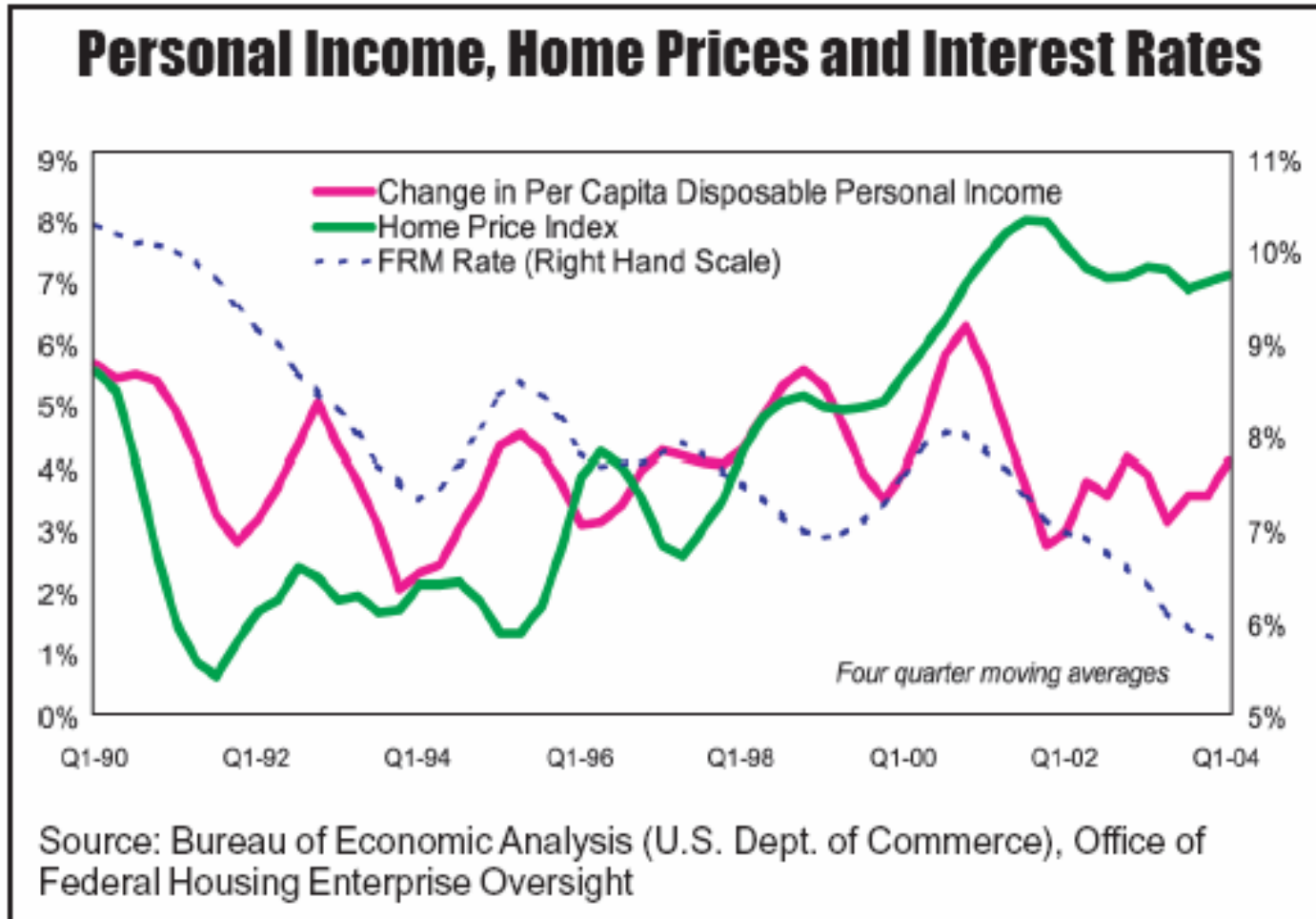
Source: Joint Center for Housing Studies, Harvard University.



The Run-up In Home Prices

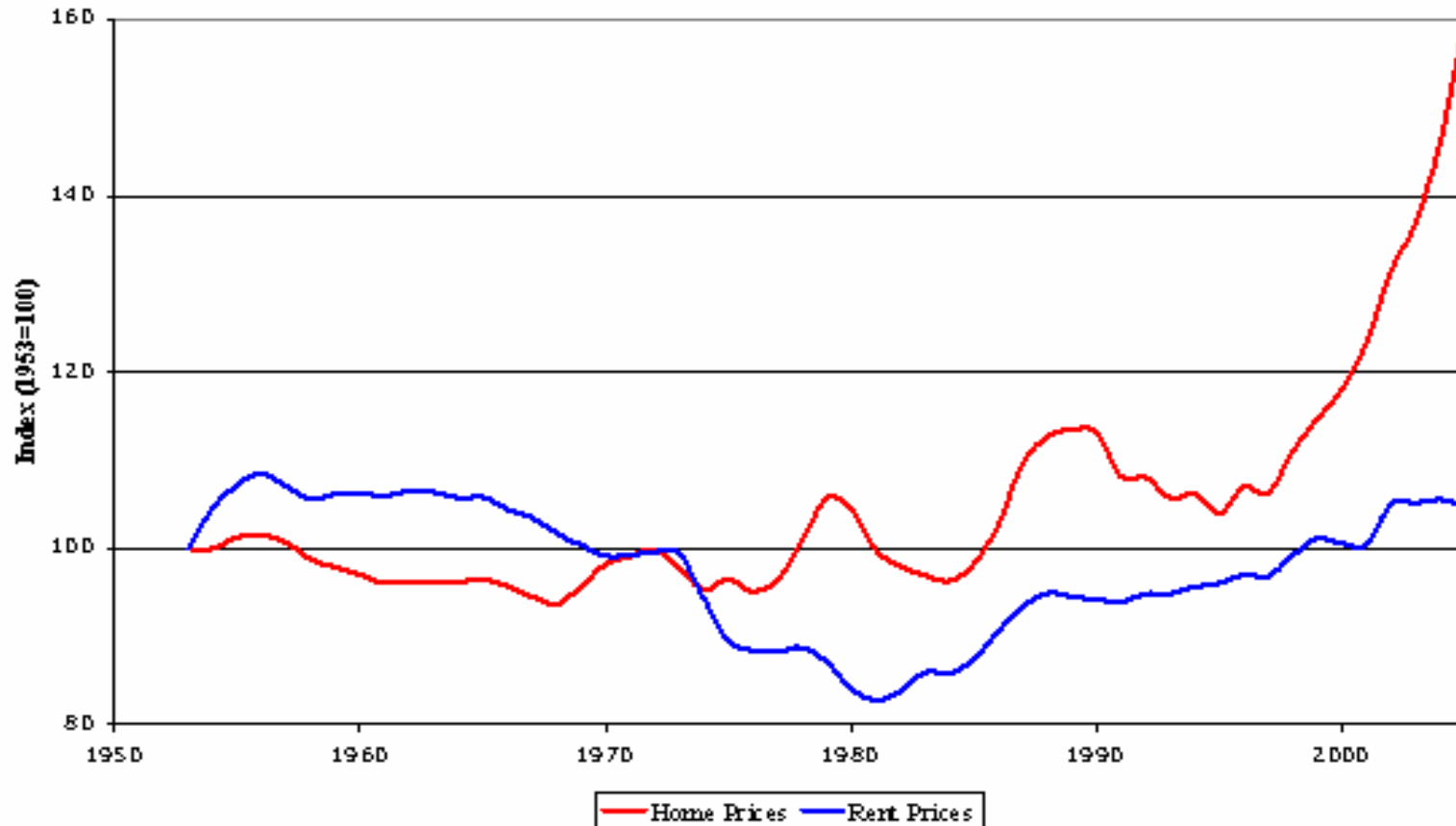
- Run-up not explained by income, pop growth, shortages
 - 2 M units built each yr; < 1.4 M HHs added ea yr
 - If housing shortages, would be reflected in rents going up: no
 - ✓ Ownership price index 51% higher than rent index last 8 yrs
- Fueled by:
 - Demand (1st time buyer push & 2nd home buyers)
 - Low interest rates
 - Relative attractiveness of real estate to other investments
 - ✓ Chicago Merc creating a housing futures market
 - "Expectation" of continued returns

Incomes Don't Explain It



Household Growth Doesn't Either

Real Home and Rent Prices



Source: Center for Economic Policy Research,

NY UNCTAD/IFC Development Seminar



The 2nd Home Phenomenon

- 38% US homes are 2nd homes: 43.8M of 115.9M
- 36% of 2004 home sales were 2nd homes
 - ✓ 23% purchased for investment; 13% vacation (investor side doubled)
 - ✓ Investment mortgages: doubled in the last year (9% up from 4.5%)
- Counties >10% seasonal s/f homes: \$ up 59% in 3 yrs (v 33%)

2nd Homes, cont.



- Blame the Boomers! (asset accumulation yrs)
 - 2nd home buying “cohorts” doubling from 5.8M to 11.4M this decade
 - Age: 47; 2 – 4 hr driving time; 20% post-retirement primary res.
 - 25% affluent HHs: 2nd home purchase in 2-3 yrs
 - Average price willing to pay: \$350,000
- Impact on land and home prices

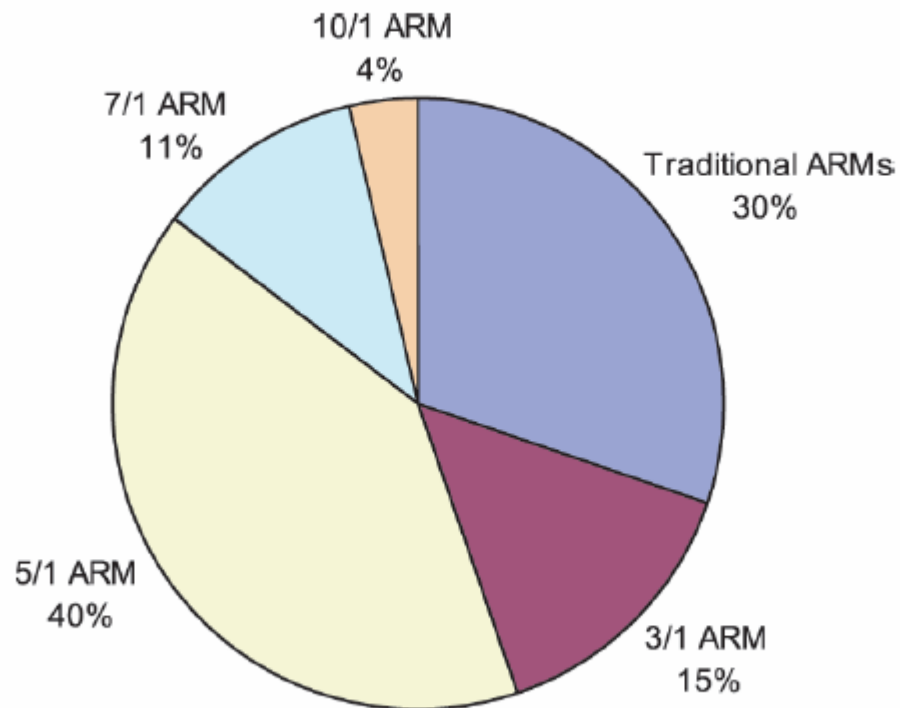


Housing as ATM

- Despite rising property value, consumers accessing equity at record levels:
 - Equity:value ratio near all time low
 - Negative real savings rate: -1.1% of disposable income
- The Refi Boom
 - 2nd Qtr 2005: Refi's were 42% of loan volume
 - 74% of refis were cash out (5%+)
 - \$162 B equity takeout in 2005 (about = home impr)

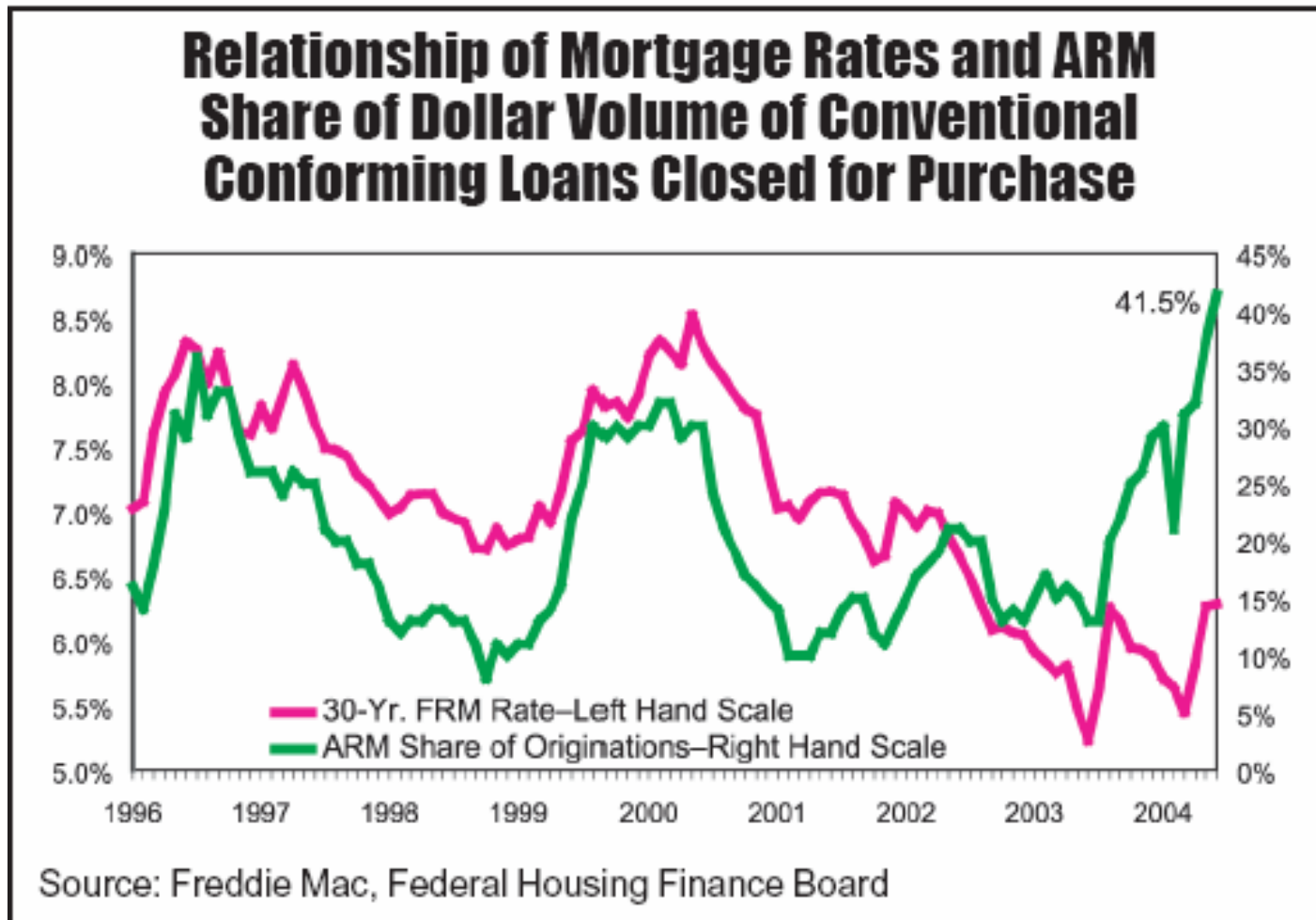
ARMs – 34% 2004 Loans

Percent Distribution of ARMs by Type, First Half 2004



Source: Federal Housing Finance Board Monthly Housing Survey

Lower Rates & Rising ARMs?





Winds of Changing Markets

- Leading markets peaked in July
 - Price stagnation; longer listing times; growing supply
- Homeownership rates have hit plateau
 - 9/05: 68.8% down from 69.2%)
- Interest rates @ 6.3% & continuing to rise
 - Extensive exotic mortgage use
- Mortgage deductions "on the chopping block"
- Natural gas predicted up 48% this winter
- Late stage market dynamics: hot condo market



So What?

- Market impact?
 - bubble burst, slowdown or stagnation?
- Buyer/owner impact?
- Economic impact?

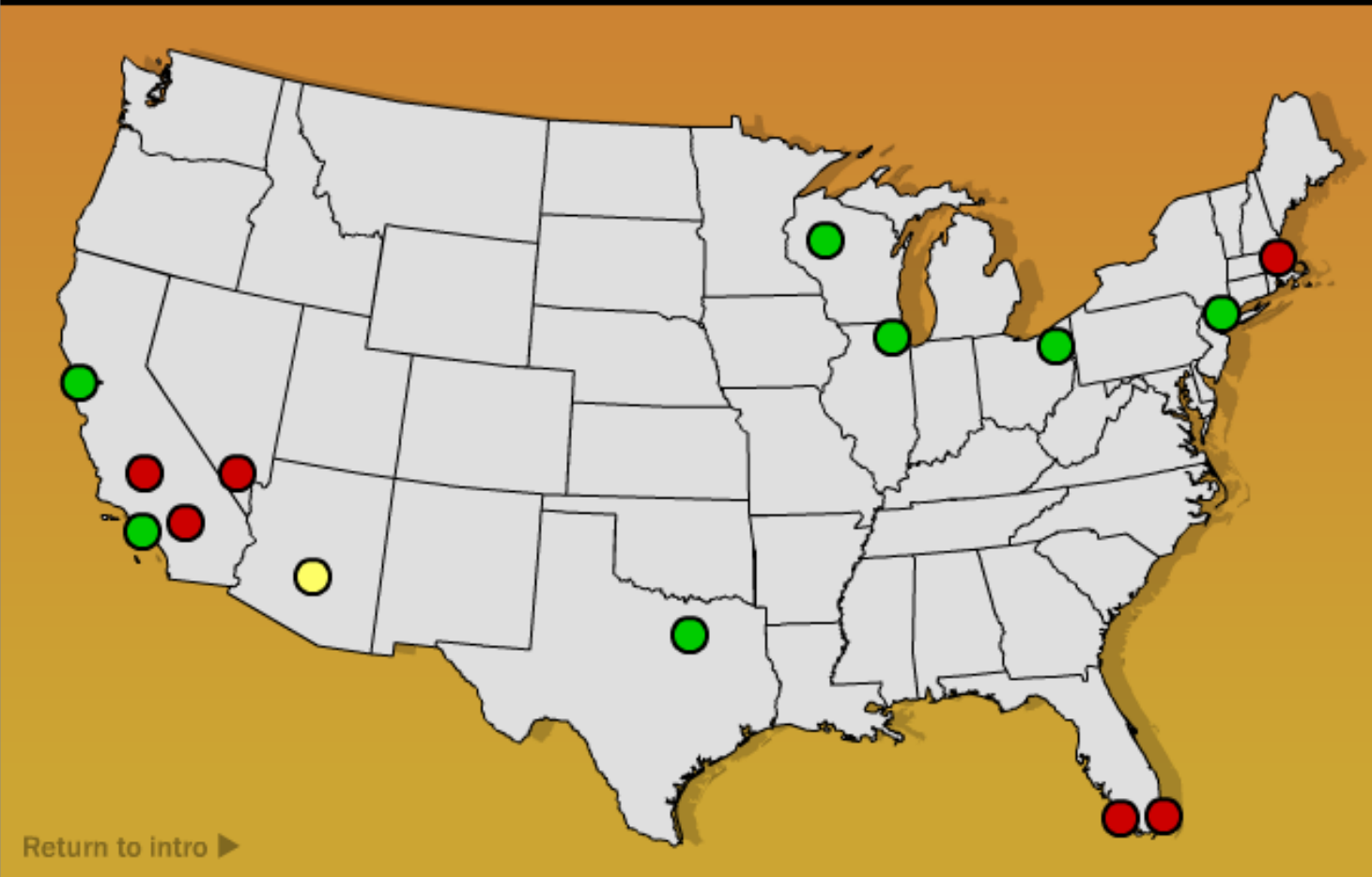


Housing Market Impact

- Bubble conditions: 57 metros w/ 29% of US population
 - Bubble = 15%+ decline in prices
 - Markets w/ greatest appreciation relative to inc/pop growth
- Most markets likely to see pause or decline in prices
 - Increase in mortgage rates since July has reduced ability to pay for median house by \$15,000; reduces the buyer pool
 - Over-leveraged borrowers with ARMs & interest-only = higher risks of defaults/foreclosures

THE USUAL BUBBLE SUSPECTS – AND SOME NEW ONES

MarketWatch

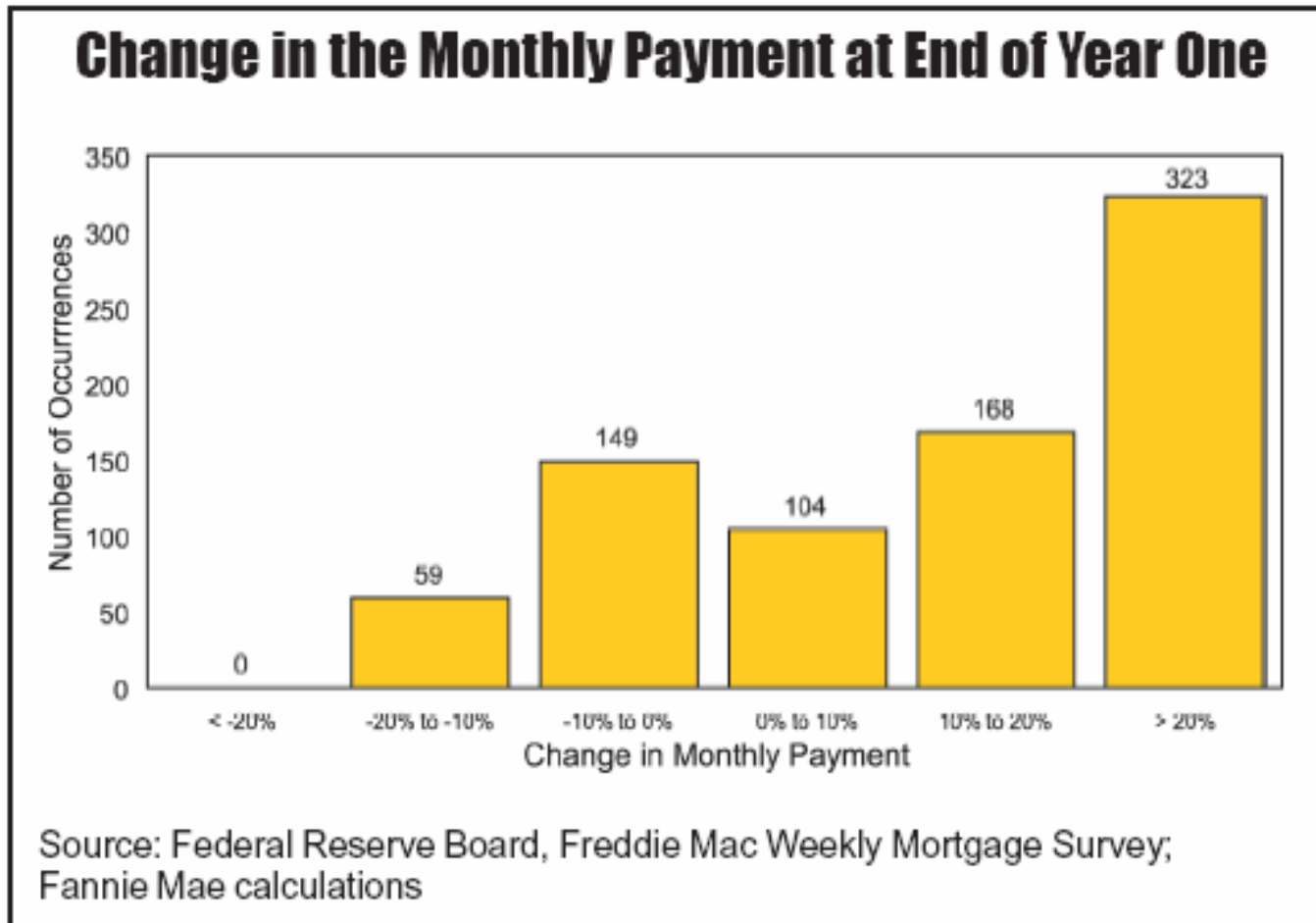




Buyer Impact

- Even if no bubble, over-leveraged “last ones in”
 - 140,000 HHs buy ea week, many at inflated prices
 - ARMs – increasing mortgage costs with rising rates
 - ✓ ARMs – 34% of loans in 2004 (majority hybrids)
 - ✓ Increase since July has added \$50 to mortgage payment per \$100,000 mortgage
 - Interest only: no equity growth; even negative equity

Impact of ARMs





Economic Impact

- We will all feel some economic impact from declining prices
 - Construction is 5% of the economy
 - \$1 housing wealth = 4 - 6 cents of annual consumption
 - If bubble bursts, potential 3.5 – 4.5% GDP drop & 5-6 M jobs lost

Understanding Mortgage Markets & Lending



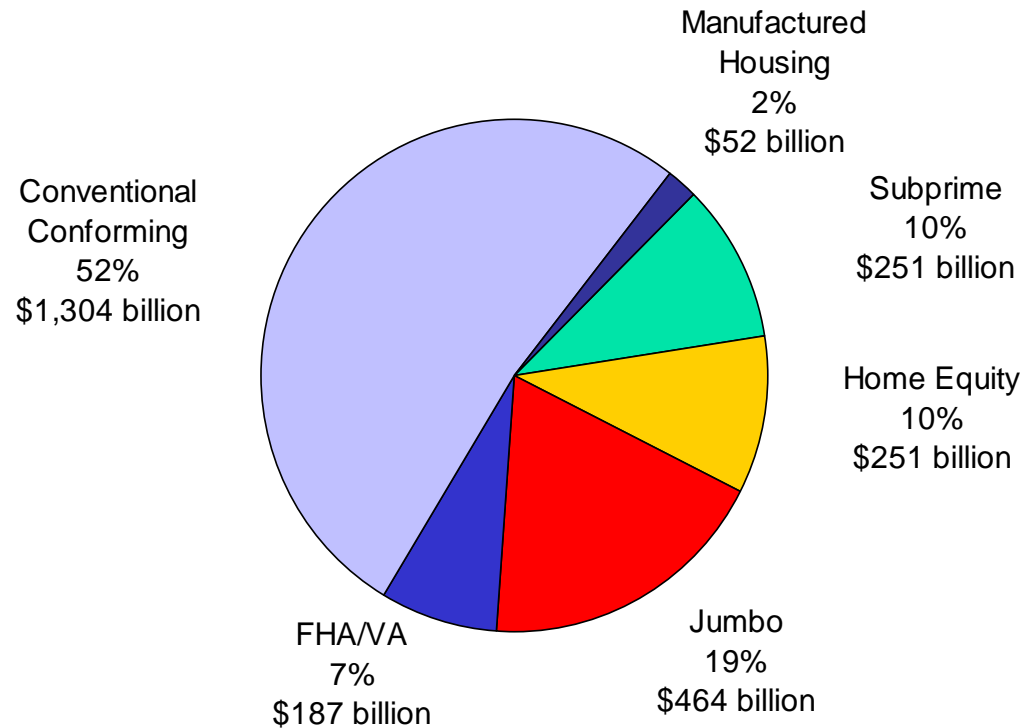


Key Topics

- Credit, automated underwriting, & credit scores
- Subprime market & predatory lending



Single-Family Originations in 2002



Total equals \$2.507 trillion

Source: Freddie Mac analysis and HUD estimates of total originations



Mortgage Markets

- Conventional mortgages: not insured by gov't
 - ✓ Conforming: loans at or below the Freddie Mac and Fannie Mae statutory loan limit of \$359,650, 2-family \$460,400, 3-family \$556,500, 4-family \$691,600
 - ✓ Jumbo: loans above conforming limit
- Government-insured or guaranteed
 - ✓ FHA, VA, FmHA
 - ✓ GNMA: government agency that guarantees securities backed by government-insured mortgages



Conventional Underwriting Metrics

- Capacity: income to obligations
 - ✓ Front-end ratio: housing cost as % of income; typically 28 – 33%; not used by all lenders
 - ✓ Back-end ratio: housing cost + other debt as % of income; varies 33% - 48%; more important constraint
- Cash: for downpayment & closing costs
- Collateral: LTV ratio
 - ✓ Mortgage insurance if LTV > 80%
- Credit history: likelihood of repayment
 - ✓ Credit scores



Credit: The Major Issue

- Poor credit is the leading factor in the rejection of mortgage applications
- Affects all income and racial groups BUT
- Minority borrowers are more likely than white borrowers to experience credit problems

Automated v. Manual Underwriting



- Automated dominates conventional lending: efficient processing of standard borrowers
- Automated “rejects” can still be manually underwritten
 - ✓ Also for non-traditional credit
- Automated lending has improved; claims superior results to manual underwriting

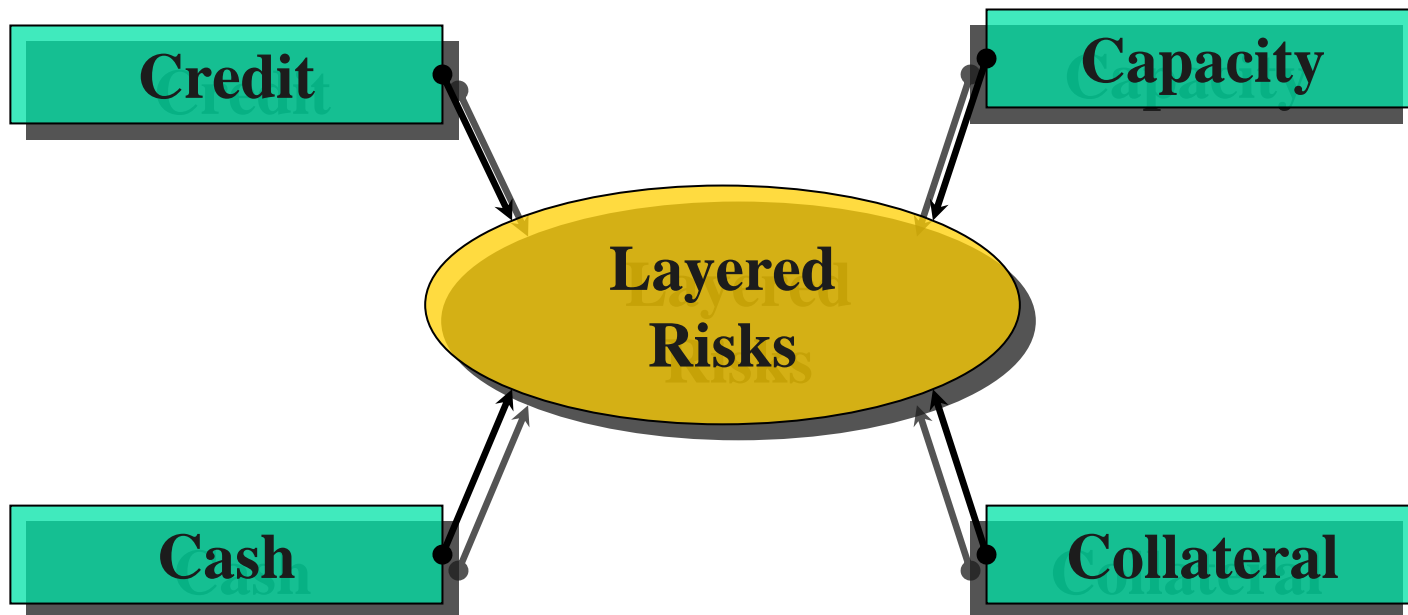


Automated v. Manual, cont.

- Freddie Mac study of automated underwriting (1995-00)
 - Accurate:
 - ✓ Automated "yes": 1/5 the national average default rate
 - ✓ Automated "no": 4 time the default rate
 - Better predictor than manual underwriting:
 - ✓ Automated "yes"; manual "no": 1/5 the default rate
 - ✓ Automated "no", manual "yes": 1.75 times the default rate
 - Automated approves more affordable loans than manual:
 - ✓ 36% higher approval among low-income applicants
 - ✓ 29% higher approval among minority applicants

Layering of Risks

- Understanding the “layering of risks” is key to making a quality decision





Credit Scores

- Statistical way of predicting the likelihood a borrower will repay a loan
 - Only one of several pieces of information lenders use
- Most common are FICO scores
 - Equifax BEACON
 - Trans Union EMPIRICA
 - Experian/Fair Isaac Risk Model
- myFICO.com website provides consumer information
 - Information on credit scores
 - Ability to obtain credit scores with credit report



Categories Evaluated

- Experian credit score based on (in order of importance):
 - Payment history (timeliness, delinquencies, bankruptcies)
 - Amount of outstanding debt
 - Length of credit history
 - New application for credit (inquiries)
 - Types of credit in use

Payment History



- **What is applicant's track record?**
 - Approximately 35% of score
 - Payment information on many types of accounts
 - ✓ Credit cards, retail accounts, installment loans, finance company accounts and mortgage loans
 - ✓ Late payments not an automatic "score-killer"
 - Public records & collections: bankruptcy, judgments, suits, liens, wage attachments and collections
 - ✓ Very important: more recent events have more impact

Amount of Credit



■ How much is too much?

- Approximately 30% of score
- Owning money not necessarily a high risk
 - ✓ But size & number of accounts may indicate overextended & more likely to make payments late
- Having a small balance and paying on time may be better than having no balance
- Closing unused credit accounts with no balance & in good standing will not necessarily improve score

Length of Credit History



■ How established is credit?

- Approximately 15% of score
- Generally, a longer credit history will increase score
- However, people with shorter credit history will get high scores if other factors look good

New Credit



- **Is applicant taking on more debt?**
 - Approximately 10% of score
 - People have more credit
 - ✓ shop for credit frequently & more unsolicited offers
 - Opening several accounts in short period represents high risk (esp. if no long-established credit history)
 - Doesn't count customer or marketing requests
 - Treats rate shopping inquiries as one

Types of Credit in Use



- **Is it a healthy mix of credit?**
 - Approximately 10% of score
 - Considers mix of credit cards, retail accounts, installment loans, finance accounts & mortgages
 - Not necessary to have one of each
 - How many is too many? Varies based on overall credit profile
 - Bottom line: don't open accounts you won't use



Interpreting Credit Scores

- FICO scores range 300-900, but really 400-850
 - Quintiles: <620, 620-690, 690-745, 745-780, 780-850
- Lending rule of thumb:
 - ✓ Over 660 is an acceptable credit risk
 - ✓ From 620 to 660 is a marginal credit risk
 - ✓ Below 620 is a high credit risk



Improving Credit Scores

- Reason codes are delivered with scores
- Advice:
 - Make sure the information in credit reports is correct
 - Don't try to quickly maneuver credit scores; it won't help to:
 - ✓ Suddenly close several or all credit card accounts OR
 - ✓ Spread a large balance from one card across multiple cards
 - Pay bills on time
 - Keep credit card balances below maximum limits
 - Apply for & open new credit accounts only as needed
 - Rate shop within a focused period of time



Non-Traditional Credit

- Low-income & minority households may not have enough traditional credit; can't establish credit score
- Non-traditional references include
 - Rent history
 - Utilities
 - Insurance
 - Personal property taxes
- Some lending programs permit non-traditional if:
 - Four tradelines and/or non-credit references
 - Non-credit reference must have existed for at least 12 mos.

Subprime Markets & Predatory Lending





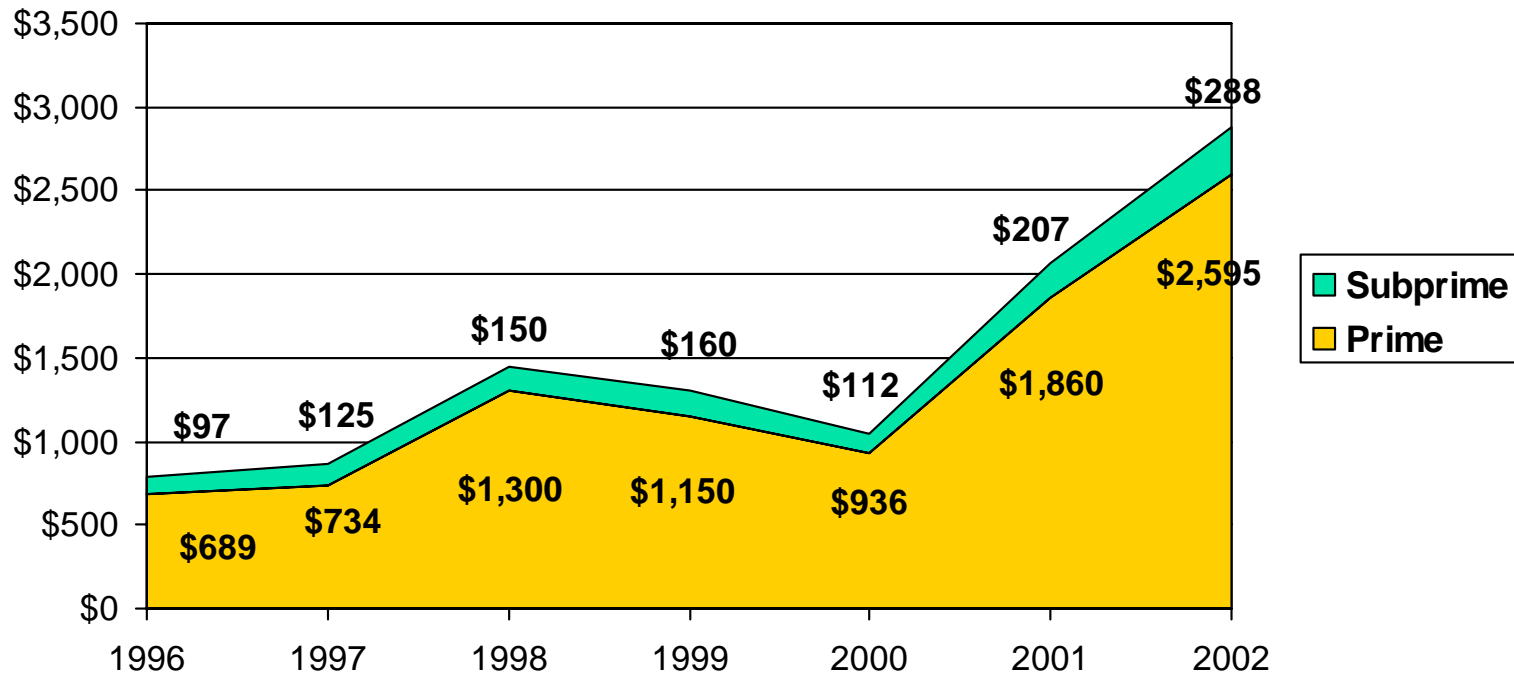
Prime v. Subprime Lending

- Prime lending market
 - Borrowers with good credit
 - Stable, regulated market (standardized terms)
- Sub-prime lending market: 10+% of loans
 - Borrowers with blemished credit
 - Higher cost & less favorable terms
 - Historical focus: refinances (80%) & 2nd mortgages
 - ✓ 45% debt consol; 30% other costs; 25% home impr.



Prime vs. Subprime Originations

1996-2002 Mortgage Market Segments
(in \$billions)





Why Be Concerned?

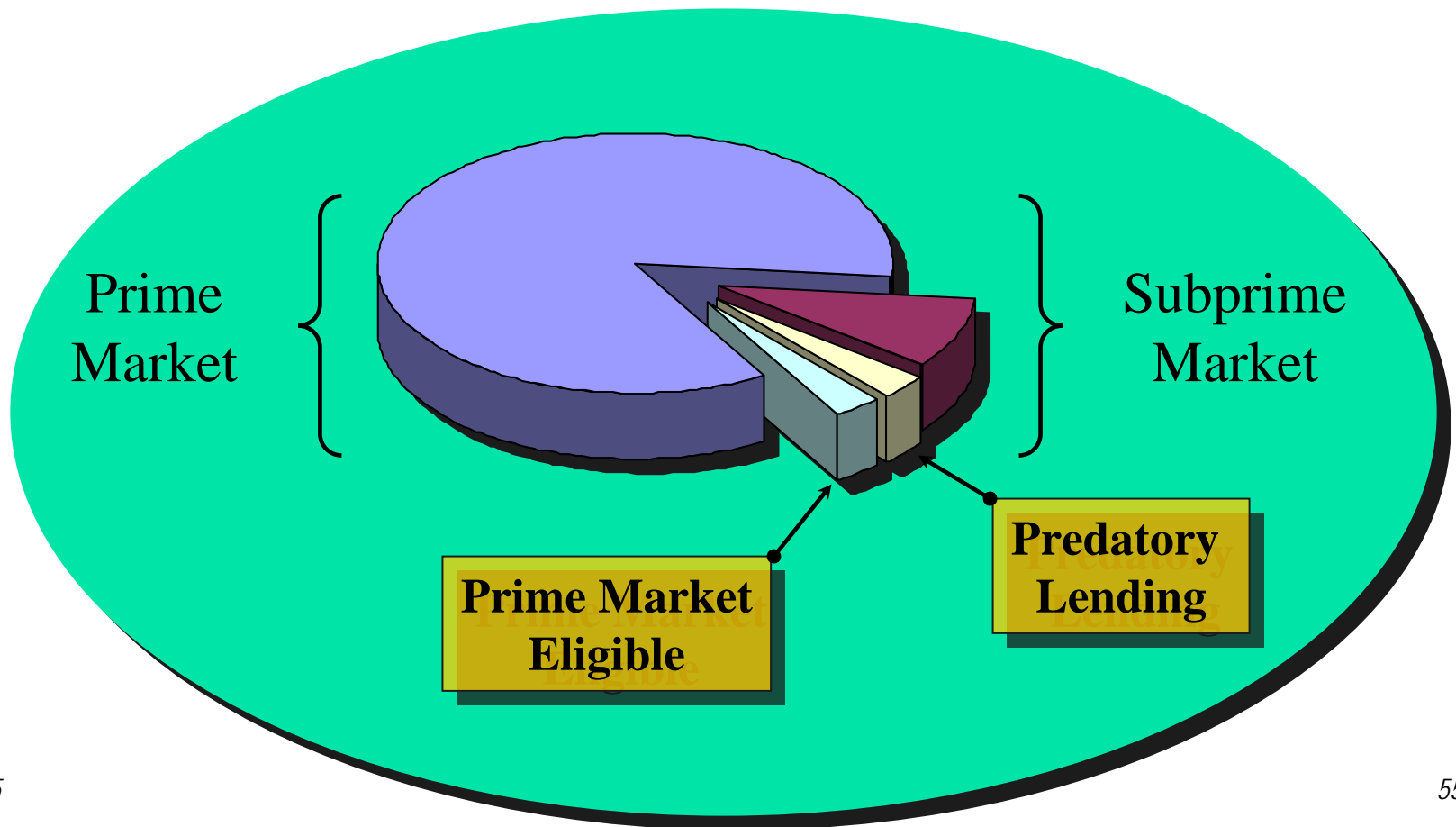
- Subprime market is necessary
 - ✓ Benefits borrowers without access to prime market
 - ✓ Many reputable lenders have subprime lending units
- But largely unregulated & non-standardized
 - ✓ Borrowers may end up paying more than necessary (given risk factors)
 - ✓ Borrowers can get “tracked” into subprime market by location, income & race
 - ✓ Predatory lending primarily a problem of the sub-prime market – more on that later



Subprime Borrowers: Minorities & LI

- Subprime lending more likely in low-income and minority areas
- HUD study of subprime lending: subprime loan (v. prime loan):
 - ✓ 3 times more likely in low-income area
 - ✓ 5 times more likely in Black area
 - ✓ 2 times more likely for upper-income Blacks than upper-income whites

Prime & Subprime Lending Markets





What is Predatory Lending?

- Intentional, systematic selling of over-priced loans without full information to borrowers
 - High interest rates (HOEPA = 8/10 points over T-bill)
 - ✓ Yield spread premiums
 - High fees (HOEPA = 8 points, including opt. debt protection)
 - Traps—terms that force refinance or foreclosure
 - Linking of unnecessary products/fees to loan
 - ✓ Single premium credit life insurance
 - High pressure sales tactics and obscured information
- No good estimates of the size of problem



Predatory Practices

- Targeting of vulnerable populations
 - Limited borrowing experience and access
 - Central city, minority, low-income and elderly populations
- Obscured information provided to borrowers
 - Lack of knowledge about
 - ✓ Choices and competing lenders
 - ✓ Consumer rights of disclosure
 - ✓ Freedom to reject and/or cancel the loan
 - ✓ Pre-closing disclosures of rates and costs



Predatory Lending Traps

- "Flipping" (unnecessary refinancing)
- Prepayment penalties
 - ✓ 70% of subprime loans have penalty
- Refinance traps
 - ✓ Balloons = 10% of subprime loans
- Negative amortization or high LTVs
- Single premium credit life insurance
- Yield spread premiums
- Not reporting payments to credit bureaus



Regulatory Response

- Truth in Lending (TIL) Act and RESPA
 - Basic lending disclosure and rights to cancel
- Home Ownership and Equity Protection Act (HOEPA)
 - <http://www.ftc.gov/bcp/online/pubs/homes/32mortgs.htm>
 - Affects refinance and home equity installments
 - ✓ Not purchase money, reverse mortgages or home equity letters of credit
 - Fed Reserve (12/01) lowered rate/fee thresholds of 1st mortgages
 - Statutory amendments under consideration



What Can You Do?

- Educate homebuyers and homeowners
 - ✓ Public awareness campaigns
 - ✓ Counseling
- Monitor business practices of lenders
 - ✓ Seek prime and legitimate subprime lenders
- Report loan performance to credit bureaus
- Don't subordinate or re-subordinate to
 - ✓ High rate, high fee loans
 - ✓ Loans with single-premium credit insurance

The Changing Face of the 1st Time Buyer

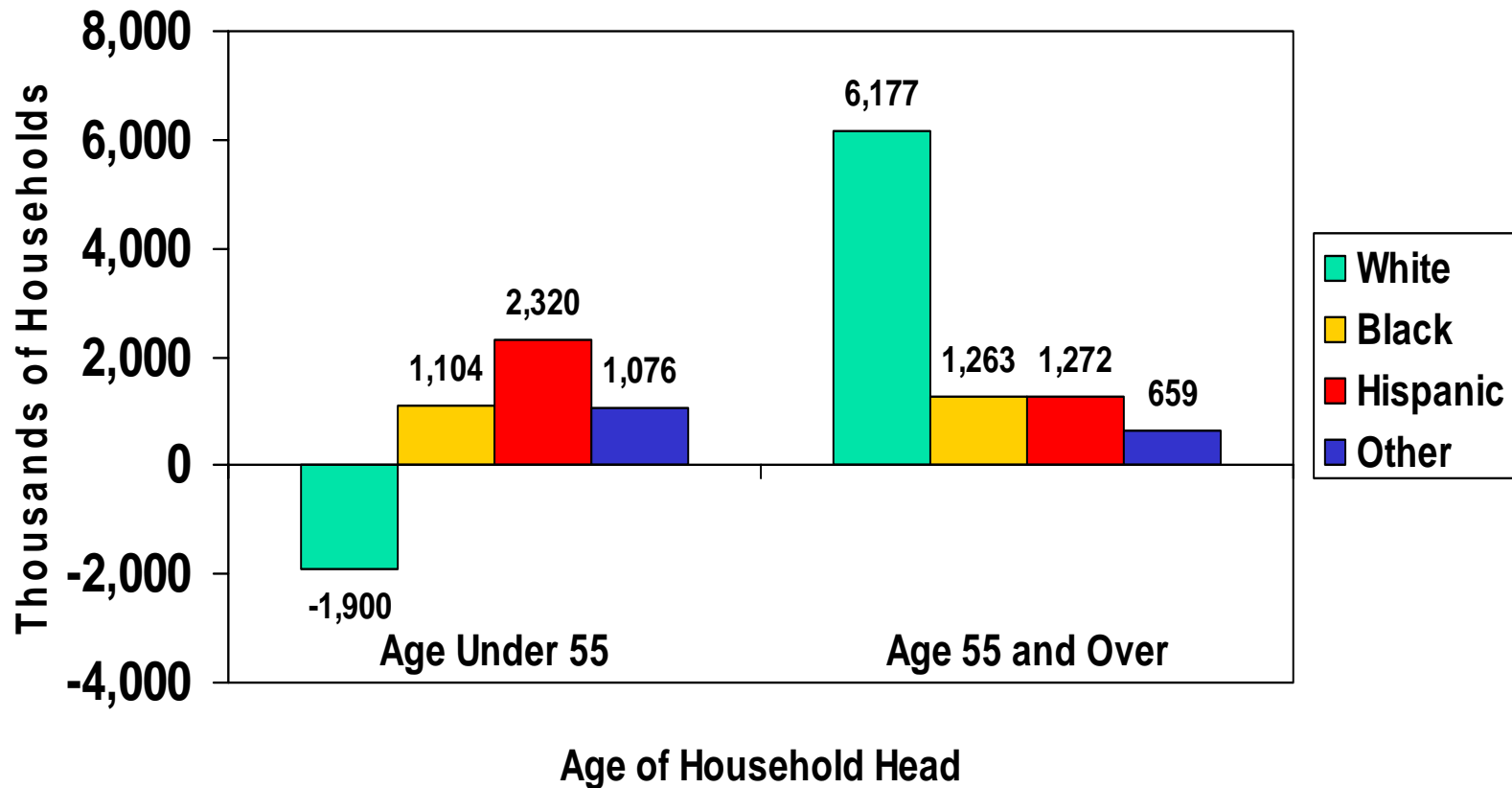




Major Demographic Trends

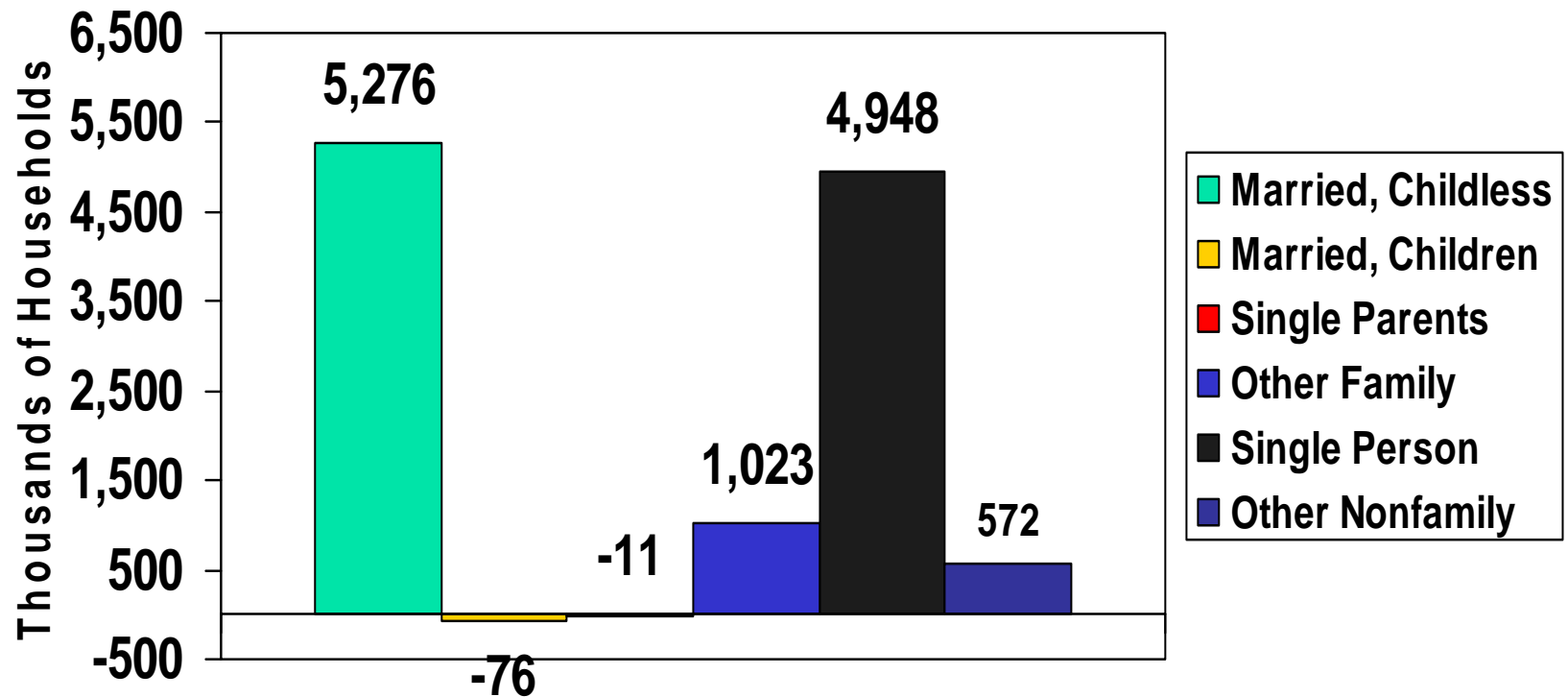
- Rising homeownership rates
 - But plateau due to rising prices (9/05: 68.8% down from 69.2%)
 - Minority ownership rising at faster pace but still lags
- Expected demographic trends:
 - Aging population
 - Childless households
 - Minority/immigrant HH growth/formation dominates
- Bottom line: changing face of the 1st time buyer

Growth in Over 55 HHs (2000-2010)



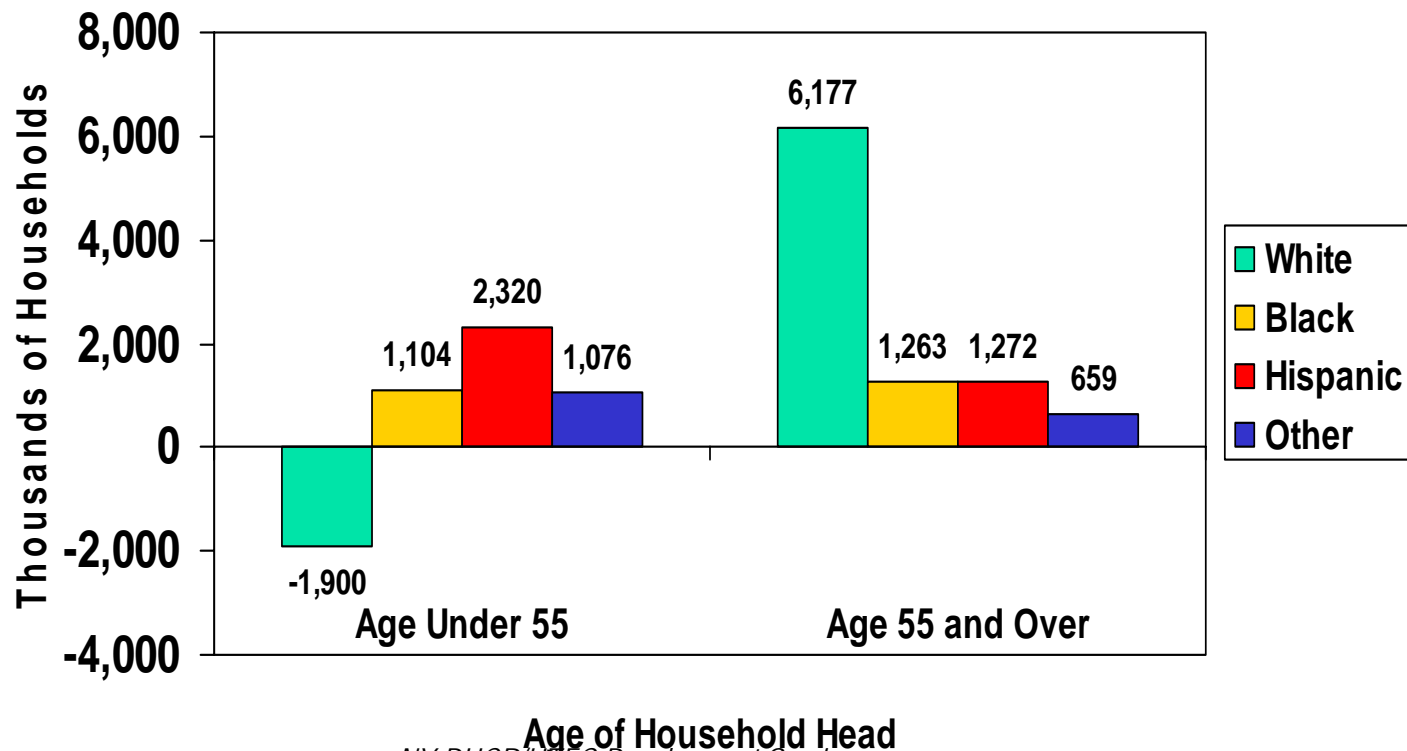
Childless Households Dominate

Changes in Households (2000 to 2010)



Household Growth: Ethnic Groups

- Minorities will account for 65% of net household growth (2000 – 2010)





Immigration: Major Growth Source

- 11% of U.S. population is foreign-born
- 44% of foreign-born have entered U.S. since 1990
- 27% of total household growth in next decade will result from immigration
 - Maybe larger because of difficulty in counting illegal immigrants
 - Immigration will be concentrated in Gateway Regions
- Hispanic household growth will be largest contributor
 - 51% of foreign-born are from Latin America



Changing Face of 1st Time Buyers

- The 1st time buyer is changing
- Minority & immigrant households will be the predominant 1st time buyer
 - ✓ Largest portion of growth
 - ✓ Larger portion of younger households (homebuyers)
 - ✓ Lower ownership rate (disproportionately large portion of non-owners)

Barriers to Minority Homeownership



- Minorities face numerous barriers to homeownership
 - Lack of understanding of the home buying process
 - Language and cultural barriers
 - Lack of banking relationships & credit history
 - Nontraditional or blemished credit
 - Difficulty accumulating funds for down payment
 - Shortage of affordable housing
- The problems are systemic and require a comprehensive response

Systemic Approach Required

- Address barriers throughout the entire homeownership continuum
 - Education
 - Opportunities
 - Products
 - Counseling/closing assist
 - Post-purchase support

Freddie Mac's Catch the Dream





What going on in your market?

- Prices & affordability
- Mortgage product trends
- 2nd home trends
- Growing, stable, shrinking population?
- Aging?
- Immigration?
- Minority homeownership?
- Other demographic shifts?

Processing Applicants & Buyers





Processing Buyers: Pipeline

- Marketing & Advertising
- Intake
- Loan pre-qualification
- Pre-purchase counseling
- Purchase contract, earnest deposit, down payment
- The final walk-through
- Pre-close counseling: document review
- Loan closing



Counseling/Training

- Reduced 90-day delinquency rate by 19%:
 - ✓ 39% if by nonprofits; 26% lenders; 12% gov't
 - ✓ 21% self-study; 26% classroom; 34% one-on-one
- Counseling agencies/programs:
 - HUD-approved counseling agencies:
 - ✓ <http://www.hud.gov/offices/hsg/sfh/hcc/states/newyork.txt>
 - New York Mortgage Coalition (metro area)
 - ✓ <http://www.anhd.org/programs/programs.html>
 - Upstate: <http://www.nysar.com/files/affordable.html>



Types of Counseling/Training

- Information needed at several stages:
 - Pre-screening education (credit awareness, debt counseling & repair)
 - Home search/home buyer training
 - ✓ Search process, mortgage shopping, closing
 - Post-purchase counseling
 - ✓ Home maintenance, budgeting, credit, pred lending
 - Foreclosure prevention/intervention



Moving Buyers into Borrowing

1. Prepare buyers:
 - Debt counseling & debt reduction
 - Stress **back-end** ratios
 - Help buyers document alternative & foreign credit
2. “Optimize” (v. maximize) the 1st mortgage
 - Fixed v. ARMs; debt ratios; cash after closing
3. Investigate alternative products & terms
 - Portfolio loans & CRA; GSE alt. products: A- & affordable loans
4. Steer buyers away from predatory lenders



Loan Closing

- Truth-in-lending statement
- HUD-1 (Settlement Statement)
 - ✓ down payment and closing costs
 - ✓ pre-payments and impounds for property taxes, insurance and other assessments
- Subordinate/subsidy loan documents
 - ✓ Make sure they know in advance what they are signing
- LBP disclosures if pre-78



Working w/ Buyers: Post-Closing

- Post-purchase counseling
 - ✓ Household budgeting & credit management
 - ✓ Maintenance
 - ✓ Predatory lending & avoiding foreclosure
- Inducement to participate in post-purchase
- Supporting maintenance & repairs
 - ✓ Tool lending, emergency repair funds, owner assns.
- Loan servicing & delinquencies
- Foreclosure intervention

Structuring the Buyer Subsidy





Subsidy Issues

- Amount of gap
- Source of gap money & related rules
- Relationship to primary lender
- Resale/recapture
- Protection against loss in foreclosure



Amount of the Gap

- Local limits: variable v. fixed assistance
 - ✓ Fairness of “subsidizing” other debts
- The basis: dev cost or fair market value (FMV)
 - FMV is HOME policy under recapture method
 - “Excess” public \$ = “development subsidies” not mortgaged to buyer OR basis for equity sharing
- “Gap” = FMV – buyer funds (mortgage + DP)
- Supplemental assistance: DPA + CCA



Optimizing the 1st Mortgage

- “Gap” determined by size of 1st
 - Back-end ratio: 1st affected by amount of other debt
- Setting minimum PITI – so you don’t pay indirectly for consumer debt and mismanagement
- Setting maximum PITI – may want conservative end of range



Source of the Buyer Subsidy

- HOME/ADDI the most likely source
- Consider impacts of regs:
 - ✓ Income or 1st time buyer requirements
 - ✓ Property type or value limits
 - ✓ Property standards
 - ✓ Compliance periods; recapture



Assume The (2nd) Position

- Public loans subordinate to 1st mortgage
 - ✓ Enforcement subject to approval of 1st mortgagee
 - ✓ Use restrictions may terminate upon foreclosure/DILOF
- May be other limits on 2nd mortgage:
 - ✓ TLTV limits (E.g., Freddie Mac 105% or 120% for certain purchase-rehab)
 - ✓ Balloons



Closing Reconciliation of Public \$

- Reconciliation of dev advances at closing:
 - ✓ Buyer subsidy: $FMV - \text{buyer DP} + 1^{\text{st}} \text{Mort.}$
 - ✓ Payment of closing costs & developer fee
 - ✓ Partial/full repayment of Public Dev Advances
 - ✓ Write-off as development subsidy (excess dev costs)
 - ✓ CHDO Proceeds
- Sometimes additional subsidies for buyer @ closing
 - ✓ Closing costs
- Worksheet

Refinancing, Resubordination, Prepayment





The HOME as ATM

- Owners expect to be able to refinance
 - Your borrowers expect to be able to do the same
 - Refi's were 42% of last qtr loan volume; 74% involved cash out
- But equity takeout increases risks of foreclosure and can jeopardize collateral of subsidy mortgages



DHCR/HTFC Policy

- Notice 03-02 (9/23/03)
- Policy:
 - No equity takeout; only pay off 1st (and HOME if...)
 - Must lower costs to owner & owner must be current on all obligations (e.g., taxes)
 - Requires DHCR approval



Would You Resubordinate to...?

- Better loan terms w/ no equity takeout
- Equity takeout for:
 - Home improvements
 - Family employment or medical emergency/hardship
 - Education
 - Debt consolidation
 - Other use
- LTV limit?



Prepayment

- What if they want to pay off the loan? Do you allow prepayment?
- Prepayment restrictions:
 - Prohibitions against prepayment
 - Time periods
 - Prepayment counseling
 - Interest due?



Final Thoughts

1. Understand the changing local conditions
2. Understand trends in mortgage credit (e.g., credit scores)
3. Understand the changing face of first-time buyers
4. Focus on credit as primary barrier to homeownership
5. Provide homebuyer education and counseling
6. Manage the pipeline – for winners & losers
7. Try to move borrowers toward the prime market
8. Use post-purchase counseling & predatory lending watch
9. Implement resubordination/prepayment policies
10. It's a tough market. Let's be careful out there!



Wrap Up

- Final questions
- Please complete the evaluation
- For clarifications: MLFranke@aol.com
- Future seminars:
 - January: LBP Refresher

Safe travels. See you at the next seminar!



Nat. City Hsg Value Assessment

- Actual v. "model" prices
 - Model explained by density, interest rate, income, price:income constant for market
- 30% over model = overvalued
- 56 of 299 metros overvalued (32% of pop)

| | |
|------------------|--------|
| • Albany | 11.71% |
| • Binghamton | -3.70% |
| • Buffalo | -5.96% |
| • Kingston | 36.83% |
| • Nassau/Suffolk | 43.98% |
| • New York | 26.83% |
| • Poughkeepsie | 37.95% |
| • Rochester | -9.89% |
| • Syracuse | -4.19% |
| • Utica | -3.42% |