

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 and low- and moderate-income (LMI) areas. 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. It is a series of three publications: Part I: Federal Agencies and Government Sponsored Enterprises; Part II: State Housing Finance Agencies; and Part III: Federal Home Loan Banks (forthcoming). 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. These programs are important resources for community banks when properly managed.

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 various 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 products, 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 noted 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 products and 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 affordable housing products and programs so they could make an informed decision about which products 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 who have found ways to use limited resources to harness federal, state, and other resources could provide practical examples that may be instructive to institutions considering these opportunities.

Scope and Coverage

The Affordable Mortgage Lending Guide, Part II: State Housing Finance Agencies, describes programs offered by State Housing Finance Agencies across the country. This part of the Guide focuses on first-lien mortgage products, down payment and closing assistance, mortgage tax credit certificates, and homeownership education and counseling programs that can facilitate mortgage lending by insured depository institutions. Many of these products can be used in conjunction with other federal and government-sponsored enterprise programs,¹ as well as Federal Home Loan Bank products.²

In the main body of this Guide, we provide an overview of the types of products that State Housing Finance Agencies offer. Since each State Housing Finance Agency has different products, we provide a state-by-state overview of the products available and how to access them in Appendix A.

Suggestions for How to Use This Guide

This Guide is a one-stop resource for institutions to gain an overview of a wide variety of product resources, to compare different products, and to identify the next steps for participation. Both the main report and the appendix are organized primarily by products offered by State Housing Finance Agencies.

Each overview in the main body of the report includes insights into the product's or program's purpose, technical assistance on how to participate, and identifies potential benefits and challenges for community banks.

Material for specific states contained in Appendix A includes the types of products offered, targeted populations, as well as loan delivery and servicing options. A quick review of the criteria will help you identify whether the product 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.

TIPS ON USING THE AFFORDABLE MORTGAGE LENDING GUIDE

- Review the contents page for a list of the products offered by State Housing Finance Agencies.
- Review the overviews of each product of interest to determine different options and other criteria.
- Review the state-by-state overview for your state to determine which products are offered.
- Select a product that best suits your needs and use the State Housing Finance Agency contact information to get started.

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

Because products and criteria are subject to change, the Guide provides the most recent information available. To meet the need for accurate and timely information, each state overview includes a list of web links where updates can be found.

¹ For more information on federal and government-sponsored enterprise programs, see Affordable Mortgage Lending Guide, Part I: Federal Agencies and Government Sponsored Enterprises. (Washington, DC: Federal Deposit Insurance Corporation, 2016), <https://fdic.gov/mortgagelending>

² For more information on Federal Home Loan Banks, see forthcoming FDIC publication, Affordable Mortgage Lending Guide, Part III: Federal Home Loan Banks. (Washington, DC: Federal Deposit Insurance Corporation, 2016), <https://fdic.gov/mortgagelending>

Banker Conversations

In addition to the individual meetings with community banks and small roundtable discussions, the FDIC also spoke with community bankers about their participation in particular State Housing Finance Agency programs to gather their feedback. These conversations are summarized in the relevant sections of this Guide to illustrate how bankers are using these programs to meet their business objectives in “a community banker conversation.”

Supporting strong Community Reinvestment Act (CRA) performance

Affordable mortgage lending activities, 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 products and 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 their CRA performance.

Conclusion

In many parts of the country, community banks play an important role in meeting the demand for mortgage credit. The products and 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 products may also represent business opportunities for community banks looking for prudent, sustainable financial products to incorporate into their mortgage business line.

While homeownership 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 needs 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.