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ONE Mortgage: A Model of Success for Low-Income Homeownership

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ONE MORTGAGE: A MODEL OF SUCCESS FOR LOW-INCOME HOMEOWNERSHIP

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Abstract: A 1989 report by the Federal Reserve Bank of Boston identified major racial disparities in mortgage lending in the City of Boston that could not be explained by income, credit scores, or other objective underwriting factors. In response, city and state officials, community organizations, and major banking institutions joined together in 1990 to design and launch what is now the Massachusetts ONE Mortgage program. The program is built around a low down payment mortgage loan with discounted interest rates, a state funded loan loss reserve that eliminates the need for mortgage insurance, retention of servicing and credit risk by the originating lenders for the life of the loans, a rigorous homebuyer education requirement for all participating borrowers, and a network of post-purchase support including immediate intervention on delinquent loans. After twenty-five years of operation, $3.4 billion in mortgage originations and nearly 20,000 home purchases by low- and moderate-income homebuyers, the program has been a resounding success. About half of all loans have been to households of color, and about two-thirds of the home purchases have been in urban neighborhoods that are historically underserved by conventional credit. Delinquency rates have been comparable to prime loans, and foreclosure rates have been substantially lower than prime loans.

INTRODUCTION

In 1968, elected officials and bankers in Boston designed a mortgage program in the wake of the urban rioting that followed the assassination of Reverend Martin Luther King. It was called Boston Banks Urban Renewal Group, or B-BURG, and the legacy of that program is one of foreclosure, redlining, and blockbusting. "Drive-by" home inspections, 100% govern-

 More detailed versions of the graphics embedded in this article may be viewed online at http://bc.edu/content/dam/bc1/schools/law/pdf/law-review-content/JLSJ/37_2/maha_graphics_A1b.pdf [https://perma.cc/6NYY-VYKD].

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ment guarantees, lack of community input, and no down payments were just some of the problems that plagued the program from the outset and led to record foreclosure rates in just a few years, as detailed in the book *The Death of an American Jewish Community: A Tragedy of Good Intentions*. (Levine & Harmon 1992).

Some twenty years later, most banks had become wary of inner-city mortgage lending and had largely stayed away from engaging in Boston's communities of color. Mortgage lending suffered and bank branches were closed in the communities that needed them most. (Dreier 1991, 18–19). Eventually, a 1989 study by the Federal Reserve Bank of Boston was leaked to the press, and found a pattern of racial bias in Boston's mortgage lending over the intervening period that could not be explained by income, credit history, or other legitimate loan underwriting factors. (Munnell et al. 1992, 50–51).

In response to public outcry and a community-led campaign about the Federal Reserve study, representatives from the Massachusetts Housing Partnership (MHP), the Massachusetts Bankers Association, the Commonwealth of Massachusetts, the City of Boston, the Massachusetts Affordable Housing Alliance (MAHA), and other community advocacy groups began meeting to find common ground and potential solutions. This working group, informed by regular feedback from potential first-time homebuyers, focused on designing a mortgage product that would promote responsible new underwriting standards for inner-city properties. It sought to address common barriers to low-income, first-time homeownership, particularly high minimum down payments and costly private mortgage insurance.

The process resulted in the SoftSecond Loan Program, a collaborative program between the banking industry and state government. SoftSecond was initially launched as a pilot program in Boston in 1991 and expanded statewide in 1992 to ensure that mortgage lending would be available on reasonable terms to traditionally underserved borrowers and neighborhoods. The program operated with few changes through 2013 when MHP launched SoftSecond's successor, the ONE Mortgage program. ONE Mortgage maintained the same features that made SoftSecond so affordable, discussed in detail in Sections II and III below, and simplified the structure of the loan, enabling more lenders to participate.

Since the program's inception, it has served over 5,000 first-time homebuyers in the City of Boston and nearly 20,000 first-time homebuyers statewide. Two-thirds of the loans in Boston support home purchases by households of color, and half of the loans statewide support households of color. The program is administered by MHP, which oversees loan origination by participating lenders, and support services are delivered by homebuyer education and counseling partner agencies.

The program also has two other "owners"—the lenders themselves who originate, hold, and, in most cases, service the loans, and the community organizations, led by MAHA and its Homeownership Action Network, which work to encourage lender participation and increase the impact of the program across the state. This unique buy-in from three sectors—public, private and non-profit—contributes to the staying power of the program. There is no other multi-bank affordable mortgage lending program with the scale and duration of the ONE Mortgage Program anywhere else in the country.

I. LENDER PARTICIPATION AND LOAN PROCESSING

Under the Community Reinvestment Act (CRA) and its Massachusetts counterpart, banks have an obligation to reinvest in the communities where they do business. (CRA; Massachusetts CRA). Yet, in most parts of the country, bank credit for low- and moderate-income homebuyers is limited to conventional, higher-cost mortgage products available via the Federal National Mortgage Association ("Fannie Mae"), the Federal Home Loan Mortgage Corporation ("Freddie Mac"), or the Federal Housing Administration (FHA). (Campen 1997). Massachusetts has been a consistent exception to this rule. Through the ONE Mortgage and SoftSecond programs, banks and credit unions have put $3.4 billion of private sector capital into Massachusetts neighborhoods since 1991 at lower rates and on more responsive credit terms than would have otherwise been available.

The Massachusetts Housing Partnership (MHP) works closely with the Massachusetts Bankers Association to cultivate strong relationships with prospective and participating lenders. ONE Mortgage is currently offered by thirty-seven banks and credit unions throughout Massachusetts, varying in size and geographic scope. Participating lenders understand the program's intricacies as well as its importance within the mortgage market, and are dedicated to community lending through the CRA. MHP is continually working with and seeking prospective lenders in an effort to expand the ONE Mortgage network and reach more eligible first-time homebuyers who could benefit from the program's affordable terms.

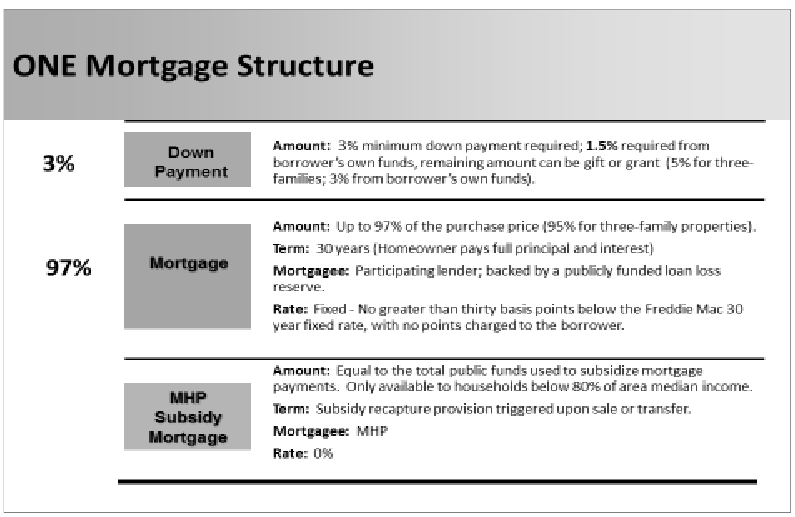
MHP maintains a web-based loan processing system called Es2 that participating lenders use to input loans to gain MHP approval. The system is easy to use, and quickly provides participating lenders with information about ONE Mortgage loans in their pipeline. It calculates qualifying ratios, principal, interest, tax and insurance payments, and interest subsidy and loan loss reserve allocations. In order to streamline the closing process, once a loan is approved and ready to proceed to closing, Es2 produces closing documents specific to each loan.

II. PROGRAM MECHANICS

A ONE Mortgage is a 30-year, fixed-rate loan with a minimum 3% down payment (5% for three-family properties) that is originated and held in portfolio by a Massachusetts bank or credit union. First-time homebuyers with incomes at or below the area median income are eligible to participate in the program. Lenders provide a 30 basis point interest rate discount for the life of the loan. For eligible homebuyers below 80% of the area median income, a state-funded interest rate subsidy further reduces monthly payments during the first seven years of homeownership.

The monthly interest subsidy payments are never more than 25% of the borrower's principal and interest payment. The subsidy payments remain constant for the first four years, then are gradually reduced in years five, six, and seven. In year eight the borrower graduates into making the full principal and interest payment. Interest subsidy can reduce the borrower's effective interest rate by up to 2 whole percentage points (200 basis points). When borrowers sell or transfer the property, the amount of subsidy they have received over the life of the loan may be required to be repaid to the Massachusetts Housing Partnership (MHP) at 0% interest. The ONE Mortgage structure is summarized in Figure 1.

Figure 1.



No mortgage insurance is required because participating lenders retain shared risk and the program includes a loan loss reserve administered by MHP. This unique structure allows the program to serve low- to moderate-income homebuyers who would not otherwise qualify for mortgage financing from traditional mortgage lenders or would only qualify for a product with much higher monthly payments (Federal Housing Administration (FHA) loan payments are approximately $300 per month higher for the typical borrower due in part to the mortgage insurance premium), thereby increasing household cash flow and generally decreasing the risk of default. An Affordable Mortgage Comparison Chart comparing ONE Mortgage to an alternative state housing finance agency product and to FHA (My Mass Mortgage 2017) is shown in Figure 2.

Figure 2.

Affordable Mortgage Comparison Chart

(Estimated payments for a $250,000 Mortgage)

Household Income Up to 80% AMI			Household Income 80% - 100% AMI			Household Income 100% - 135% AMI	
ONE Full Subsidy	MassHousing Lender Paid MI	FHA	ONE No Subsidy	MassHousing Lender Paid MI	FHA	MassHousing Lender Paid MI	FHA
$956**	$1,230*	$1,284***	$1,088	$1,230	$1,284	$1,230	$1,284
Per Month	Per Month	Per Month	Per Month	Per Month	Per Month	Per Month	Per Month

Source: mymassmortgage.org

Unlike some homebuyer programs which cap resale prices (e.g., Irvine Campus Housing Authority) and thus prevent low-income homeowners from accumulating wealth, SoftSecond and ONE homeowners may sell their properties at market prices. Any interest subsidy provided to the homeowner is required to be repaid upon sale; after five years of ownership the subsidy repayment obligation is capped to allow homeowners to retain at least 80% of any net appreciation.

III. Underwriting Guidelines

The Massachusetts Housing Partnership (MHP) employs rigorous yet flexible underwriting terms in order to address the variety of situations facing low- and moderate-income first-time homebuyers in Massachusetts. The general underwriting criteria of the ONE Mortgage Program are designed to be consistent with the terms of the Federal National Mortgage Association ("Fannie Mae") Selling Guide. However, there are several areas where

MHP has created specific guidance in an effort to address certain underwriting concerns.

A. Credit

ONE Mortgage has credit floors designed to both meet the needs of the target population and mitigate credit risk. The minimum representative credit score for a single-family or condominium is 660, and the minimum representative credit score for a two- or three-family property is 680.

MHP allows exceptions to the minimum representative credit score requirement only for those borrowers with insufficient traditional credit history. This option is designed for borrowers who lack credit, including younger buyers with limited credit histories and recent immigrants. Using non-traditional credit requires documentation of twelve months' payment history from at least three sources, including rent and utilities. Non-traditional credit cannot be used for someone who has a sufficient credit history but does not meet the minimum credit score requirements.

B. Qualifying Ratios

To accommodate borrowers at various affordability levels, ONE Mortgage maintains a tiered approach to qualifying ratios. Condominiums and single-family properties are subject to a strictly enforced maximum housing-to-income ratio of 36% and a maximum debt-to-income ratio of 43%. Within these limits lie two tiers. Tier 1 allows for a housing-to-income ratio of up to 33% and a debt-to-income ratio of up to 38%. Loans that fall within Tier 1 and meet the program credit score requirements receive an automatic approval within our electronic loan processing system. Tier 2 consists of loans with housing-to-income ratios over 33% but under 36%, and debt-to-income ratios over 38% but under 43%. Loans in this tier require a combination of at least three compensating factors in addition to meeting the program credit score requirement.

Compensating factors are used to complement a Tier 2 loan, and can include a combination of the following: a minimum representative credit score that exceeds the minimum requirements, a minimum of two months of reserves (liquid funds available after closing), a maximum payment shock less than or equal to 20% (percentage change between pre-mortgage housing obligation and combined principal, interest, taxes, and insurance) documented by twelve months of rent checks or substantial employment stability.

When calculating qualifying ratios for multifamily properties, ONE Mortgage allows the use of 65% of the gross monthly rental income to be added to the borrower's underwriting/qualifying income. Two-family properties are underwritten to a maximum housing-to-income ratio of 45% and a maximum debt-to-income ratio of 50%. Three-family properties are underwritten using only a maximum debt-to-income ratio of 50%. ONE Mortgage Underwriting Ratios are summarized in Figure 3.

Figure 3.

Underwriting Ratios – Condominiums and Single-Families

	Housing-to-Income **Ratio**	**Total DTI**
Tier 1	33%	38%
Tier 2	36%	43%
Year 8: Maximum Unsubsidized Housing-to-Income Ratio *(Applies only to loans w/interest subsidy)*	41%	-

Underwriting Ratios – Two Family Properties

	Housing-to-Income Ratio	**Total DTI**
Maximum Ratio at Origination	45%	50%
Year 8: Maximum Unsubsidized Housing-to-Income Ratio *(Applies only to loans w/interest subsidy)*	50%	-

C. Condominium Underwriting

ONE Mortgage follows Fannie Mae Underwriting Guidelines on the majority of issues surrounding condominium underwriting. However, understanding the complexity, and in some cases, the limitations of traditional condominium underwriting, MHP works closely with partner lenders to ensure that common sense decisions are made that do not limit the program from being used to purchase both affordable deed-restricted and market-rate condominiums. To this end, MHP has created specific guidance regarding pre-sale requirements that allow lenders to underwrite ONE Mortgage loans in condominium projects that do not meet Fannie Mae Guidelines. To qualify under this specific guidance, properties must fall within a small project (two to four units), or a project that is either 100% affordable or deed-restricted, or a project that contains a mix of market-rate and affordable deed-restricted units.

D. Three-Family Properties

The ability to purchase a multi-family property and begin building wealth has always been an integral part of the program. Three-family properties represent an opportunity for qualified first-time homebuyers to become landlords, and to realize the financial gains that can come with managing income-generating units. However, given the increased risk of purchasing a three-family property, the program's underwriting guidelines have been strengthened to include a 5% down payment (3% from the borrower's own funds), two months' liquid reserves after closing, and a one-on-one counseling requirement. The purpose of the counseling requirement is for homebuyers to gain a better understanding of what it means to become a landlord, manage tenants, and maintain their new property. Counselors sit down with the homebuyer and create a monthly budget, discuss landlord-tenant law and tenant's rights, and review a property inspection report to help identify any potential pitfalls. These extra requirements not only help ensure that buyers are fully prepared, but help mitigate credit risk to the participating ONE Mortgage lender and to MHP.

IV. Homebuyer Education and Counseling

SoftSecond and ONE Mortgage homebuyers are required to attend both pre- and post-purchase homebuyer education and counseling, a requirement that helps them better prepare for the purchase of their first home. First-time homebuyers and repeat buyers who receive qualified homebuyer education are much less likely to default on their loans. (Brown 2016, 168–69). To this end, Massachusetts Housing Partnership (MHP) partners with over forty non-profit homebuyer education and counseling organizations statewide that provide pre-purchase services. The curriculum is certified by the Massachusetts Homeownership Collaborative, managed by the Citizens Housing and Planning Association (CHAPA). Through these community providers, prospective homebuyers receive objective information and advice from a series of industry professionals including a real estate agent, lender, home inspector, and attorney. The end result is an informed, educated buyer who is better prepared for homeownership.

Through the HomeSafe Program, ONE Mortgage borrowers are also required to attend a post-purchase class that helps introduce them to homeownership. MHP has supported a network of ten community organizations that provide regular HomeSafe classes which cover topics such as budgeting as a homeowner, understanding the major systems of the home, maintenance and repairs, insurance loss prevention, energy savings, and household hazards like lead paint, mold, and chemicals. Many insurance companies offer 5% to 10% annual discounts to graduates of these HomeSafe classes and both MHP and the City of Boston require homebuyers to attend as a condition of the mortgage loan.

In addition to the homeownership education requirements, current SoftSecond and ONE Mortgage homeowners who are delinquent on their loans are automatically referred to foreclosure prevention counselors. This referral happens for borrowers who are reported 30, 60, 90, or 120+ days delinquent, as well as those who are reported as in process of foreclosure. The goal is to link struggling homeowners with professional counselors who will help to address the underlying causes of the delinquency. Counselors conduct this outreach by telephone, email, or mail, and are available for in-person meetings with the borrower. These meetings might consist of reviewing the household budget, working with lenders to explore modification options, or even helping to link struggling homeowners with employment or income-maximizing opportunities. These services are offered at no charge to the borrower.

V. PROGRAM DEMOGRAPHICS

The Massachusetts Housing Partnership (MHP) has maintained its focus on expanding the availability of mortgage credit on reasonable terms to otherwise underserved households of color across the Commonwealth. From July 1, 2015 to June 30, 2016, fiscal year 2016 (FY16), 49% of ONE Mortgage homebuyers identified as non-white and/or Hispanic/Latino. In Boston, 61% of ONE Mortgage homebuyers identified as non-white and/or Hispanic/Latino.

During FY16, the median household income for ONE Mortgage homebuyers was $55,899. This measure includes income from all adult household members as opposed to strictly borrower income. Overall, 61% of ONE Mortgage buyers had total household incomes below 80% of the area median income. The median purchase price was $218,000, and the median credit score was 738.

Over the course of the twenty-five-year history of the programs, SoftSecond and ONE Mortgage have served homebuyers in 302 of the 351 cities and towns in the Commonwealth. In FY16, 43% of ONE Mortgage homebuyers purchased in one of Massachusetts' older industrial cities, such as Worcester, Lawrence, and Springfield, known as "Gateway Cities." Another 13% purchased in the City of Boston. The remaining 44% purchased in other communities.

Esther Maycock-Thorne is among the homeowners who purchased a home through the SoftSecond program. She bought a single-family home in Brockton in 2003 after moving to the United States from Barbados some thirteen years earlier. In Barbados, her family lost their home due to her father's gambling debts and substance abuse. Esther was determined to achieve homeownership for her and her two daughters to gain the sense of security that owning a home can provide. She took a class with the Massachusetts Affordable Housing Alliance (MAHA) and met other first-time homebuyers and a counselor who inspired her. Esther bought a home within one year of receiving a graduation certificate. Just five years later, her oldest daughter followed her path and was able to buy her first home with her husband using the SoftSecond program. Esther's daughter credits her mother's example and success as a motivating factor in her own home-buying story. She is now raising two young boys who see the benefits of homeownership firsthand *and* when they go visit "Nanz."

VI. Performance

Historically, the delinquency and foreclosure rates for the SoftSecond and ONE Mortgage programs have generally tracked at or below the rate for all prime mortgage loans in Massachusetts as reported in the National Delinquency Survey. (Mortgage Bankers Association). However, since the 2008 financial crisis, SoftSecond and ONE's combined delinquency rate has increased to a level somewhat above prime loans, but still well below the aggregate rate for all loans in Massachusetts, including VA loans, which are administered by the U.S. Department of Veterans Affairs, and Federal Housing Administration (FHA) loans. The programs' foreclosure rate remains at or below the rate for all prime loans in Massachusetts. (Mortgage Bankers Association). Only 1.9% of the loans originated since the inception of the programs have resulted in default and liquidation (i.e., a foreclosure, short sale, or deed in lieu of foreclosure). If all loans currently in the process of foreclosure end in liquidation, that rate would be 2.4%. Defaults for loans originated in the years 2004 through 2008 are unusually high, which follows the pattern of the U.S. housing market as whole. These particular years stand out as ones in which the delinquency and loss figures were abnormally high when compared to other years. The programs' relatively low delinquency and foreclosure numbers are attributed to a number of factors, including the built-in affordability of the product, pre- and post-purchase homebuyer education, early-intervention delinquency and foreclosure counseling, and the support of partner lenders who work closely with homebuyers and homeowners throughout the entire process.

The Massachusetts Community & Banking Council (MCBC), a collaborative forum for Massachusetts financial institutions and community organizations that meet and share information with the goal of affecting positive change in the availability of credit and financial services in Massachusetts, has been reviewing the performance of SoftSecond and ONE Mortgage on a quarterly basis since 2000. A Delinquency Rate Comparison to all Massachusetts loans is shown at Figure 4, a Delinquency Rate Comparison to various types of loans over the past three years is shown at Figure 5, and a Foreclosure Rate Comparison to various types of loans over the past three years is shown at Figure 6. The delinquency rate includes those loans that are reported to MHP as 30, 60, 90, 120, and 150+ days past due. The foreclosure rate includes those loans that are reported to MHP as in process of foreclosure or in bankruptcy.

Figure 4.

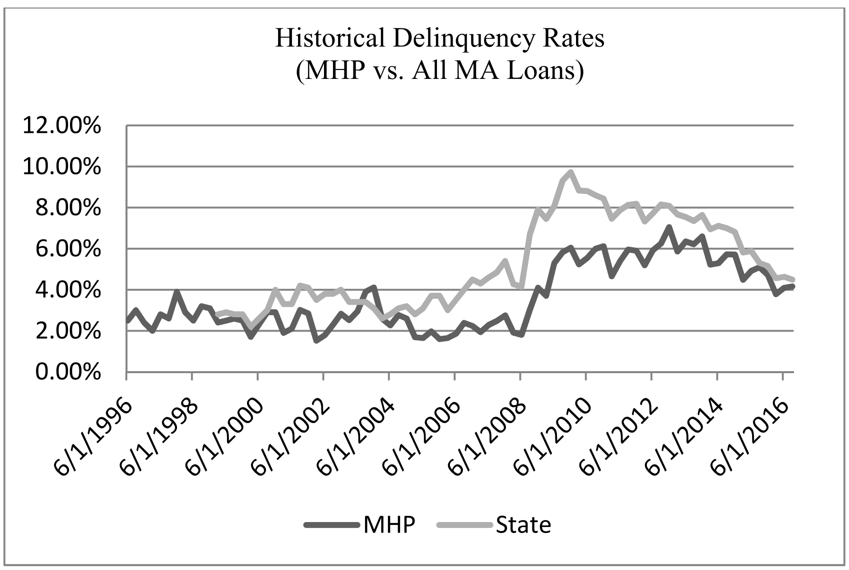


Figure 5. Delinquency Rate Comparison

Massachusetts Delinquency Rates

	Prime	All Loans	FHA	VA	MHP
06.30.13	4.55	7.54	11.37	6.21	6.35
09.30.13	4.64	7.35	11.31	6.12	6.22
12.31.13	4.60	7.64	12.17	6.60	6.60
03.31.14	4.36	6.94	10.37	5.57	5.22
06.30.14	4.35	7.11	11.05	5.89	5.29
09.30.14	4.17	7.00	11.64	6.08	5.72
12.31.14	4.60	6.81	11.73	5.98	5.71
03.31.15	3.44	5.81	9.74	4.88	4.48
06.30.15	3.48	5.88	10.67	5.03	4.92
09.30.15	3.36	5.30	10.78	4.99	5.10
12.31.15	3.25	5.16	10.71	4.74	4.73
03.31.16	2.85	4.56	8.72	3.98	3.78
06.30.16	2.88	4.63	9.20	4.41	4.09

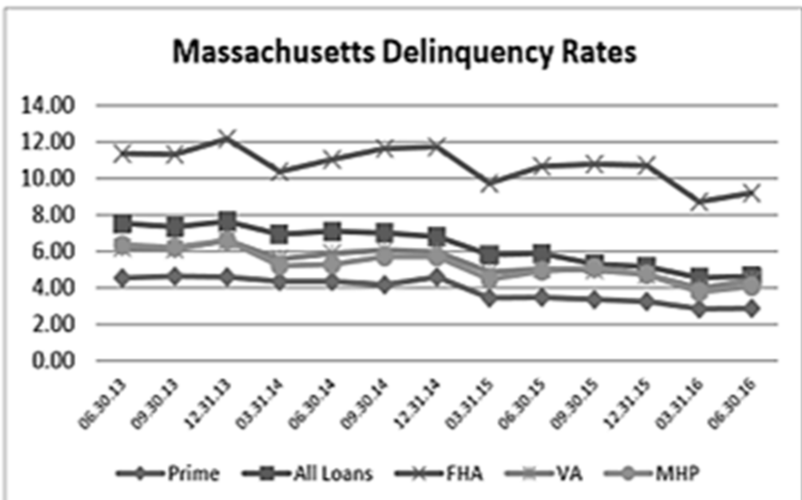
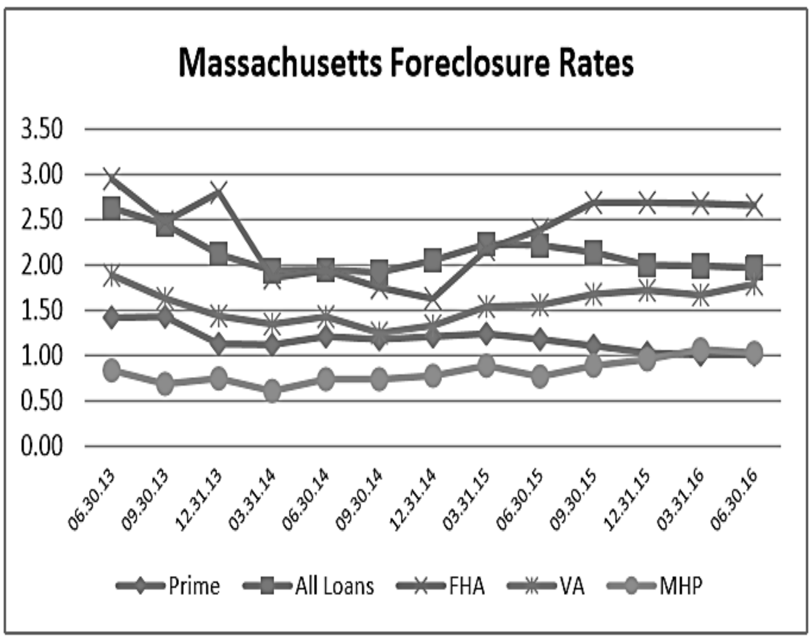


Figure 6. Foreclosure Rate Comparison

Massachusetts Foreclosure Rates					
	Prime	All Loans	FHA	VA	MHP
06.30.13	1.42	2.63	2.95	1.89	0.84
09.30.13	1.43	2.45	2.48	1.63	0.69
12.31.13	1.13	2.12	2.80	1.44	0.75
03.31.14	1.12	1.94	1.86	1.35	0.61
06.30.14	1.21	1.95	1.94	1.43	0.74
09.30.14	1.18	1.92	1.75	1.25	0.74
12.31.14	1.21	2.05	1.63	1.33	0.78
03.31.15	1.24	2.23	2.17	1.54	0.89
06.30.15	1.18	2.22	2.39	1.56	0.77
09.30.15	1.11	2.14	2.69	1.68	0.89
12.31.15	1.03	2.00	2.69	1.72	0.96
03.31.16	1.01	1.99	2.68	1.67	1.07
06.30.16	1.01	1.97	2.66	1.79	1.03



VII. IMPACT

A. Addressing Racial Inequalities

Despite decades of efforts to address discrimination in mortgage lending and home purchases, Massachusetts still has the forty-eighth lowest homeownership rate for households of color among the fifty states. Homeownership rates for households of color are 43% higher nationally than in Massachusetts. (Corporation for Enterprise Development 2016). In Boston, for example, blacks and Latinos represent 35% of total households but obtain only 10% of all home purchase loans. Statewide, blacks and Latinos represent 18% of the population but obtain less than 5% of all home purchase loans. (Campen 2015, Appendix Table 3). National data show that simply achieving race-neutral homeownership rates would reduce the wealth gap between black and white households by one-third. (Sullivan et al. 2015, 9–15).

As noted by the Federal Reserve Bank of Boston in *The Color of Wealth in Boston* (Muñoz 2015, 2):

> In the coming decades, a significant rise in the share of nonwhite populations is projected nationwide. Population growth in the Boston MSA is already driven by the nonwhite population increase. Thus, the financial well-being of communities of color is central to ensuring the inclusive long-term growth and prosperity of the Boston MSA. Unless net worth outcomes in communities of color improve, the aggregate magnitude of the wealth disparity will increase. This is a first-order public policy problem requiring immediate attention.

(*Id*.). Continued expansion of the ONE Mortgage program is an important part of the public policy solutions needed to address the racial wealth gap in Massachusetts. Similar efforts are needed nationwide.

B. Filling a Major Gap in the Market

Creditworthy low- and moderate-income homebuyers in Massachusetts often pay disproportionately high interest rates and mortgage insurance fees when using mortgage products other than ONE. (Campen 2016; Figure 2 *supra*). The result is reduced buying power and a higher monthly debt burden. ONE Mortgage delivers the lowest financing cost in the market while achieving foreclosure rates that are still substantially below the rates for prime mortgage loans (i.e., loans eligible for sale to the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac")). According to a recent analysis by the

Urban Institute, households in the income range targeted by ONE Mortgage (60% to 100% of AMI) get the least benefit from federal housing programs and from mortgage interest and real estate tax deductions. (Steuerle et al. 2014, 1–2). With a fixed housing payment and no cap on appreciation, ONE Mortgage affords creditworthy Massachusetts homeowners in that income range the best opportunity to create wealth and long-term financial stability.

C. Revitalizing Cities and Stabilizing Neighborhoods

There is strong evidence that ONE and SoftSecond mortgages help to stabilize neighborhoods in periods of economic distress. The City of Brockton, for example, had the highest foreclosure rate of any city or town in Massachusetts during the recent recession and many of the subprime loans that defaulted were in the same neighborhoods and on the same streets as SoftSecond homeowners. (Davis 2014). Despite abysmal market conditions, hundreds of SoftSecond homeowners in Brockton were able to weather the storm and less than 1% ever defaulted and lost their homes. The fact that so many homes in the same neighborhoods remained safely owner-occupied through the crisis helped keep vacancy and abandonment in the city from becoming far worse. That stabilization effect from SoftSecond loans occurred in every major city in Massachusetts.

VIII. Credit Model for the Future

Several key elements have worked in combination to ensure the long-term success of the SoftSecond and ONE Mortgage programs.

A. Program Eligibility Limited to Well-Prepared Borrowers

Participation in the ONE Mortgage and SoftSecond programs requires a homebuyer education certificate from a program accredited by the Massachusetts Homeownership Collaborative. Accredited programs must adhere to minimum curriculum requirements, provide a minimum number of hours over multiple sessions, and adhere to a strict conflict of interest policy to ensure that homebuyers are not steered to particular lenders or loan products. Homebuyer education generally occurs, *and ideally occurs*, well before a consumer has made a decision to pursue homeownership, let alone before they have looked at properties or engaged in discussion with prospective lenders. In some cases, homebuyer education is effective in convincing consumers to delay or forego homeownership; in many cases, it results in strategies for budgeting, credit repair, and regular savings that lead to a successful home purchase months or even years later. Too many programs push the envelope on convincing banks to lend to households with lower credit scores rather than focus on improving the credit profiles of low- to moderate-income borrowers. ONE Mortgage has focused from the start on long-term success and not short-term results, and that has served the program and its homebuyers well over the years.

B. Data-Driven Underwriting Standards

Although the original intent of the SoftSecond program was to break down barriers that kept low- and moderate-income buyers from gaining access to credit, there was also great care to ensure that borrowers were not getting into debt over their heads. First-time buyers themselves helped to see this clearly back in 1990 when the program was designed. Bankers at the time offered to raise debt-to-income ratios and buyers pushed back with a greater focus on the overall affordability of the monthly mortgage payment. Maximum mortgage debt and overall debt-to-income ratios never ventured far beyond secondary market norms. Minimum down payments never dropped below 3%, and always required that a significant portion be from the borrower's own funds and not simply from down payment assistance. Again, this requirement was reinforced by advocacy from potential first-time homebuyers.

Community organizers heard loud and clear from the target home-buying population that this program should always require a down payment. They reasoned that buying a home should not be easier than buying a car. The only comparatively aggressive underwriting policies were for recognition of rental income on owner-occupied three-family properties, a housing type that is unique to the Northeast, that experiences much more market volatility than one- and two-family homes, and that has historically created a great wealth building opportunity for low-income buyers.

Long before the Great Recession, MHP looked for opportunities to refine and improve underwriting standards and presented its delinquency data to quarterly meetings of the Massachusetts Community and Banking Council. Staff at the Center for Community Capital at University of North Carolina Chapel Hill (UNC) were engaged by MHP in 2010 to examine twenty years of loan performance relative to specific underwriting characteristics. Their final report, summarized in "Determinants of Mortgage Default" (Park 2010, 1–19), included analysis that led to somewhat higher minimum credit scores, modifications to debt-to-income ratio exceptions, and the underwriting of rental income in two- and three-family properties. In January 2010, minimum credit scores were increased from 620 to 660 for condominiums and single-family properties, and from 660 to 680 for two- and three-family properties. Our maximum housing-to-income ratio for condominiums and single-family properties was lowered from 38% to 36%, and our maximum debt-to-income ratio for condominiums and single-family properties was lowered from 45% to 43%. Additionally, in February 2012, instead of subtracting 75% of projected rental income from the borrower's principal, interest, taxes, and insurance (PITI), we began adding 65% of gross monthly rental income to the borrower's qualifying income. These changes reduced instances of default while affecting a relatively small number of actual, or potential, borrowers.

C. Targeted to Borrowers Who Are Good Credit Risks

SoftSecond and ONE Mortgage are not subprime loan programs; they were designed to seek out "prime" low-income borrowers who are overlooked by conventional credit providers. Average FICO scores are now well into the 730s, and the minimum score is now 660. Although the program did not start off with minimum credit scores—and a few early loans were made to borrowers with scores in the high 500s and low 600s—later regression analysis found that FICO scores were a strong predictor of default risk.

One of the greatest ongoing challenges for ONE Mortgage is how to evaluate so-called "non-traditional credit" for homebuyers who are historically debt-adverse, have a history of paying all obligations in cash, and do not have enough established credit lines to support a representative FICO score. In previous years, the SoftSecond program gave participating lenders flexibility to review and approve alternative credit, but default rates for those loans were disproportionately high. MHP subsequently created its own non-traditional credit guidelines for the ONE Mortgage, modeled closely to the Federal National Mortgage Association ("Fannie Mae") standard, but concerns remain that those standards may exclude some very creditworthy borrowers, particularly among recent immigrants.

D. Expands Purchasing Power Through Graduated Payment Model

Many teaser rates and interest rate buy-downs are nothing but a gimmick to encourage and mislead borrowers into buying homes with larger mortgage loans then they can really afford. (Gurun et al. 2016, 4–5). The graduated payment structure of those SoftSecond and ONE Mortgage loans with interest subsidy are completely different, because they were designed with input from lower-income buyers and make conservative assumptions to ensure that monthly mortgage payments do not outstrip the rise in household income over time, assuming a modest rate of increase. Interest rates are fixed at closing. Subsidized borrowers' monthly payments are constant for the first three years, and then payments increase once per year (generally within a $25 to $35 monthly payment increase) before leveling off in year eight. Loan performance analysis confirmed that these scheduled monthly payment increases had no measurable impact on delinquencies and defaults. (Park 2010, 9–19).

E. Avoids the Cost of Mortgage Insurance and Guarantee Fees

Lenders participating in the SoftSecond and ONE Mortgage programs have agreed to originate high loan-to-value (LTV) loans with reliance on a state-funded loan loss reserve in lieu of costly private mortgage insurance. That approach has dramatically reduced financing costs for borrowers without exposing lenders to undue risk, particularly because of the checks and balances that distinguish SoftSecond and ONE Mortgage loans from other, less disciplined high LTV mortgage products. Federal Housing Administration (FHA) insurance, private mortgage insurance, and Fannie Mae and Federal Home Loan Mortgage Corporation ("Freddie Mac") guarantee fees are all overpriced for creditworthy low- and moderate-income borrowers. (Campen 2016; Figure 2 *supra*). State-funded reserves are sized to cover losses during all normal market cycles, are initially oversized to encourage smaller community banks to participate, and proved sufficient to fully cover loan losses for all but a few SoftSecond lenders during the recession and national foreclosure crisis, with very little impact on their willingness to continue offering these loans.

When a participating lender experiences a loss event on a SoftSecond or ONE Mortgage loan, it is able to file a claim on the loan loss reserve fund. MHP will review the loan loss claim to ensure that all policies and guidelines were followed, and that the participating lender used its best business judgment to minimize the loss.

SoftSecond and ONE Mortgage loan loss reserves serve the same purpose, but function differently in a few ways. Their funding structures differ in that SoftSecond loan loss reserves were funded at a rate equal to 3% of the second mortgage. Therefore, for each SoftSecond loan that a participating lender originated, 3% of that second mortgage went into their pooled fund. However, the ONE Mortgage loan loss reserve is structured so that each lender's first five loans will be funded at 5% of the mortgage amount, and each subsequent loan will be funded at 1% of the mortgage amount. Under both programs, lenders are able to file a claim on the pooled amount. Second, the SoftSecond loan loss reserve only covered losses on the 20% second mortgage. Therefore, participating lenders held top-loss risk consisting of the entire first mortgage. However, the ONE Mortgage loan loss reserve is structured so that participating lenders and MHP retain shared risk, with MHP covering 80% of qualifying loan loss claims on the originating lenders' total credit exposure on a defaulted mortgage loan.

The Commonwealth of Massachusetts has supported the SoftSecond and ONE Mortgage programs through six terms of both Democratic and Republican Governors. Therefore, the program has received consistent funding throughout its history. Additionally, because of our ability to recapture interest subsidy when borrowers transfer or sell the property, we have the ability to recycle subsidy funds for use on new ONE Mortgage loans.

F. Lenders Retain Credit Risk and Have Skin in the Game

One of the most important lessons from the financial crisis is that mortgage loans are more likely to default when the loan originators have no financial stake in their performance. Although the Dodd-Frank Wall Street Reform and Consumer Protection Act specifically required loan originators to retain risk in all but the safest loans (Dodd-Frank Act § 941), this requirement was watered down under pressure from Wall Street. (Wilmarth 2013, 1322–27).

With ONE Mortgage and SoftSecond, participating lenders have full exposure for any credit losses that exceed state-funded reserves. With just a few exceptions (e.g., on rare occasions when loans may be sold from one Massachusetts lender to another) the originating lender retains loan servicing for the life of the loan. That combination of factors strongly discourages lenders from originating loans where they may have concerns about credit quality.

An analysis MHP presented to federal regulators in support of a strong risk retention rule found that banks' retained risk in SoftSecond loans added only a fraction of a point to the financing cost while achieving an eightfold reduction in losses compared to national credit model predictions for loans made to borrowers with the same incomes, down payments, and credit scores. (MHP 2011).

G. Immediate Intervention and Non-Profit Counseling for Delinquent Loans

The Massachusetts Affordable Housing Alliance (MAHA) developed its HomeSafe program in 1996, just five years after the launch of the SoftSecond program. MHP expanded the HomeSafe program statewide a couple of years later, and this unique approach to ongoing support has proven to be successful. The two major features of HomeSafe are: 1) a six-hour class designed to reach new homeowners during the first year of homeownership with answers to their many questions, and financial incentives from insurance companies and hardware stores to help ensure participation in the classes, and 2) a dedicated early intervention counseling model that emphasizes non-profit outreach to borrowers, not the other way around that predominated in the aftermath of the subprime crisis. This early intervention model, where non-profit counselors reach out to delinquent homeowners who experience a 30+ day delinquency, is part of what keeps our serious delinquency and loss rates so low.

Taken together with the intensive pre-purchase counseling, the homebuyer education and counseling requirements are substantial and downright old-fashioned. With the advent of online tools, some in the mortgage industry are looking to help consumers bypass human interaction altogether. "Press button, get mortgage" from Quicken Loans is just one of many purely technical approaches to mortgage origination. In Massachusetts, counseling organizations have embraced an online platform for educating borrowers about the home buying process, but they have also insisted on in-person follow-up counseling for those accessing the online class. At MAHA, 15% of graduates access the online class. But surprisingly, those online education graduates crave the in-person follow-up session as much as those who choose the traditional four-session class. We need to find ways to continue to provide high-touch counseling services, while also recognizing the technological capability and preferences of potential borrowers, if we are to maintain the same supports that have served ONE borrowers so well over the last twenty-five years.

Conclusion

ONE Mortgage, and its predecessor, the SoftSecond Loan Program, would not have been possible without the bipartisan support of the state legislature and seven governors over two and one-half decades, along with a coalition of lenders, a strong network of community organizations, and state and municipal officials that have remained steadfast through several market cycles. There is no other bank-financed mortgage program in the country that has achieved comparable community impact or loan performance at this scale or over this long a period of time. With standard underwriting and administration that have been systematized, the programs have had remarkable results in Massachusetts and demonstrate a replicable credit model. Through an effective public-private partnership, ONE Mortgage demonstrates that lower-income families can be successful homeowners.

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