

# Energy Mortgages for the Emerging Market

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**Mark Vanderlinden**

Director - Community Lending

Fannie Mae

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# Who Is Fannie Mae?

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Largest supplier of funds to  
conventional mortgage lenders

Private company with  
a public mission

2003, provided over \$1.3 trillion  
in financing for 10 million families



# Building for the Emerging Market

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- Growing markets are increasingly comprised of minority and immigrant buyers
- More buyers are marginally qualified in credit and cash
- Mismatch of supply and demand
- How EEM's and other community lending programs can help



# Value to Low-Income Families

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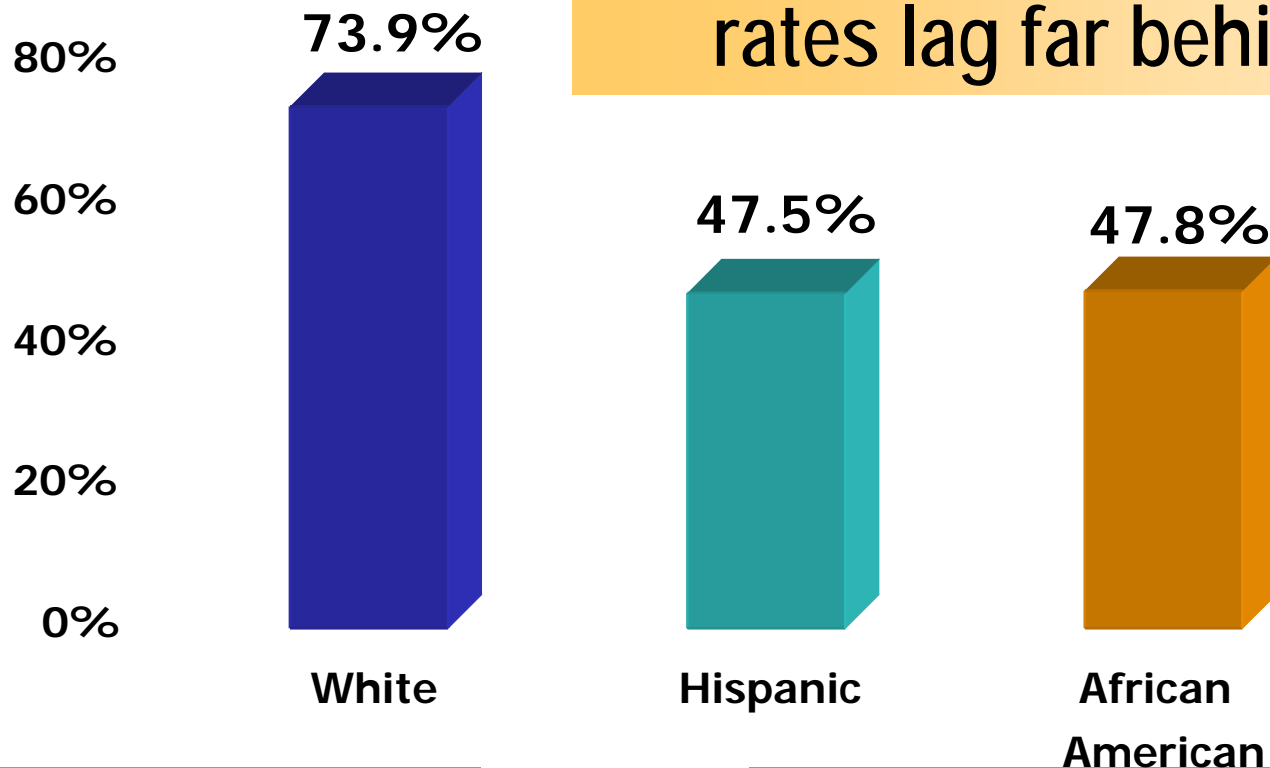
- Rapidly rising energy costs causing true hardship for low-income families
  - In FY 1999, low-income consumer spent 14% annual income for energy bills
  - In FY 2000, grew to 19%
- 2001 additional 1.1 million households applied for heating & cooling financial assistance
- 2001 4.3 million households in 19 states in arrears on their utility bills and faced possible shut off.



# Sizing the Opportunity

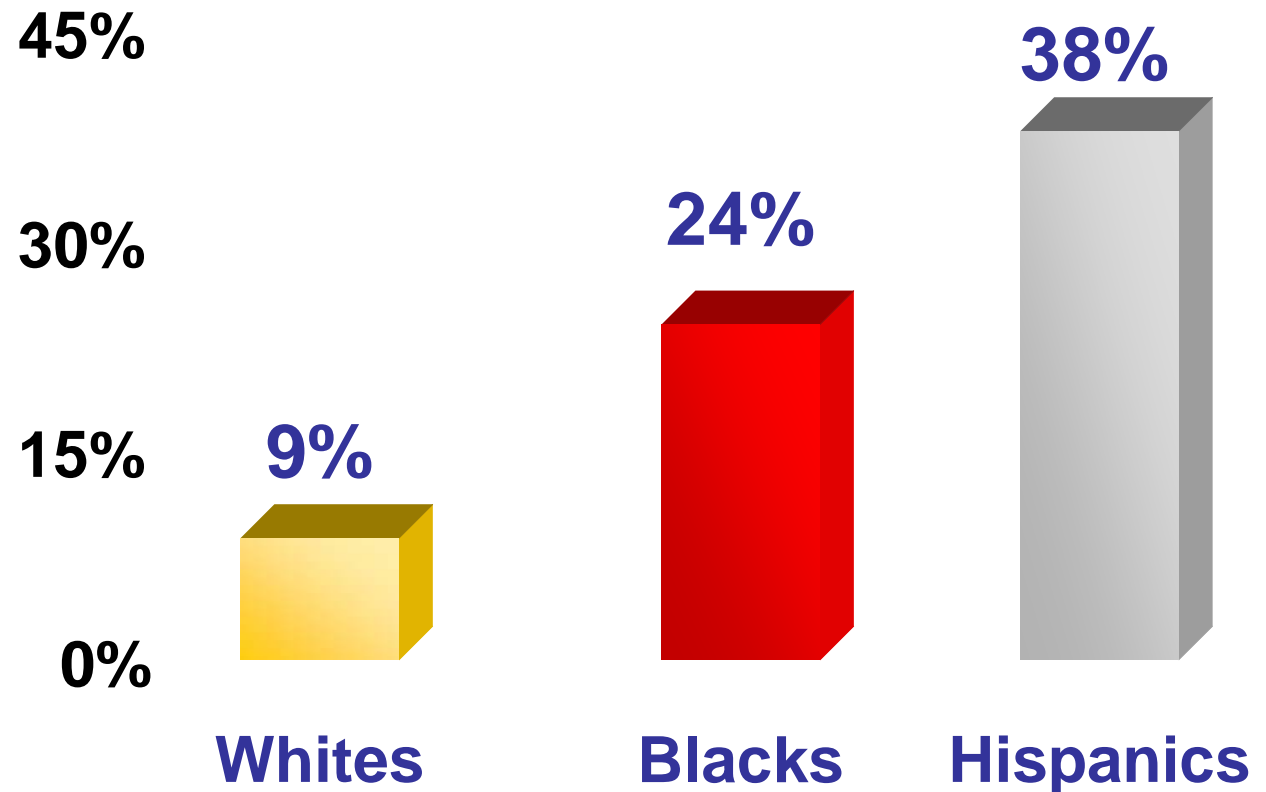
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inority home-ownership  
rates lag far behind!



# Minorities have led the boom

Percent Change in Homeowner Households:  
1994-2000



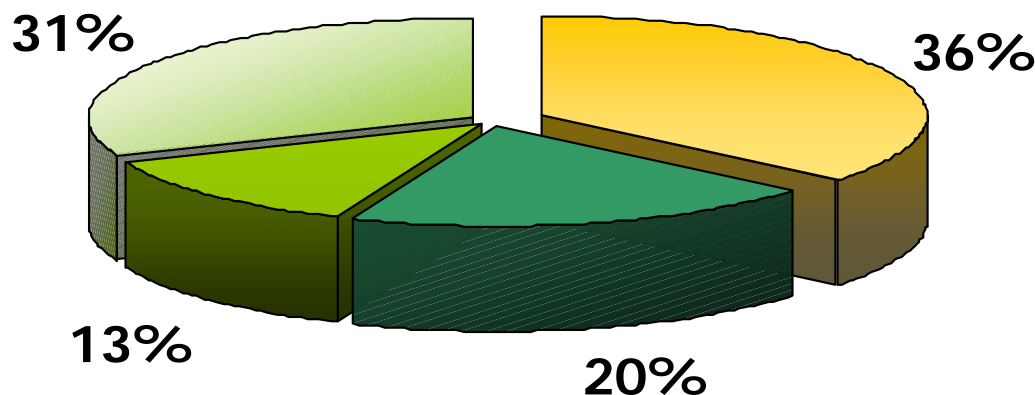
Source: U.S. Census Bureau, Current Population Survey

# Sizing the Opportunity

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inorities will account for nearly  $\frac{2}{3}$  of growth in number of households over the next decade &  $\frac{1}{3}$  of population by 2010

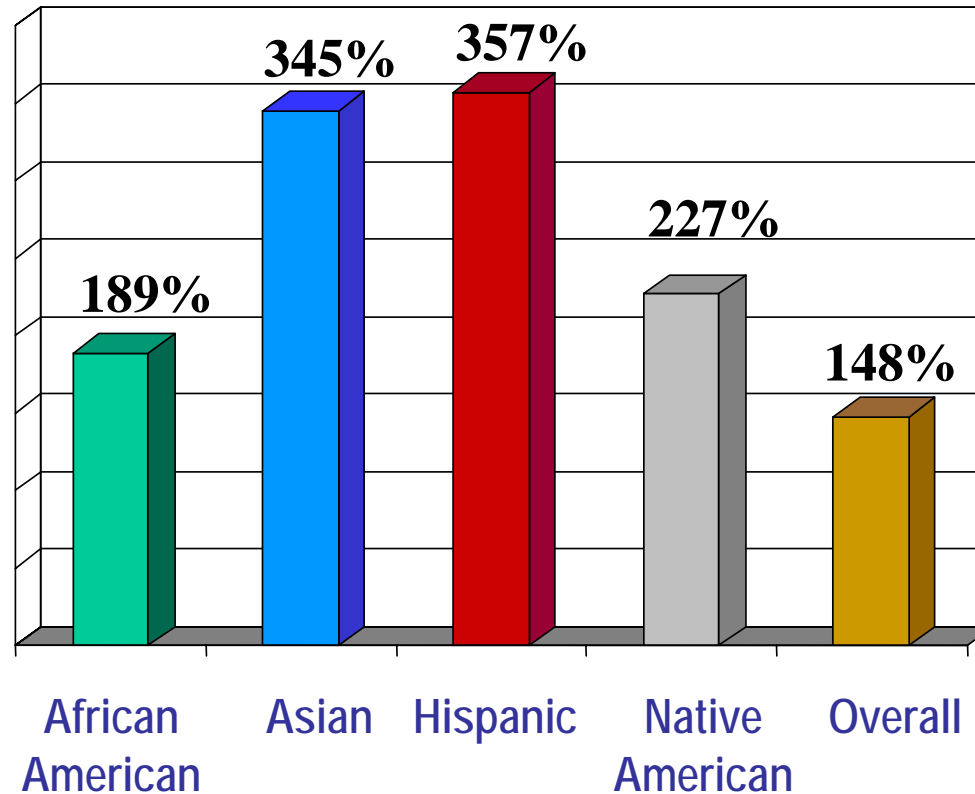
Projected Share of Net Increase in Households (2000-2010)



White African American Asian/Other Hispanic

Source: Joint Center Tabulations of the Current Population

# Increase in Minority Purchasing Power (1990 – 2008, est.) \*



\* Source: Selig Center, University of Georgia

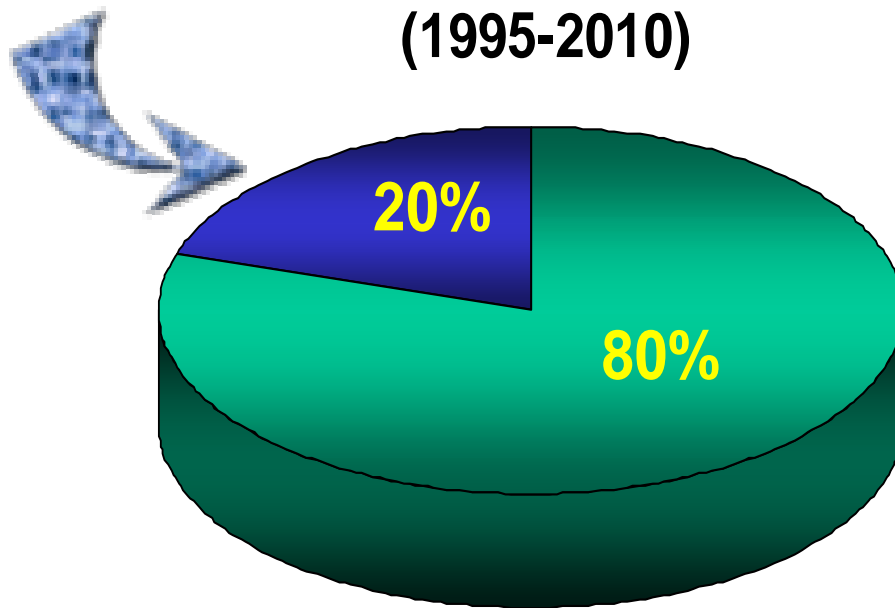




# Sizing the Opportunity



**Share of Total Household Growth  
(1995-2010)**



■ All Others

■ Immigrants

Source: Fannie Mae Foundation, 1996

# N

ew Americans

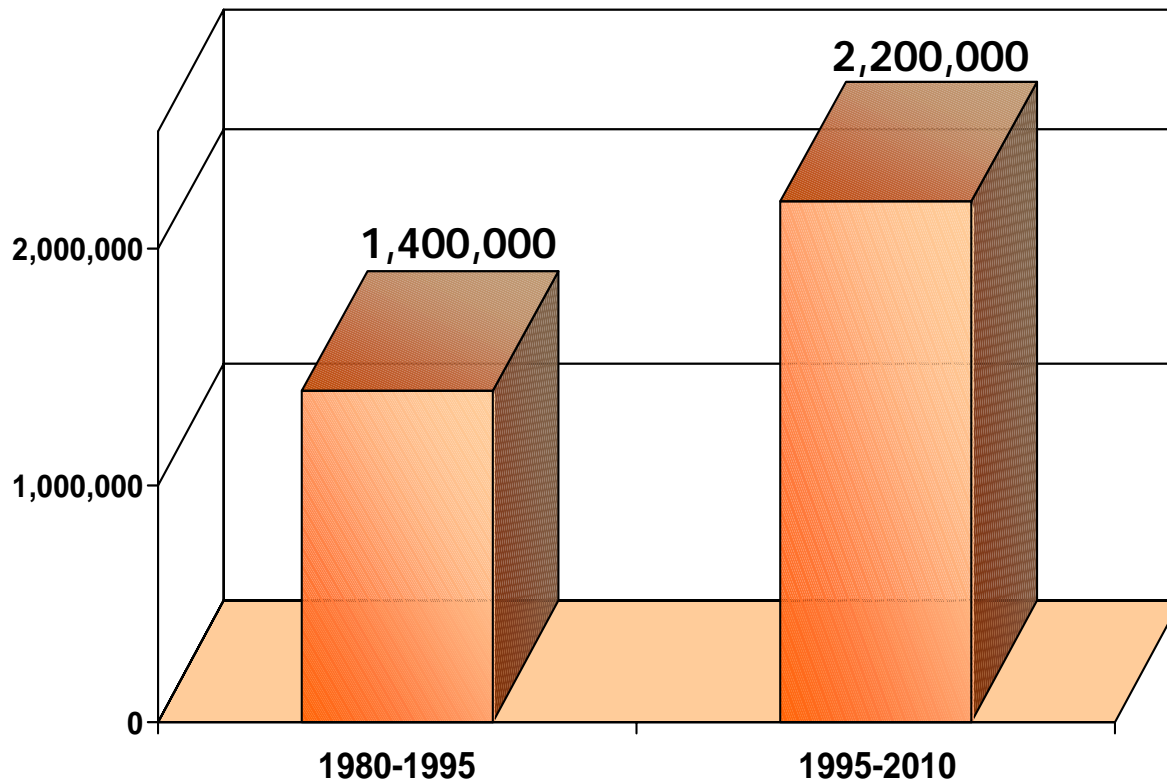
Immigrants will  
account for  
nearly 1/5 of  
total household  
growth



# Sizing the Opportunity



## Number of Immigrant Homeowners



Source: Fannie Mae Foundation, 1996

# N

ew Americans

Immigrant  
homeownership  
will increase  
more than  
**50%**



# New American Opportunity



- Owning a home is part of the American Dream
- Foreign countries
  - opportunity to own a home is limited
- Desire to put down roots
  - Immigrants seek to build something permanent for their families.
- Establish their identities as “Americans”

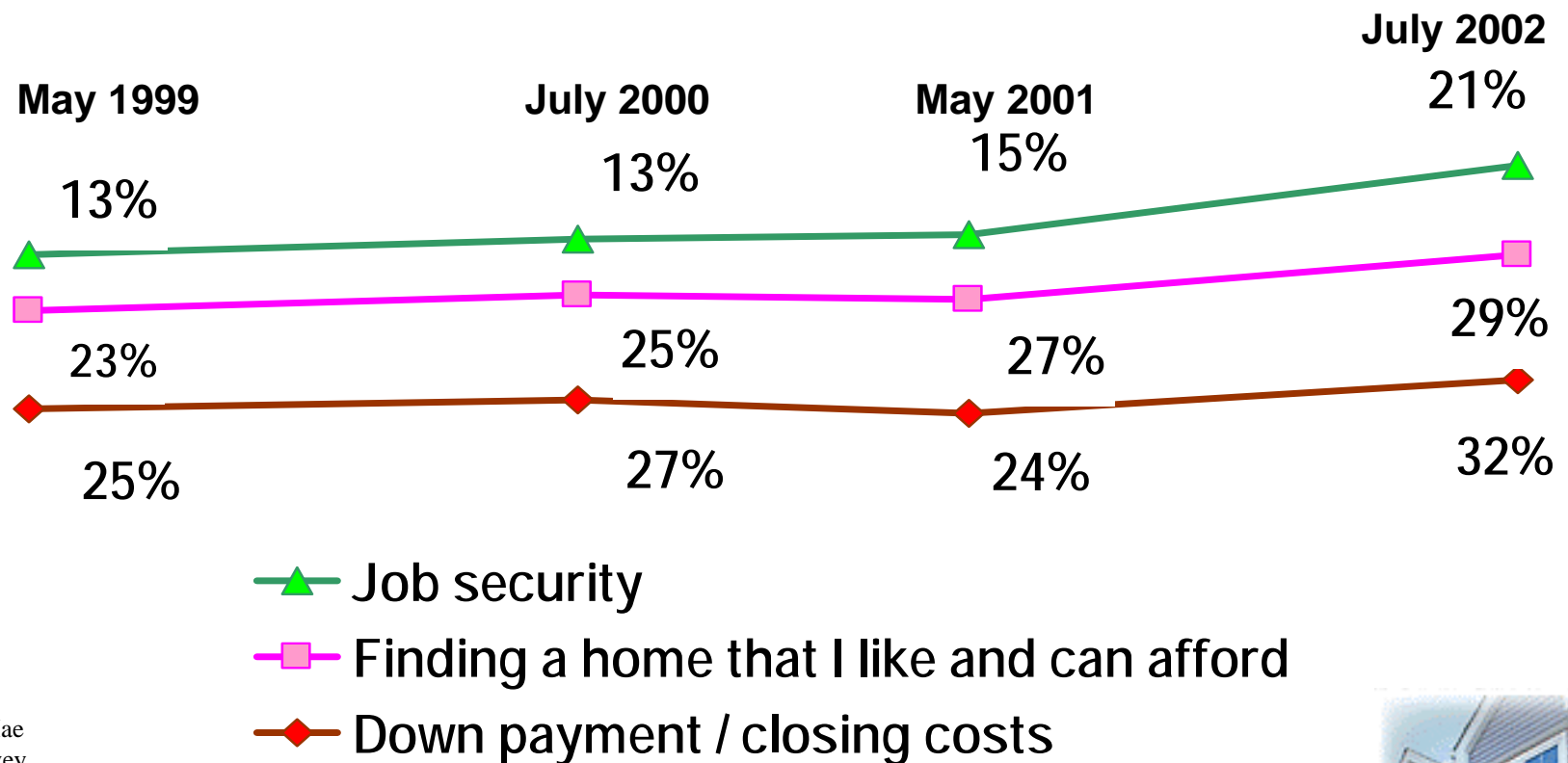
T

*he percentage of New Americans who own a home within the first 15 years of moving to the U.S. is actually HIGHER than the percentage of homeowners among U.S. born citizens.*



# Obstacles to Home Buying

Proportion of home buyers saying each is a major obstacle



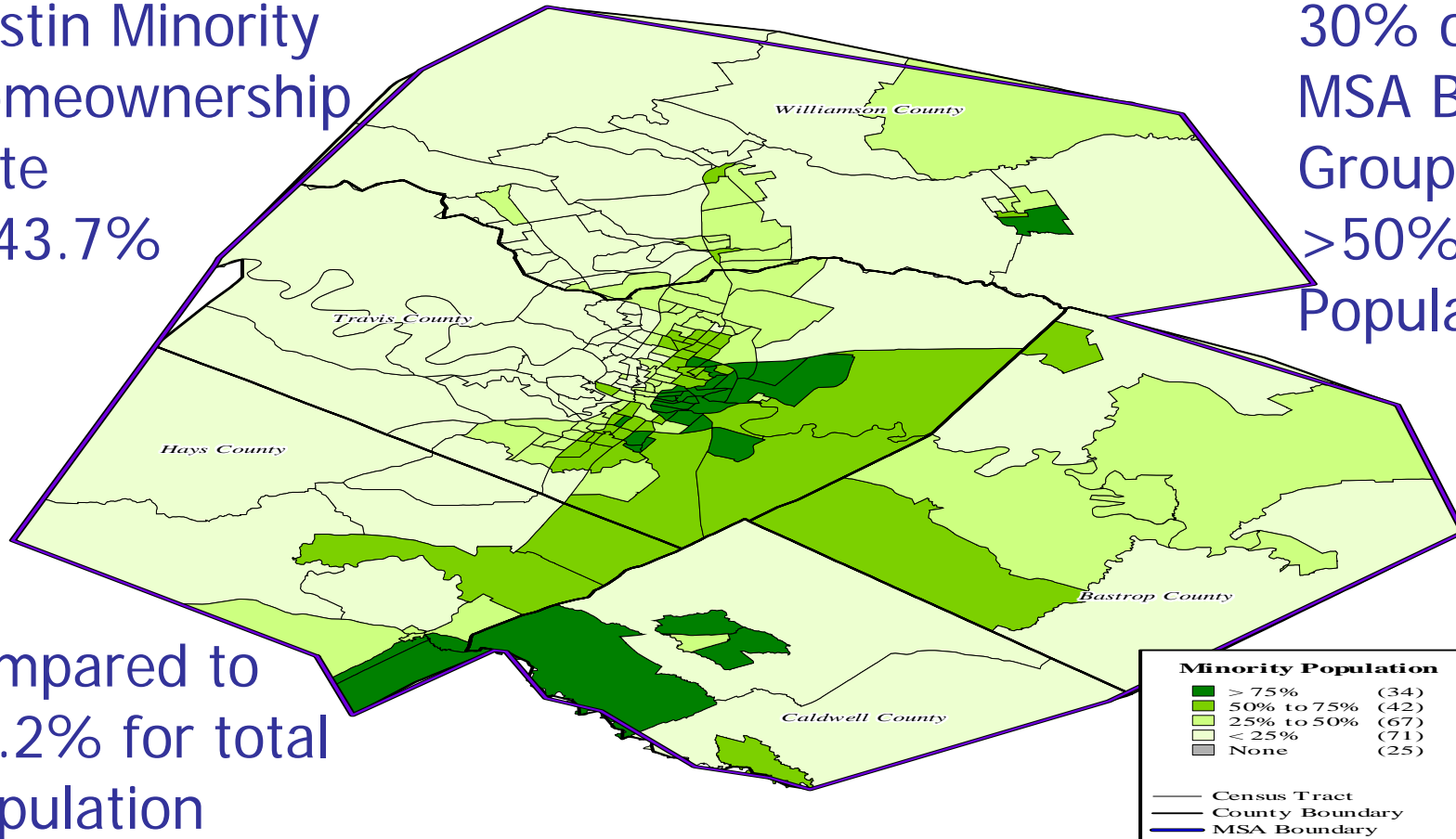
# Minority Population

## (Texas/Austin – San Marcos)

Austin Minority  
Homeownership  
Rate  
is 43.7%

30% of Austin  
MSA Block  
Groups contain  
>50% Minority  
Population

compared to  
58.2% for total  
population

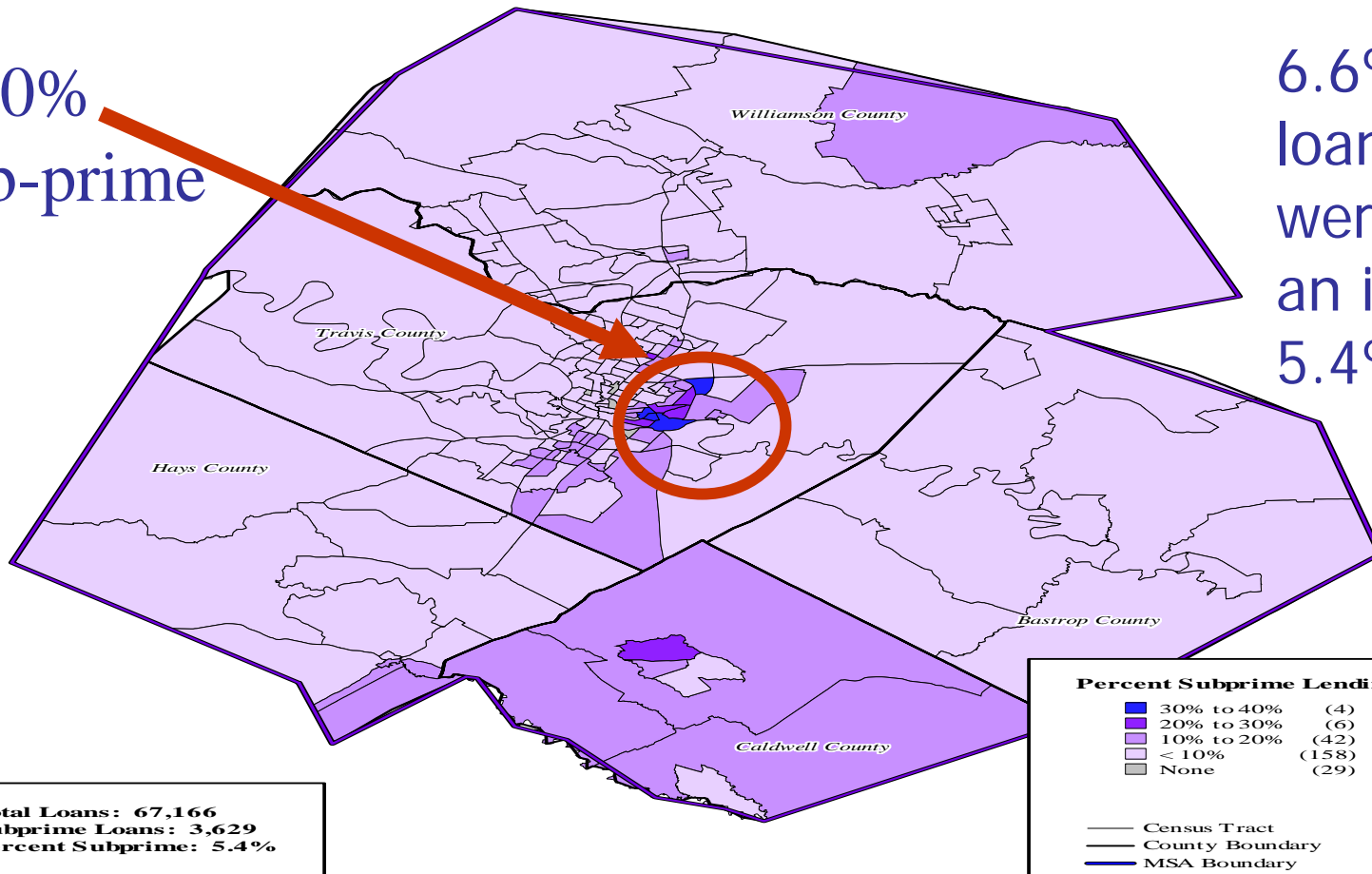


# Sub-prime Lending

## (Texas/Austin-San Marcos MSA)

30%  
sub-prime

6.6% of total  
loans in 2001  
were Sub-prime  
an increase from  
5.4% in 2000

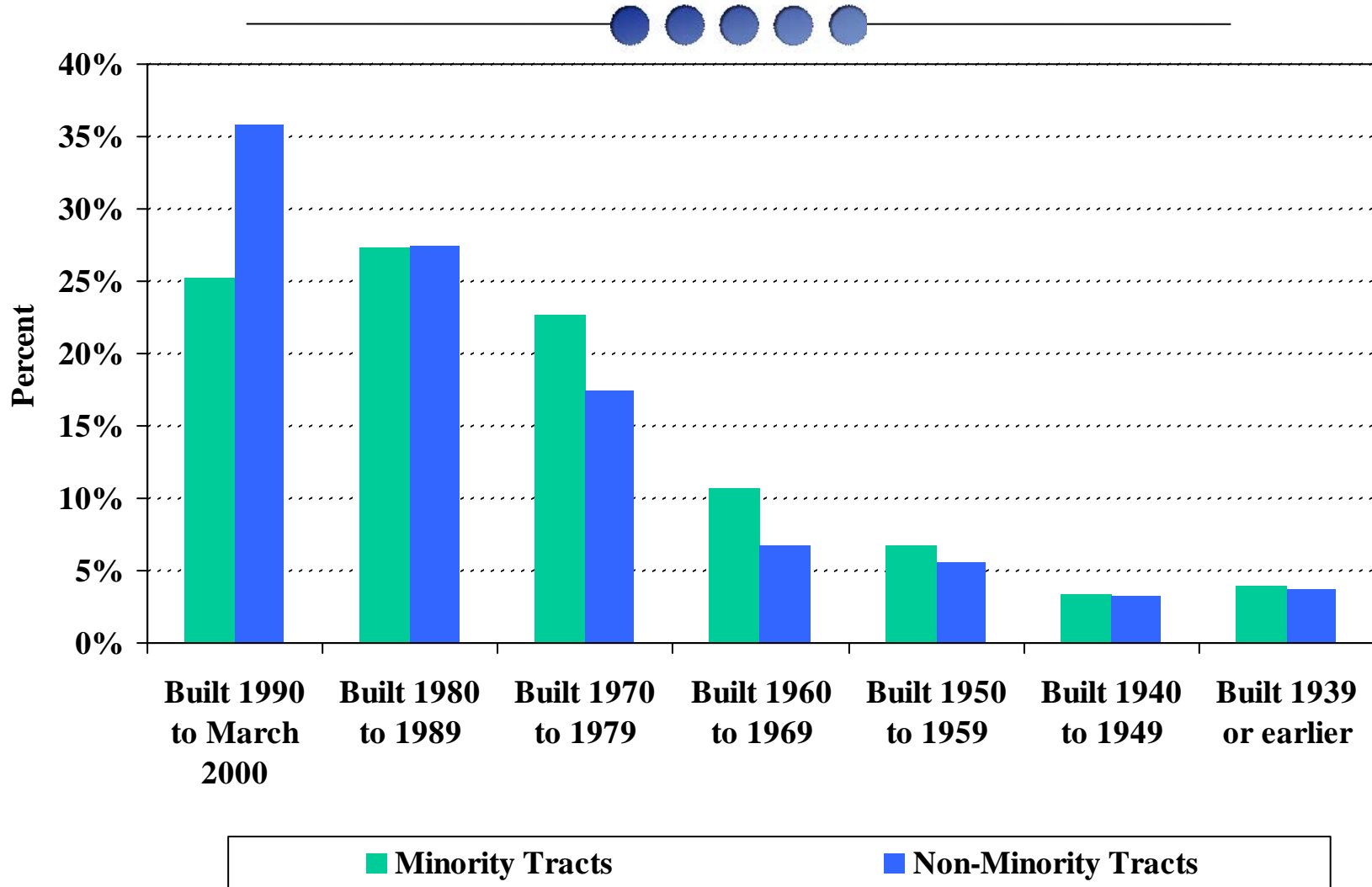


Source: 2000 HMDA  
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Prepared by Market Research/GIS Center: Housing Impact Research & Operations, Fannie Mae - 03/27/02



# Age of Housing Stock by Minority Concentration for Austin, TX MSA



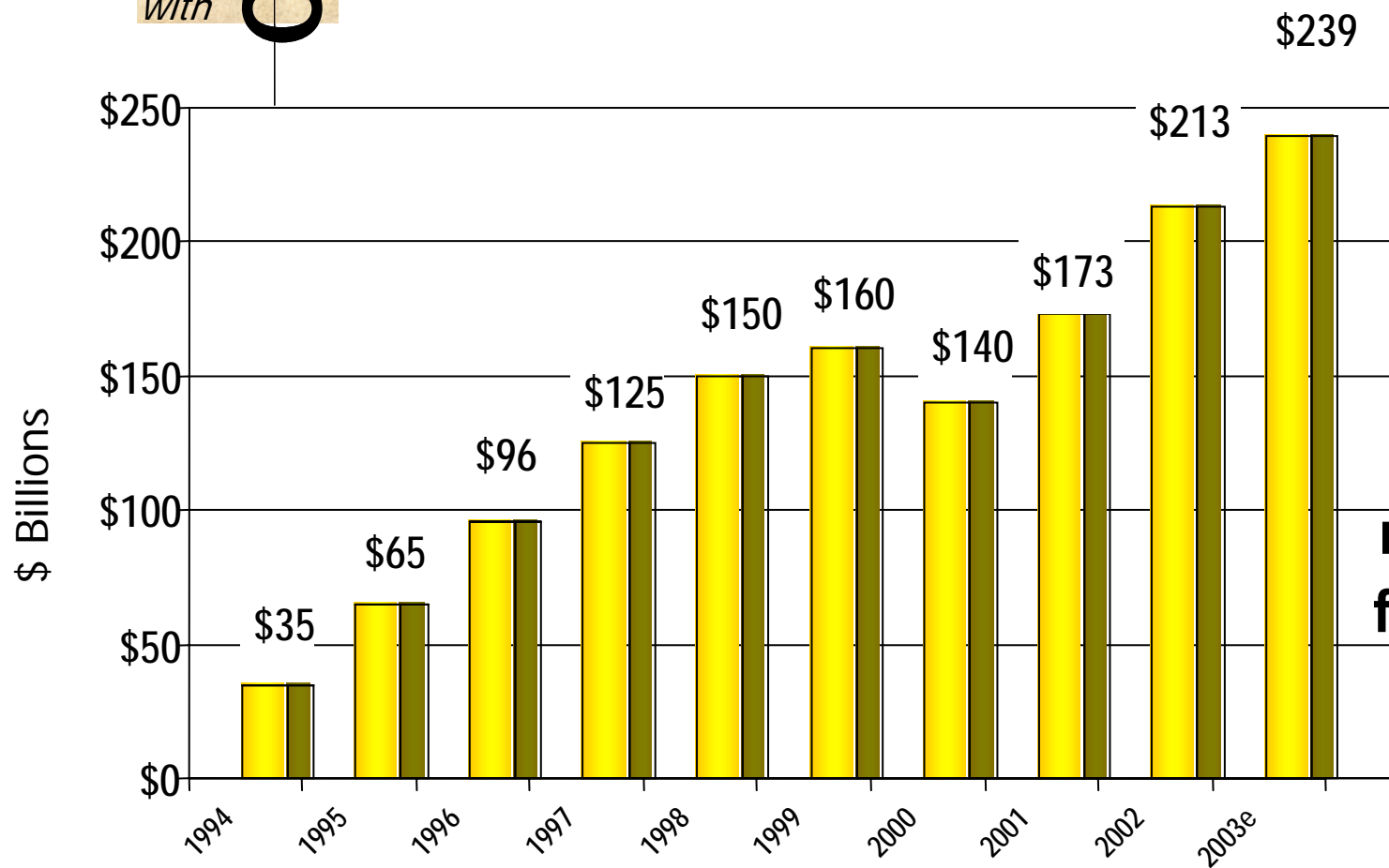
Note: Minority tract defined as having at least a 30% minority population. Source: 2000 Census

B

orrow  
with

Confidence

# Non-Traditional



**Nationally,  
non-  
traditional  
lending has  
grown at a  
compound  
rate of 26%  
from 1994 to  
2002.**

Source: Inside Mortgage Finance, 2002

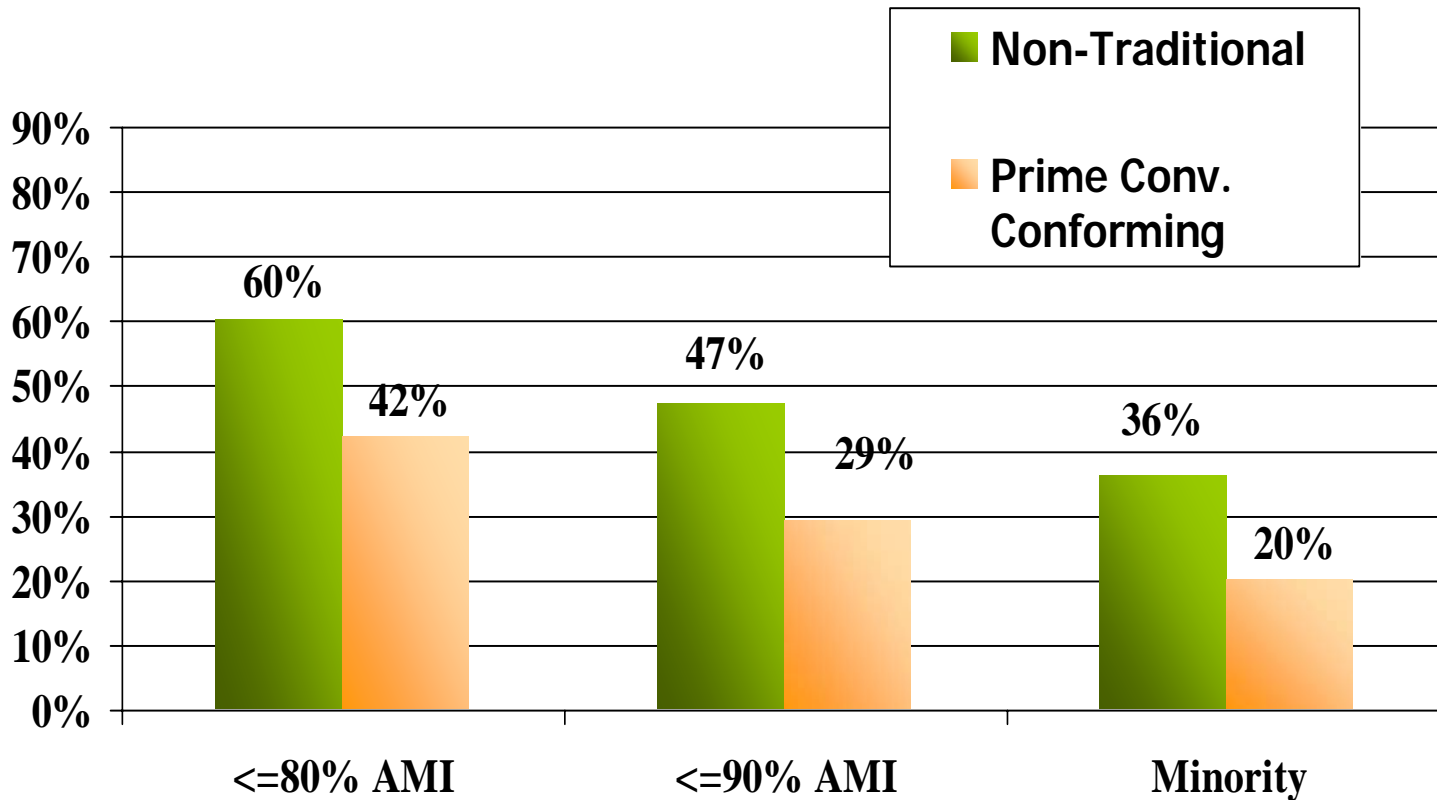




# Non-Traditional

## Reaching underserved markets

Data from the full year 2001 shows that non-traditional lending is ...



# My Community Mortgage

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Suite of financing solutions for low-and moderate-income buyers

- Community 97
- Community 100 Plus
- Community Solutions
  - For teachers, police, firefighters, & health care workers



# Product Concept

Before

**DU Approves**

RWC Delivered

**RWC Ineligible  
for Delivery  
To Fannie Mae**

Now with EA

**DU Approves**

**Level I - Eligible**

**Level II - Eligible**

**Level III - Eligible**

**Level IV - Ineligible for Delivery to Fannie Mae**

# My Community Mortgage

## Downpayment \$500

From borrowers own funds

No Reserves Required

## Flexibility

*Flexibility with credit histories and credit scores*

## Income

- Limited to 100% of AMI, 115% in non-MSA regions
- No income limits in HUD underserved areas
- Ratios as high as 43% (may be higher in DU)

## LTV & FICO\*

97 %	600
100%	620

\*Lower FICO possible in DU



# Special Guidelines for MCM

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- Up to 30% of occupying co-borrower's income can be used **WITHOUT** a credit history of the co-borrower
- Boarder income is allowed from relatives *and non-relatives*
  - Up to 30% of the total borrower income
  - Must demonstrate shared residency for most recent 12 months



# Flexible Credit Criteria

## If credit score < 620 for 100% LTV or < 600 for 97% LTV ....

- Minimum 4 trade lines at least 24 months old & no more than 9 open trade lines. The total outstanding revolving account balance-to-limits must be 50% or less;
- No mtg./rent delinquency, collections or judgments (other than medical collections) within the past 24 months; no delinquency in last 12 months & no more than 1x30 past due during the preceding 13-24 months on installment or revolving debt; no prior bankruptcy or foreclosure

## If no credit score ....

- Minimum 3 sources of nontraditional credit all of which are at least 12 months old. 2 of the 3 sources must be the party to whom the rental housing is paid and a utility company;
- No mtg./rent delinquency within the past 24 months; no collections or judgments; no history of delinquency on the remaining accounts, although one of the accounts may have had one 30 day delinquency, no prior bankruptcy or foreclosure



# My Community Energy Mortgage

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Uses MCM basic guidelines-

- \$500 borrower cash contribution
- Allows 97% or 100% LTV
- DU or manual UW (43% debt ratio, minimum 600 FICO, if manual)
- Adds energy savings to borrower's income



# Energy Community Requests

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- Lower rate for energy efficient homes
- Qualifying advantage for energy efficient homes
- Value adjustment for energy value





# Two Out of Three Isn't Bad !



- Lower rate for energy efficient homes
  - MCM avoids price adjustments for levels 1 & 2
- Qualifying advantage for energy efficient homes
  - EEM and MCM in DU are most powerful qualifying combination for marginal borrower
- Value adjustment for energy value
  - Only if sales price exceeds value
  - Pilots shown below are exceptions



# Combining with Down Payment Assistance Houston

HOUSTON	MCM 97 Single Premium 90% LTV 3% Seller Contrib.	FHA UpfrontMIP
Sales Price	\$ 100,000	\$ 100,000
Closing Costs and Prepays +	\$ 2,700	\$ 2,756
One-time Single MI Premium +		\$ -
Total Costs	\$ 102,700	\$ 102,756
Down Payment +	\$ 10,000	\$ 3,000
Funds Required to Close =	\$ 12,700	\$ 5,756
<b>SOURCE OF FUNDS:</b>		
Second Mortgage Amount	\$ 9,500	\$ 9,500
Seller Paid Closing Costs	\$ 2,700	\$ 2,756
Cash Required from Borrower's Own Funds	\$ 500	\$ -
<b>TOTAL RECEIVED</b>	\$ 12,700	\$ 12,256
First Mortgage	\$ 90,000	\$ 90,500
Plus Financed MI	\$ 1,935	\$ 1,358
<b>Mortgage Amount Financed</b>	\$ 91,935	\$ 91,858
Principal and Interest	\$ 551.20	\$ 550.74
Taxes	\$ 300.00	\$ 300.00
Insurance	\$ 41.67	\$ 41.67
Monthly Mortgage Insurance		\$ 37.71
Second Mortgage Pmt		
Total Monthly Payment	\$ 892.87	\$ 930.12
<b>Monthly Payment Savings vs. FHA</b>	\$ 37	NA



# Combining with Down Payment Assistance Houston

HOUSTON	MCM 97 Single Premium 90% LTV 3% Seller Contrib.	FHA UpfrontMIP
Qualifying Income	\$24,500	\$38,500
HUD 2003 Median Income	\$59,100	\$59,100
% of Income to Qualify	41.46%	65.14%
Housing Expense Ratios	43%	29%
Total Debt Ratios	43%	41%
LTV	91.94%	91.86%
CLTV	101.44%	101.36%
<b>ASSUMPTIONS</b>		
Interest Rate:	6.000%	6.000%
Mortgage Term:	30-year FRM	30-year FRM
Closing Costs and Prepaids:	3.00%	3.00%
Taxes & Insurance:	0.50%	0.50%
MI Premium (annual):		0.50%
MI Premium (Single-Premium/Up-front MIP):	2.15%	1.50%



# Combining with Down Payment Assistance

## Denver

	HFA HOME Single Premium 30 yr second 3% seller contrib. 90% LTV	FHA UpfrontMIP
<b>Denver, CO</b>		
Sales Price	\$ 170,000	\$ 170,000
Closing Costs and Prepaids +	\$ 4,587	\$ 4,589
One-time Single MI Premium +	\$ 3,211	
Down Payment +	\$ 17,000	\$ 5,100
<b>Funds Required to Close =</b>	<b>\$ 24,798</b>	<b>\$ 9,689</b>
<b>SOURCE OF FUNDS:</b>		
Second Mortgage Amount (5.5%)	\$ 12,500	\$ 12,500
Funds from allowable flexible sources	\$ 6,800	\$ 6,800
Seller Paid Closing Costs	\$ 5,100	\$ 4,589
<b>Cash Required from Borrower's Own Funds</b>	<b>\$ 503</b>	<b>\$ -</b>
<b>TOTAL RECEIVED</b>	<b>\$ 24,903</b>	<b>\$ 23,889</b>
First Mortgage	\$ 152,900	\$ 150,700
Plus Financed MI	\$ -	\$ 2,261
<b>Mortgage Amount Financed</b>	<b>\$ 152,900</b>	<b>\$ 152,961</b>
Principal and Interest	\$ 916.72	\$ 917.08
Taxes and Insurance	\$ 141.67	\$ 141.67
Monthly Mortgage Insurance		\$ 62.80
Second Mortgage Pmt	\$85.99	\$85.99
<b>Total Monthly Payment</b>	<b>\$ 1,144.38</b>	<b>\$ 1,207.54</b>
<b>Monthly Payment Savings vs. FHA</b>	<b>\$ 63</b>	<b>NA</b>



# Combining with Down Payment Assistance

## Denver

	HFA HOME Single Premium 30 yr second 3% seller contrib. 90% LTV	FHA UpfrontMIP
<b>Denver, CO</b>		
<b>Qualifying Income</b>	<b>\$31,000</b>	<b>\$50,000</b>
<b>HUD 2002 Median Income</b>	<b>\$68,000</b>	<b>\$68,000</b>
<b>% of Income to Qualify</b>	<b>45.59%</b>	<b>73.53%</b>
Housing Expense Ratios	43%	29%
Total Debt Ratios	43%	41%
Unpaid Principal Balance after 5 yrs	\$142,281	\$142,337
<b>Borrower's Equity after 5 yrs</b>		
<b>(assume no appreciation)</b>	<b>\$27,719</b>	<b>\$27,663</b>
<b>LTV</b>	<b>89.94%</b>	<b>89.98%</b>
<b>CLTV</b>	<b>97.29%</b>	<b>97.33%</b>
<b>ASSUMPTIONS</b>		
Interest Rate:	6.000%	6.000%
Mortgage Term:	30-year FRM	30-year FRM
Closing Costs and Prepays:	3.00%	3.00%
Taxes & Insurance:	1.00%	1.00%
MI Premium (annual):		0.50%
MI Premium (Single-Premium/Up-front MIP):	2.10%	1.50%
Second Mortgage Interest Rate	5.50%	5.50%
Second Mortgage Term	360	360



# Albuquerque Example

## High Energy Value

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	<u>w/o EEM</u>	<u>w/EEM</u>	<u>FHA 2/1</u>
Sale Price	130,000	130,000	130,000
Down Payment	3,900	3,900	3,900
Loan Amount	126,100	126,100	127,991
LTV	97%	89.2%	98.5%
Value	130,000	141,300	130,000
PITI (at 7%)	1,063.53	968.95	1,034.07
PITI (at 5%)			\$869.63
Qualifying Income	\$38,700	\$32,500	\$33,700



# Santa Fe Example

	<u>97% Loan</u>	<u>W/2nd Mortgage 80% Loan</u>	<u>W/Single Premium MI 90% Loan</u>
Sale Price	157,000	157,000	157,000
Energy Value	9,000	9,000	9,000
Down Payment	4,710	4,710	4,710
Loan Amount	152,290	132,800	149,400
Second Mortgage	19,490	2,890	
PITI (at 7%)	\$1,277.41	\$1,214.19	\$1,178.26
Qualifying Income	\$44,300	\$42,000	\$40,700

