

ABOUT THIS PUBLICATION

Economic Inclusion and Opportunity

Mortgage lending is an important element of many community banks' business strategies. Community banks offer mortgage products and services designed to meet the particular needs of their communities, including rural areas and low- and moderate-income (LMI) borrowers. Offering affordable mortgage loans to a wide range of customers deepens bank-customer relationships and provides an important pathway for borrowers to own their own homes and build wealth. At the Federal Deposit Insurance Corporation (FDIC), we recognize that mortgage lending is also an important way for insured institutions to promote access and participation in the mainstream banking system. Broad participation in the products and services offered by insured institutions promotes stability and confidence in the financial system, which is the core mission of the FDIC.

Many banks, including community banks, take advantage of the opportunities to serve the particular mortgage credit needs of their communities. The Affordable Mortgage Lending Guide (Guide) provides information to help make community bankers aware of the wide range of current affordable mortgage products. These programs can be important resources for community banks when properly managed. Bank management should understand the terms of these programs, the risks they pose, and the impact on banks' financial condition to ensure that they are serving their communities with prudently underwritten and affordable mortgage products.

Outreach and Communication

To determine how the FDIC could contribute to efforts by banks to offer prudently underwritten, affordable, and responsible mortgage credit for LMI households, FDIC staff met with community banks individually and in small roundtables. Bankers provided valuable

insights into the need for affordable mortgage credit in the communities they serve. They also discussed the opportunities and obstacles to using federal lending programs, as well as the pros and cons of holding loans in portfolio versus selling loans on the secondary market.

Some bankers described how they have harnessed federal programs, sometimes in combination with other financial mechanisms like Federal Home Loan Bank and State Housing Finance Agency programs, to expand their capabilities and serve a broader customer base. Many banks had relationships with neighborhood housing counseling organizations, which helped provide financial education to potential customers.

Some bankers discussed that very small banks do not have specialized staffing or departments to offer complex mortgage products. They decided that the risk and cost of origination was not worth taking without more resources or additional risk mitigation. Some bankers said that while they want to be involved in mortgage lending, it was difficult to find the time to research potential programs, and that it was challenging to find and retain trained mortgage staff, especially in rural areas.

From these meetings, we concluded that community banks might benefit from a practical reference tool to compare federal programs so they could make an informed decision about which programs might be the right fit for their business plans and strategies to improve lending options available for their communities. In addition, the experience of other lenders that have found ways to use limited resources to harness federal and other resources could provide practical examples that may be instructive to institutions considering these opportunities.

Scope and Coverage

The Affordable Mortgage Lending Guide describes programs from the U.S. Department of Housing and Urban Development (HUD) and its Federal Housing Administration (FHA), the U.S. Department of Agriculture (USDA), the U.S. Department of Veterans Affairs (VA), the U.S. Treasury Department's Community Development Financial Institutions Fund (CDFI Fund), and Fannie Mae and Freddie Mac, known as Government Sponsored Enterprises (GSEs). The Guide focuses on guarantee, loan purchase, and subsidy programs that can facilitate mortgage lending by insured depository institutions. It includes federal programs that support home purchase, refinance, manufactured housing, and some home improvement lending by banks. It covers programs that are targeted to a variety of communities and individuals including rural, Native American, low- and moderate-income, and veterans.

We discuss the requirements of each program, as well as how to access these programs. Whether you choose to become an agent, a correspondent selling to an aggregator, use a broker, or become an approved seller-servicer, the Guide explains how each of these options work within the particular program. We also discuss underwriting tools available and provide technical information about borrower and loan criteria. This Guide can help you design a process to identify, assist, and support your customers by successfully leveraging these programs.

Suggestions for How to Use This Guide

Organized by each federal agency and GSE, the overviews and individual program descriptions include information about doing business with the agency, its program requirements, and tips on getting started with the program. Institutions can use this Guide as a one-stop resource to gain an overview of a wide variety of program resources, compare different programs, and to help identify the next steps for program participation.

Each program description includes insights into the program's purpose, technical assistance on how to participate, and identifies potential benefits and challenges for community banks.

TIPS ON USING THE AFFORDABLE MORTGAGE LENDING GUIDE

- Review the "Contents" page for a list of all programs.
- Read the overview for the federal agency or GSE of interest to determine loan delivery options and other criteria.
- Read the selected program description for specific borrower and loan standards.
- Review "Similar Programs" at the end of each description to compare program requirements with other products.
- Review "Resources" to make sure you have the most up-to-date information on program criteria.
- Select a program that best suits your needs and use the agency/GSE contact information to get started.

A quick review of borrower and loan criteria will help you identify whether the program is suitable for a particular client or a population that you are trying to serve, such as low- and moderate-income borrowers or other hard-to-reach populations. The descriptions identify particular criteria that focus on target segments, underwriting flexibilities, and other standards.

Each program description includes contact information and web links for easy access to program staff that can provide additional information about the program, guide you through getting started, and address other specific requirements for starting the program at your bank.

In order to compare a range of programs to identify what best meets your needs and the needs of your customers, each program description concludes with a list of similar programs for your reference.

Resources are also included in each program description where you can find web links to more

detailed information about the programs provided by the GSE or agency. Where secondary programs (e.g., Community Seconds®) are mentioned within the main program description, a link to that program is also included in the resource section. Finally, links for additional information that are referenced in the program descriptions – such as area/county loan limits, building codes, and lists of high-cost cities and states – are also included in resources.

Because borrower and loan criteria, such as income limits, minimum credit scores, loan-to-value limits, and debt-to-income ratios, are all subject to change (and in many cases revised annually), the Guide provides the most recent information available. Realizing the need for accurate and timely information, each program description includes a list of web links where updates can be found.

What Bankers are Saying

In addition to the individual meetings with community banks and small roundtables discussions, the FDIC also talked with community bankers about their participation in specific programs. In each federal agency and GSE “Overview,” you will find comments by community bankers who are incorporating federal and GSE programs into their overall mortgage lending strategies. Bankers discuss how they have used these programs to support their business objectives. They also discuss using a variety of delivery options including: serving as an approved third party originator and working with other lenders and investors to underwrite, package and sell loans; acting as a correspondent lender; and becoming an approved seller/servicer of mortgage loans.

Supporting strong Community Reinvestment Act (CRA) performance

Affordable mortgage lending, including to low-and moderate-income borrowers; to low-and moderate-income census tracts; and to serve people in underserved rural communities, on tribal lands, and in disaster areas can be responsive ways for financial institutions to meet the credit needs of their communities. The mortgage programs featured in this Guide, whether they result in Home Mortgage Disclosure Act (HMDA) reportable

loans or originations reported by another lender, can help lenders reach their business objectives in their communities, as well as contribute to its CRA performance.

Conclusion

In many parts of the country, community banks play an important role in meeting the demand for mortgage credit. The programs outlined in the Affordable Mortgage Lending Guide can provide community bankers with additional pathways to provide homeownership opportunities for creditworthy borrowers in their communities, particularly those with affordability challenges. These programs may also represent business opportunities for community banks looking for prudent, sustainable financial products to incorporate into their mortgage business line.

Community banks can and do play a valuable role in meeting the demand for affordable mortgage credit, and we hope this Guide provides useful information to assist bankers in considering all the options to serve their communities with prudently underwritten and affordable mortgage products.

While home ownership continues to be a goal for most Americans, many people struggle to gain access to affordable homeownership opportunities that will enable them to build a stable future for their families. Community banks can and do play a valuable role in meeting the demand for affordable mortgage credit, and we hope this Guide provides useful information to assist bankers in considering all the options to serve their communities with prudently underwritten and affordable mortgage products.