Commonly Offered HFA Products, Programs, and Services

First-Lien Mortgage Products

OVERVIEW

State Housing Finance Agencies (HFAs) offer first-lien mortgage products (often called first mortgages by HFAs) to help low- and moderate-income first-time homebuyers and other targeted populations become homeowners. In most cases, HFAs do not originate loans. Instead, State Housing Finance Agencies design loan products offered by participating lenders. The HFAs then purchase these mortgages from participating lenders. These loans are either held on the balance sheet of the HFA or sold into the secondary market. HFA mortgages are originated, processed, and closed by a state-wide network of approved lender partners. HFA first-lien mortgage loans are typically purchased as servicing released and are serviced by the HFA or by a master servicer chosen by the HFA. Sometimes HFA loans close in the name of the lender, and other times, they close in the name of the HFA.

HFAs offer first-lien mortgages designed to serve their communities with features that may include competitive or lower-than-market interest rates; down payment and closing cost assistance; and flexible underwriting guidelines designed to meet the needs of low- and moderate-income homebuyers, which can include lower-than-standard minimum borrower contributions.

While some HFAs offer a single first-lien mortgage product, others offer a variety of first-lien mortgage programs and products, each with different eligibility, underwriting, and pricing structures aimed at different target populations. For instance, some programs are geared specifically to active military personnel or veterans or persons with disabilities. Often, these targeted programs are more deeply subsidized versions of other available HFA products. Other product offerings include conventional mortgage product options with and without mortgage insurance.

Traditionally, HFA first-lien mortgage programs are funded by Mortgage Revenue Bonds (MRB). MRB-funded loans must meet certain conditions: the borrower must be a first-time homebuyer, have an income below 115 percent of the area median income, and the home price cannot exceed 90 percent of the average area sales price (110 percent in targeted areas).[4] In addition, the total amount of MRB funds each state can receive is capped annually using a formula based on the state's population.

Increasingly, HFAs are looking to broaden their sources of funding, such as the use of Fannie Mae and Freddie Mac secondary market products designed exclusively for the HFAs, mortgage-backed securities (MBS) sales, and Federal Home Loan Bank funding to expand their lending programs and offer alternatives to the standard MRB-funded products. Consequently, many HFAs now have both MRB and "secondary market" first-lien mortgage product offerings. This allows HFAs to continue operating their traditional programs and offer alternative product executions to serve the needs of the lender, as well as new types of borrowers, such as repeat homebuyers and borrowers with incomes above the MRB limits. Common HFA first-lien mortgage product offerings include loans originated for the Federal Housing Administration (FHA), the U.S. Department of Veterans Affairs (VA), the U.S. Department of Agriculture (USDA),[5] Fannie Mae, and Freddie Mac, as well as conventional low-down payment products.

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[4] These are Mortgage Revenue Bond standards. Specific income and price restrictions vary by state and in some cases may be more restrictive than the federal standards.

[5] See Affordable Mortgage Lending Guide: Part I: Federal Programs and the Government Sponsored Enterprises (Washington, DC: Federal Deposit Insurance Corporation, 2016), https://fdic.gov/mortgagelending for detailed information about products and services.

MORTGAGE PURPOSE

Purchase: Most HFAs offer at least one first-lien mortgage purchase program. Often these programs are targeted to first-time homebuyers (homebuyers who have not owned a home within the previous three years), but many also offer programs for repeat borrowers. Often these purchase programs are designed for use in combination with specific HFA down payment and closing cost programs. First-lien mortgage purchase products vary by state, but often include conventional and government-insured low down payment options (FHA, VA, and USDA).

Refinance: Some HFAs offer refinance products. Refinance products include conventional, FHA, or in some cases, USDA loans. Some refinance programs are limited to existing HFA borrowers, while others are open to all homeowners within the state who meet specific eligibility requirements.

Rehabilitation: Many HFAs provide financing options for the purchase and repair or rehabilitation of a home with one loan. HFA rehabilitation loans can be offered with FHA 203(k), FHA Streamline 203(k), or USDA rural development loans. Eligible improvements generally include repairs to improve the accessibility, livability, or safety of a home, energy improvements, or water or sewer system improvements. (Many HFAs also offer rehabilitation products for existing homeowners.)

MORTGAGE PRODUCT TYPES

HFA conventional portfolio loans: Most HFAs offer low down payment conventional loans (typically 95 percent to 97 percent loan to value) with flexible underwriting guidelines, often designed for use in combination with an HFA down payment and closing cost assistance program.

Government loans: Many HFAs offer low down payment government-insured or guaranteed loan products, often designed for use in combination with an HFA down payment and closing cost assistance program. HFA government loans must meet the eligibility and underwriting guidelines of the federal agency that offers the program, as well as any HFA eligibility and underwriting overlay requirements. For instance, many HFAs have minimum credit score and/or debt-to-income ratios that are more restrictive than federal program guidelines. HFA government mortgage products include the Federal Housing Administration's 203(b) Mortgage Insurance Program for low down payment loans, which is the core FHA homeownership program; the Federal Housing Administration's 203(k) low down payment loan, designed to finance both the purchase of a home and renovation costs in a single, low down payment mortgage; the Federal Housing Administration's Streamline 203(k), which is a low down payment loan designed to finance both the purchase of a home and repairs or renovations up to $35,000 in a single, low down payment mortgage; the U.S. Department of Veterans Affair's Home Purchase Loan, which is a zero down payment loan guarantee to service members, veterans, and surviving spouses;

POTENTIAL BENEFITS

HFA first-lien mortgage products provide lenders with the ability to sell conventional and/or government mortgage loans and transfer the liquidity, interest rate, prepayment, and servicing risks to the HFAs.

Loans originated through HFA first-lien mortgage products may be positively considered under the Community Reinvestment Act, depending on the geography or incomes of the participating borrowers.

HFA first-lien mortgage products offer reduced rates and/or down payment and closing cost assistance.

Many HFAs offer flexible servicing options that allow banks to retain or sell servicing rights.

POTENTIAL CHALLENGES

Many HFA first-lien mortgage products have credit and underwriting overlays that may make government loan products more restrictive than those delivered directly by a lender to the agencies.

A limited pool of borrowers is eligible for these products due to specific income limits and other limited flexibilities for borrower and loan characteristics.

Funding for HFA programs is subject to availability and funds may be limited.

and the U.S. Department of Agriculture's Section 502 Single Family Loan, which is a zero down payment loan for rural low- and moderate-income borrowers.

Fannie Mae's HFA Preferred (Low MI): Fannie Mae designed a low mortgage insurance product for eligible HFAs. The 30-year, fixed rate, 97 percent loan-to-value product provides low interest rates and reduced mortgage insurance coverage requirements. Fannie Mae's loan level price adjustments[6] are waived. Minimum contributions from the borrower's own funds are also waived. This product is often allowed to be coupled with HFA down payment and closing cost assistance.

Fannie Mae's HFA Preferred Risk-Sharing (No MI): Fannie Mae designed a no mortgage insurance product for eligible HFAs. This 30-year, fixed rate, 97 percent loan-to-value product provides lower interest rates and no mortgage insurance coverage requirements. HFAs retain a limited repurchase obligation to Fannie Mae in lieu of mortgage insurance. The lender does not retain credit risk beyond standard Fannie Mae's representations and warranties.

Freddie Mac's HFA Advantage: Freddie Mac designed a product for eligible HFAs. The 30-year, fixed rate, 97 percent loan-to-value, 105 percent total loan-to-value product provides low interest rates and reduced mortgage insurance coverage requirements. There are no reserves required and HFA Advantage offers flexible funding options for down payment and closing costs.

TARGETED POPULATIONS

Many HFAs either offer special programs or more deeply subsidized versions of their traditional programs to targeted populations within their states. For example, the Oklahoma Housing Finance Agency (OHFA) offers several different OHFA Advantage first-lien mortgage products, including the OHFA Dream, a product available to all income-qualified borrowers; the OHFA Gold, a product available to first-time homebuyers only; the OHFA Shield, a product available to law enforcement professionals only; and OHFA 4 Teachers, a product available exclusively to educators. Targeted programs and products can vary by eligibility requirements as well as by underwriting and loan subsidy features. In many cases, products geared toward targeted populations might receive a deeper subsidy than that offered to the wider population. For instance, some products might restrict down payment and closing costs assistance to targeted populations. In other cases, the difference might be in the interest rate of the loan. In the OHFA example, the interest rates on the targeted populations products were .25 percent to .375 percent lower than comparable products offered to the wider population. Targeted populations generally still must meet income and sales price eligibility requirements.

Targeted populations may include:

- first-time homebuyers (generally defined as having not owned a home in the previous three years);
- active military or veterans;
- people with disabilities;
- elderly;
- section 8 housing voucher recipients;
- teachers;
- police, firefighters, health workers;
- Native Americans; and
- economically impacted or underserved locations, often referred to as "targeted communities." Programs in these areas may have broader eligibility requirements to include non-first-time homebuyers or higher income and sales price limits.

LOAN DELIVERY

HFAs offer a variety of funding and delivery options. In some cases, lenders fund the HFA loans and sell them to the HFA after closing. In others, HFAs provide the option of table funding the loans, where the HFA provides the funds to close the loan. HFA mortgages must be originated and sold to meet applicable investor and guarantor requirements, as well as those of the HFA. Each HFA has its own policies and procedures

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[6] Loan level price adjustments (LLPAs) are risk-based pricing adjustments that vary based on credit score, loan-to-value ratio, type of product, and various other factors that are charged at the time of origination. Fannie Mae and Freddie Mac charge both annual guarantee fees and upfront LLPAs. Most lenders convert LLPAs into the interest rate on the mortgage, which the borrower pays over time.

with regard to registering, locking interest rates, underwriting, and submitting loan application packages. HFAs often use Fannie Mae's Desktop Underwriter® or Freddie Mac's Loan Prospector® for electronic underwriting purposes. Many programs also allow manual underwriting. Training is often available to assist lenders and help them get started.

SERVICING OPTIONS

Generally, HFAs purchase loans under a servicing-released contract. HFA servicing-released loans are usually serviced by the HFA or by a master servicer chosen by the HFA. Many HFAs specialize in high touch servicing by focusing on early delinquency borrower outreach and maintaining low numbers of case files per staff member. The HFA, therefore, provides another servicing option for a bank that does not have this capacity, but wishes to originate mortgages for its local customers.

BORROWER ELIGIBILITY

While some HFA borrower eligibility requirements are driven by individual HFA program rules, many are tied to the use of their federal exempt bond authority (which must follow the rules established by the Internal Revenue Service) and by the federal or government sponsored enterprise program that is used. The tax-exempt bond rules apply to all HFA programs funded with federal exempt bonds and include income and sales price limits, first-time homebuyer requirements, and occupancy restrictions.

Income and sales price limits: All HFA products have income and/or sales price or loan amount limits since they are targeted to low- and moderate-income households. Often these limits vary by product. For instance, for those HFAs that offer multiple products, the most deeply subsidized products might require that borrowers meet lower income and sales price limits than limits set for less subsidized products. Underserved or targeted counties or areas are often granted higher income and sales price or loan limits.

Credit and debt-to-income limits: Credit score and debt-to-income limits vary by state and by program.

A COMMUNITY BANKER CONVERSATION

Using Fannie Mae's HFA Preferred Low Mortgage Insurance Product

One bank representative from Kentucky said that she likes the conventional no mortgage insurance (no MI) product that the HFA offers, which she says is "very competitive" with FHA monthly premiums. This is a 30-year, fixed rate, 97 percent loan-to-value product that provides low interest rates and has no mortgage insurance coverage requirements. HFAs retain a limited repurchase obligation to Fannie Mae in lieu of mortgage insurance. The no-MI product has a minimum credit score of 680, but for those borrowers who qualify, it is a good option.

Another banker from Illinois said that her bank also offers FHA loans in conjunction with HFA products. Sometimes, however, she finds that Fannie Mae's HFA Preferred low mortgage insurance product is a better fit for the borrower. It is a 30-year, fixed rate, 97 percent loan-to-value product that provides low interest rates and reduced mortgage insurance coverage requirements. Fannie Mae's loan level price adjustments (LLPAs) are waived. The private mortgage insurance can be dropped from the loan when a certain loan-to-value is reached, whereas in most cases the FHA loan's mortgage insurance premium stays with the mortgage for the life of the loan.

HFA Preferred has a maximum allowable combined loan-to-value ratio (CLTV) of 105 percent and allows customers to take advantage of the "Community Seconds®" available through HFAs and other sources. These housing finance agency programs, used in combination with HFA Preferred, can help those borrowers who are in a strong position to purchase a home, but do not have enough funds saved to cover a down payment and/or closing costs.

The banker said that her HFA has a credit score overlay of 640, even though the HFA Preferred product can have a lower credit score threshold (scores as low as 620 are allowed). Additionally, all first-time homebuyers must attend mandatory pre-purchase homeownership counseling, either through a HUD-approved counselor or through an approved online provider.

The bank specializes in combining multiple assistance programs when available, increasing affordability. For borrowers who are able to use the HFA funds toward down payment, these programs may increase their equity since the assistance is either forgiven over time, offered at zero percent, or provided as a grant.

Credit score and debt-to-income overlays[7] are common on HFA first-lien products that make use of government or GSE programs. Often if the HFA offers multiple loan products, different limits will apply for each product. HFA credit score and debt-to-income limits can also depend on the type of underwriting mechanism utilized. For instance, many HFAs will allow a lower minimum credit score for those loans that are successfully underwritten through Fannie Mae's Desktop Underwriter® or Freddie Mac's Loan Prospector® than if they are manually underwritten. Other underwriting overlays may also apply.

Targeted populations: Many first-lien mortgage programs are targeted to first-time homebuyers. In most cases, the definition of first-time homebuyer is a person who has not owned a home within the previous three years. Other first-lien mortgage programs target specific populations, such as active military personnel or veterans, police, firefighters or teachers, or recent college graduates. Many HFAs offer multiple first-lien mortgage programs, usually with one or more designed for specific populations and others for the general public.

Occupancy: HFA first-lien mortgage programs are typically restricted to owner-occupied properties.

Property type: The property types allowed under each first-lien mortgage program vary by state, but often include single-family detached homes, two- to four-unit properties in which the owner will occupy one of the units, condominiums, and townhomes. Many programs allow manufactured housing and modular homes as long as they are permanently affixed to the foundation and are titled as real estate.

Homeownership counseling: Most, but not all, states require some form of pre-purchase homebuyer education in order to qualify for down payment and closing cost assistance. HFAs offer a variety of in-person and online options. For buyers purchasing two- to four-unit properties, landlord education is also typically required. The specific delivery channels and program requirements vary by state.

LOAN CRITERIA

In all cases, loans must meet the underwriting and eligibility criteria of the HFA as well as any applicable insuring agency. The ability to use other HFA programs in combination with a first-lien mortgage program varies by program and by state. For instance, in some states, a borrower might be able to receive an HFA first-lien mortgage product, as well as down payment and closing cost assistance and a mortgage tax credit certificate for the same purchase transaction. In other states, the mortgage tax credit certificate might not be allowed to be combined with another HFA program.

Lender compensation and allowable lender fees vary by state. In some cases, the HFA will pay lenders a specified amount, and lenders are not allowed to charge the borrowers directly. In others, lender fees are capped at a specific percentage or amount. For example, many programs cap lender origination fees at 1 percent and other service-related fees at $1,000.

BANK LENDER ELIGIBILITY AND APPLICATION PROCESS

HFA bank eligibility requirements to deliver first-lien mortgage loans often include minimum net worth benchmarks, a fidelity bond, and mortgage omissions insurance coverage, as well as a determination that the bank is in good standing with its regulatory agency. Many HFAs offer multiple execution options to allow banks to choose a method of delivery that best fits their internal capacity and delivery preference, i.e., deliver as a Third-Party Originator (TPO) where the loans are approved by the HFA, or as a direct lender where the bank approves the loan on the HFA's behalf. Eligibility requirements may vary depending on the type of execution agreement chosen by the bank.

Generally, banks are required to provide evidence that they have the capacity to process, underwrite, and close loans. If operating as a direct lender, a lender must also have the capacity to fund loans in its own name, using its own funds. In addition, HFAs often require that a bank is an approved originator of one or more of the following entities: Federal Housing Administration (FHA), U.S. Department of Veterans Affairs (VA), U.S. Department of Agriculture's Rural Development (RD), Fannie Mae, or Freddie Mac.

[7] Debt-to-income overlays are underwriting guidelines that supersede those of the underlying government or government sponsored enterprise loan product and are generally more restrictive. For example, an HFA might require a minimum credit score of 680 on an FHA loan even though the FHA product guidelines allow a lower score.

Number of HFAs that Offer First-Lien Mortgage Loans

Of the 54 HFAs covered in this Guide, 52 HFAs offer first-lien mortgage loans.

Potential Benefits

- HFA first-lien mortgage products provide lenders with the ability to sell conventional and/or government mortgage loans and transfer the liquidity, interest rate, prepayment, and servicing risks to the HFAs.
- Loans originated through HFA first-lien mortgage products may be positively considered under the Community Reinvestment Act, depending on the geography or incomes of the participating borrowers.
- HFA first-lien mortgage products offer reduced rates and/or down payment and closing cost assistance.
- Some HFA products offer underwriting flexibilities beyond traditional low down payment products.
- Many HFAs offer flexible servicing options that allow banks to retain or sell servicing rights.

Potential Challenges

- Many HFA first-lien mortgage products have credit and underwriting overlays that may make government loan products more restrictive than those delivered directly by a lender to the agencies.
- A limited pool of borrowers is eligible for these products due to specific income limits and other limited flexibilities for borrower and loan characteristics.
- Funding for HFA programs is subject to availability and funds may be limited.

RESOURCES

See individual state HFA descriptions in Appendix A for helpful first-lien mortgage resources related to the housing finance agency in each state.