Bank of America to Massachusetts Homebuyers:

Life's Expensive When We're Connected

A report on Bank of America's Massachusetts mortgage lending from 2004-2014

by the Homeownership Action Network

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The Homeownership Action Network (HAN) is a growing state-wide network of homeownership education and community development organizations working together to advocate for public and private investment in affordable, sustainable homeownership across Massachusetts.

Background and History

First SoftSecond home, Dorchester

Bank of America was a San Francisco-based banking power with no Massachusetts presence in January, 1991 when Florence Hagins turned her key for the first time at her two-family home on Jones Hill in Dorchester.

Hagins' lender was Shawmut Bank, then a dominant New England mortgage lender and the first bank to close a loan in the brand-new Massachusetts SoftSecond loan program. The SoftSecond program, administered by the Massachusetts Housing Partnership (MHP), had been two years in the making. The wheels were set in motion on January 11, 1989 when *The Boston Globe* broke news with a leaked study from the Federal Reserve Bank of Boston that showed evidence of racial disparities in mortgage lending in the city's neighborhoods.

In the weeks and months that followed the *Globe* and *Boston Herald* jumped on the story and a community coalition formed quickly to respond. The Massachusetts Affordable Housing Alliance (MAHA) took the lead in drafting a mortgage lending response. Mayor Flynn expressed concern and Boston banks scrambled to bring in a team of consultants to map out a strategy.

A year later, on Martin Luther King Day in 1990, bankers and community groups announced a historic $400 million community investment agreement that included a mortgage product designed to be affordable and accessible to low- and moderate-income households, with specific emphasis on meeting the needs of Black and Latino homebuyers. Later that year, the state's three largest banks (Shawmut, BayBank and Bank of Boston) started taking applications under the program. Florence Hagins, an African-American single mother who was once denied a conventional mortgage, became its first proud homeowner.

Program Lending Grows/Bank of America Comes to Massachusetts

At the continued urging of Hagins and other activists, all three banks committed to continue making these loans. In 1991, Fleet Bank, which was based in Rhode Island, entered Massachusetts by buying the Bank of New England and signed on as an active lender in the program. Later Fleet bought Shawmut and then BankBoston, which had been created in 1996 through a merger of Bank of Boston and BayBank. This left only one mega-bank where Massachusetts had previously had three sizable Boston-based lenders. However, activists were involved in each merger, seeking and winning commitments that SoftSecond lending would be increased as a result of each one. By the end of 1999, when Fleet had swallowed up all three of the original SoftSecond Program lenders, it had made a multi-year commitment to continue serving eligible homebuyers through the program.

But the mergers were not over yet. In October 2003, Massachusetts residents woke to headlines that Bank of America intended to acquire Fleet. Executives initially balked at joining the SoftSecond Program, stating a preference for offering a “one size fits all” product across the bank’s entire footprint. However, they quickly reconsidered at the urging of MAHA, the Massachusetts Association of Community Development Corporations (MACDC), and then-Congressman Barney Frank. The bank made an unprecedented ten-year 3,000 loan commitment and embraced the program as a responsible way to reach low- to moderate-income homebuyers in a high-cost state like Massachusetts.

Soon Bank of America became the leading lender in the program and was known as a go-to lender, for all the right reasons, for homebuyers in neighborhoods of color across the state. With respect to affordable mortgage lending, the bank was living up to the promise it made to regulators and the public that its acquisition of Fleet would benefit Massachusetts consumers.

The SoftSecond Program was unique in that it had significant benefits for borrowers, and also provided an important risk-sharing element for banks. A publicly funded loan loss reserve provided by Massachusetts state government eliminated the need for costly private mortgage insurance, making the loans more affordable to low wealth borrowers lacking hefty downpayments, while also lowering risk for participating lenders. Nonprofit organizations provided both pre-purchase and post-purchase education and support to all program homebuyers.

In 2010, anticipating changes in the mortgage lending landscape following the financial crisis, the Massachusetts Housing Partnership convened a task force to redesign the program to make it simpler to administer, and to make sure it would comply with new mortgage regulations being discussed in Washington. The task force was made up of three banks (Bank of America, Eastern Bank, and Boston Private Bank & Trust) and representatives from MAHA, the Massachusetts Bankers Association, and MHP.

Task force members spent the next two years analyzing the strengths of the existing program and proposing changes that would retain its affordability while aligning it with new secondary market guidelines. Bank of America’s Kathy Cummings, a Charlotte, NC-based executive, was the bank’s point person on the task force, and she played a key role in the redesign. After over $2.7 billion in successful originations, the two loans issued to each homebuyer under the SoftSecond Program would be one fully amortizing mortgage for future buyers. The product received a new name to go along with its new structure, and is now known as the ONE Mortgage Program.

Task force members were chiefly concerned with the proposed product’s alignment to secondary market standards and with regulatory changes brought by Dodd-Frank. For this reason, underwriting standards for the ONE Mortgage Program were structured to meet or exceed the requirements of Fannie Mae's My Community Mortgage. In all cases, variances from My Community Mortgage standards are supported by long-term performance data of the SoftSecond Loan Program. In addition to ongoing public reporting on the delinquency rate, the SoftSecond loan portfolio was analyzed by a third party to verify default and loss data. In 2013 the strong performance of the Massachusetts SoftSecond Loan Program was specifically cited by the Consumer Financial Protection Bureau as a reason for making all state housing finance programs (including the ONE Mortgage program) automatically compliant with the new Qualified Mortgage and Ability to Repay regulations.

New Compact

In June 2013, Governor Deval Patrick joined MAHA and other Homeownership Action Network members, elected leaders, and bankers at a press conference to announce the transition to the ONE Mortgage Program, and to urge lenders to offer it. The Governor set a specific goal of serving 10,000 low- and moderate-income first time homebuyers over the next 5 years through the ONE Mortgage Program and MassHousing (the other state sponsored mortgage program). Six banks—Citizens, Santander, Eastern Bank, Enterprise Bank, Rockland Trust, and Blue Hills Bank—signed on immediately, with Citizens, Eastern, and Blue Hills Bank making 5-year, numerical commitments to ONE. Eighteen other lenders have since come aboard. But Bank of America has not agreed to participate in ONE.

After twenty-two years of lending by Bank of America and its legacy banks in the most affordable mortgage product in Massachusetts, the state's largest bank operates in one of the highest housing cost states in the nation without the most affordable option for first time homebuyers.

In addition to serving a lower income constituency than those served by other more expensive mortgages, the ONE Program is closing the state's stubbornly high racial homeownership gap. Sixty-nine percent of white households in Massachusetts are homeowners, compared to just 32% of households of color, according to a recent report by the Corporation for Enterprise Development, a leading source of data about household financial security and related public policy. In this state where nearly eight of ten residents are white, half of SoftSecond Program homebuyers have been people of color. Twenty-three years after its inception, ONE is still offering affordable, sustainable homeownership opportunities to Black and Latino families.

Bank of America and the Boston-based banks it acquired have been a big part of that success. Together, they have closed 7,039 of the 17,380 loans (or 40.5%) in the program. More than seven thousand homeowners, many of them first-generation, and many homeowners of color, are living the American Dream today thanks to Bank of America.

	BofA SoftSecond Lending by Year
1991-2003	3,705*
2004	258
2005	159
2006	160
2007	312
2008	714
2009	1027
2010	373
2011	163
2012	100
2013	68
TOTAL	**7,039**

*made by BofA's predecessors: Shawmut, BayBank, BankBoston and Fleet Bank.

The SoftSecond Program has not only put over 17,300 families in homes since 1991, it has also helped keep them in their homes. MHP reports quarterly to the Massachusetts Community and Banking Council, an entity made up of bankers and community organizations, on delinquencies and foreclosures within the program. Although the average household income of SoftSecond borrowers is just 55% of Area Median Income, the delinquency rate has consistently tracked below the rate for all mortgages in Massachusetts. The foreclosure rate is less than one-third of the rate for all Massachusetts mortgages. The ONE Program doesn't just help individual families. It also helps neighborhoods by creating stable owner occupants.

What's the Plan?

According to Bank of America executives, 40% of its recent mortgage lending has been to low- and moderate-income borrowers who were income eligible for the SoftSecond/ONE Program. However, despite the SoftSecond Program being an official offering at the bank through the end of 2013, most of these borrowers were sold other, more expensive products. Bank executives express confidence that they can continue to reach large numbers of these homebuyers without offering the ONE Mortgage.

In this regard, Bank of America's plan is reminiscent of how Countrywide and other predatory lenders reached borrowers from 2003–2008. The bank is marketing vastly more expensive FHA mortgages to unsuspecting homebuyers with excellent employment histories and credit scores who would qualify for the much more affordable ONE Mortgage Program. While Citizens Bank is going strong as the leading program lender, and Santander and Eastern have increased their commitments in 2014, Bank of America is putting the squeeze on economically strapped homebuyers, many of whom are working two or three jobs to make ends meet.

As the chart below shows, a homebuyer purchasing a single family home for $220,000 will pay a minimum of $276 per month more at Bank of America than she will pay at a ONE Program lender. The extra monthly cost rises to $438 for a typical 2-family home, and reaches $564for a 3-family house. Bank of America's "plan" seems to be to gouge our lowest income homebuyers who are the most likely to purchase a 3-family home for more than $560 per month. This year, that will cost 300 low- and moderate-income Massachusetts households over $1.25 million in higher payments to Bank of America.

	ONE monthly payment	**BofA FHA monthly payment**	**Added Cost Each Month**
$220,000 Single family	$983	$1,259	$276
$350,000 Two family	$1,564	$2,002	$438
$450,000 Three family	$2,011	$2,575	$564

Bank of America's advertising campaign suggests to customers that "life's better when we're connected." In Massachusetts, it is considerably more expensive for first time buyers to be connected to Bank of America.