

STATE OF HAWAI'I DEPARTMENT OF HAWAIIAN HOME LANDS

Hawaiian Homes Commission

March 20-21, 2023

B. REGULAR AGENDA Office of the Chairman

C-3

RECOMMENDED ACTION

Authorize the Chairman to work with DHHL staff to determine the feasibility of deploying mortgages with the Neighborhood Assistance Corporation of America ("NACA") on Hawaiian Home Lands.

DISCUSSION

The Neighborhood Assistance Corporation of America ("NACA") is a nationwide non-profit and HUD approved housing counseling organization, that has created a fair lending model that provides affordable homeownership on a large scale. NACA's model benefits individuals who have been prevented from accumulating wealth and achieving personal security through homeownership

NACA's Homeownership Opportunity Program ("HOP") is a partnership between NACA and a city or Public Housing Authority ("PHA") to generate permanent affordable homeownership and neighborhood stabilization through NACA's Best in America Mortgage.

NACA provides its programs in all fifty states with 47 offices nationwide and a counseling center for nationwide remote counseling services. NACA is a non-profit housing counseling organization and a mortgage broker licensed in every state and the following terms: no down-payment, no closing costs, no fees, no PMI, below market fixed rate without consideration of one's credit score. Lenders have committed over \$20 for NACA's one exceptional mortgage product.

- NACA track record: over 75,000 successful homebuyers – 93% of whom are people of color – with an extremely low foreclosure rate of 0.0001183 (i.e., about one-hundredth of one percent).
- NACA is the largest HUD approved counseling organization in the country, providing over one-third of all the country's housing counseling.
- NACA has over three million Members nationwide.

Below are the overall terms of NACA's mortgage program. NACA's CEO has indicated that NACA's mortgage program is ready to be adapted to the needs of Hawaiian Home Lands' beneficiaries.

NACA Mortgage Overview (information provided by NACA)

NACA's mortgage product has these terms and character-based criteria:

- Down-payment - None
- Closing costs – Lender Paid
- Fees - None
- Mortgage Insurance - None
- Loan-to-value -100% for purchase and 110% for purchases with a rehab
- Credit Score - No consideration
- Interest Rate - Below market fixed rate
- Term – 15, 20 or 30-years fully amortizing
- Interest-rate buy-down:
 - 15-year – each one percent permanently reduces the interest rate by 0.25%.
 - 30or20-year–eachone-and-a-halfpercentpermanentlyreducesrateby0.25%.
- Property Types: Single family, condos, co-ops, multi-family (two, three, or four units), mixed-use, new construction or existing.
- Renovation: Finance the cost of repairs to be completed after mortgage closing.
- Credit Score – No consideration of the credit score.
- Payment History – Reasonable on-time payment history for payments Participant has reasonable control over the past 24 months with a focus on the past 12 months.
- Debt Ratio - Participant's Payment plus Participant's monthly liabilities divided by the Participant's gross monthly income not exceeding 43%.
- Minimum Required Funds – Participant funds for the home inspection, reserves and property pre-paid expenses paid at closing.
- Employment - Steady employment for at least the past 24 months (unless retired or disabled).
- Income - Income for at least the past 24 months with likelihood of continuation.
- Charge-offs – Do not need to be addressed.
- Collections – Resolved or in an approved payment plan if within past 24-months.
- Inspection – Must pass HUD inspection requirements with a licensed inspector.
- Purchase & Renovation: Properties requiring all levels of repair and renovations. The mortgage amount would cover the cost of the purchase and renovation. Participants finance the cost of significant repairs to be completed after closing. Funds are held in a separate rehab escrow account and disbursed after completion and inspection of the required repairs with no required mortgage payment during the renovation period of up to six months after closing.

NACA'S COUNSELING

NACA provides comprehensive housing counseling by a HUD certified housing counselor. NACA is the largest HUD Intermediary counseling organization providing over 30% of the nation's HUD housing counseling. NACA's comprehensive counseling is required for the Participant to be qualified for NACA's Mortgage ("NACA Qualified). NACA's counseling includes the following:

- NACA homebuyers Workshop
- Counseling must qualify the Participant for a mortgage by addressing the following:
 - Determine eligibility for the Program
 - Determine readiness for homeownership based on the Participant's payment

history and not their credit score. NACA Counselor must access the resident's tri-merge credit report to determine the Participant's payment history in their controls (i.e., exclude unaffordable medical bills). The Participant's credit score is not to be utilized since this disproportionately negatively impacts lower income and minority residents.

- Determine an affordable mortgage payment based on the Participant's rental payment and documented savings if requesting a mortgage payment greater than their current rent.
- Documented minimum required funds necessary to obtain an affordable mortgage.
- Participant receives budget counseling to access and improve their financial management.
- Post-purchase housing counseling support for homeowners including budgeting and foreclosure prevention assistance.
- Provide full documentation to support their mortgage qualification.

NACA PROVIDES

- Mortgage - Provide access to NACA's Mortgage. This includes both the terms and character-based underwriting.
- Homebuyer Education - Provide free Homebuyer Workshop
- Pre-Purchase Counseling - NACA Housing Counselor provides comprehensive budget and housing counseling preparing Participants for homeownership.
- Post-Purchase Counseling – NACA post-purchase counselor provides ongoing support for homeowners including budgeting and foreclosure prevention assistance.



NACA'S HOMEOWNERSHIP OPPORTUNITY PROGRAM ("HOP")

NACA IS REINVENTING MORTGAGE LENDING

ELIMINATING BARRIERS TO AFFORDABLE HOMEOWNERSHIP

Affordable homeownership has historically been inaccessible to millions of people of color and disadvantaged Americans, but a transformation is now occurring. The Neighborhood Assistance Corporation of America ("NACA"), a nationwide non-profit and HUD approved housing counseling organization, has created a fair lending model that provides unprecedented affordable homeownership on a large scale. NACA's model benefits individuals who have been prevented from accumulating wealth and achieving personal security through homeownership. NACA's unprecedented private sector housing program creates a national standard for affordable homeownership. For more information, please visit www.naca.com.

NACA's Homeownership Opportunity Program ("HOP") is a partnership between NACA and a city or Public Housing Authority ("PHA") to generate permanent affordable homeownership and neighborhood stabilization through NACA's Best in America Mortgage. HOP provides access to NACA's extraordinary mortgage combined with comprehensive counseling in the following programs described below: HCV (Section 8) Recipients; One Dollar Purchase Program (property repair & new construction); Homeowner Rehab Program; and Affordable Housing Development. These homeownership programs provide unprecedented affordable homeownership opportunities for homebuyers subjected to exorbitant rents, with a mortgage payment often less their rent. In addition, there is available funding for homeowners with a need to repair their homes. These programs also provide employment opportunities for community residents as well as the most effective crime prevention program with community homeowners now empowered to become the neighborhoods most dedicated and effective crime fighters.

NACA provides its programs in all fifty states with 47 offices nationwide and a counseling center for nationwide remote counseling services. NACA is a non-profit housing counseling organization and a mortgage broker licensed in every state and is the only organization that can affirmatively say that: "It provides the Best Mortgage in America with the lowest fixed interest rate" because of these extraordinary terms: no down-payment, no closing costs, no fees, no PMI, below market fixed rate without consideration of one's credit score. Lenders have

committed over \$20 Billion including \$15 Billion from Bank of America for NACA's one exceptional mortgage product.

NACA has built an unprecedented track record of over 75,000 successful homebuyers – 93% of whom are people of color – with an extremely low foreclosure rate of 0.0001183 (i.e., about one-hundredth of one percent). NACA is the largest HUD approved counseling organization in the country, providing over one-third of all the country's housing counseling. In addition, NACA has over three million Members nationwide and continues to grow through word of mouth with participants telling their family members, friends, neighbors, co-workers and others, that for affordable homeownership go to NACA.

NACA Overcomes the Barriers to Homeownership

NACA is a bright light in reversing the history of racism and exclusion in providing affordable homeownership for people of color and lower income people. NACA's purchase program provides a solution to eliminate the major barriers in the housing market that have resulted in historically low homeownership rates particularly for African Americans:

1. **Barrier: Limited Savings**

NACA Solution: No Down Payment & No Closing Costs

2. **Barrier: Unaffordable Terms**

NACA Solution: Below Market Fixed Rate & Aggressive Buy-Down

3. **Barrier: Restrictive Underwriting based on Credit Score**

NACA Solution: Character Based Lending without Consideration of Credit Score

4. **Barrier: Racism & Biases**

NACA Solution: Pre-Qualification & Advocacy

NACA'S BEST IN AMERICA MORTGAGE

NACA provides the best mortgage in America with these extraordinary terms and character-based approval criteria with \$20 Billion committed by major lenders including \$15 Billion from Bank of America:

- **Down-payment** - None
- **Closing costs** - Lender Paid
- **Application Fees** - None
- **Points & Fees** - None
- **Mortgage Insurance** - None

- **Interest Rate** - Lowest below market fixed rate (go to www.naca.com for current rate)
- **Interest-rate buy-down** - Aggressive permanent interest buy-down not available elsewhere
- **Loan-to-value** - 100% for purchase and 110% for purchases with a repair escrow
- **Term** - 15, 20 or 30-years fully amortizing
- **Credit Score** – No consideration of the credit score
- **Payment History** – Utilizes character-based lending criteria focusing on Participant’s payment history over the past 24 months with a focus on the past 12 months that they control
- **Property Types** - Single, condos, co-ops, 1-4 units, mixed-use, new construction or existing
- **Renovation** - Finance the cost of repairs to be completed after mortgage closing

NACA’S COMPREHENSIVE COUNSELING

NACA’s HUD certified housing counselors provide comprehensive housing counseling services. NACA’s full document counseling is considered the highest standard in housing counseling for low to moderate income homebuyers. The homebuyers receive counseling for as long as it takes for them to be NACA Qualified. The NACA Qualification process supported by third-party documentation ensures that the homebuyer is ready for homeownership with a mortgage payment affordable over the long-term. This makes them a desirable customer for real estate agents, sellers, and lenders.

NACA is the largest HUD Intermediary counseling organization providing over 30% of the nation’s HUD housing counseling and is one of HUD’s major training programs. NACA’s Economic Justice and Advocacy Center (“NEJAC”) provides free courses including HUD certification, pre-purchase counseling, rental counseling, and foreclosure/eviction prevention counseling for housing counselors. In addition, NEJAC works with many Historically Black Colleges and Universities (“HBCUs”) to train their students and alumni on housing issues and to provide affordable homeownership.

HCV (SECTION 8) RECIPIENTS

The Homeownership Through Public Housing Assistance (“HOT-PHA”) is a transformative program for public housing authority Section 8 or Housing Choice Voucher (“HCV”) recipients (“Participants”). This innovative initiative allows Participants who seek to become first-time homeowners to combine their HCV with all the benefits of NACA’s Best in America Mortgage using the below market 30 or 20-year term to purchase a home. This is the ideal program for families to transition out of long-term public assistance to affordable homeownership and begin to build generational wealth.

The PHA approved Payment Standard, that currently is paid to the landlord, would go to the

lender paying the Participant's monthly mortgage payment. Participants can own their home – free and clear in less than twenty years providing long-term financial independence. It is a groundbreaking program at no additional cost to the housing authority or government while transitioning families from housing assistance to homeownership. For more information visit: <https://www.naca.com/the-naca-hot-pha-program/>

ONE-DOLLAR PURCHASE PROGRAM

NACA partners with a city or PHA for its residents to purchase for one dollar a city owned residential property in need of renovation or vacant to convert it into an owner-occupied property. NACA provides the renovation funds or new construction financing with its Best in America Mortgage. The One-Dollar Purchase Program transfers government owned properties taken for tax delinquency, code violations and other circumstances to community residents to revitalize neighborhoods through affordable owner-occupied homeownership. The direct transfer to the homebuyer eliminates the developer overhead.

All the properties would be one hundred percent affordable to low- and moderate-income homebuyers with a priority to sell to current residents living in the impacted neighborhoods. There would be a deed restriction for ten years to prevent flipping the property or a land trust to preserve affordability while allowing homeowners to generate reasonable equity over time. The owner-occupants increases the tax base for the city providing funding for additional services to these communities and neighborhoods, reducing crime, having well-maintained properties, encouraging active participation in the community and school system, and providing neighborhood stability through long-term homeownership.

Property Renovation

While NACA has no ownership in the One-Dollar properties, NACA's renovation department – HAND (i.e., Home and Neighborhood Development) provides the homebuyer with ongoing assistance and coordination throughout the renovation or new construction. This includes property inspections, repair cost estimates, creating a project budget, identifying contractors, contractor review, contractor disbursements and more.

New Construction

NACA is developing affordable housing that is beautifully designed to blend in with the existing community. It would use innovative materials such as modular, panelized, and other building types. The affordable homes from the One-Dollar program would be of a high quality, exceeding the HUD and applicable state code with a virtual net zero energy usage. For example, the properties would be a prefab developed offsite in a factory mass production facility with a high standard for quality control. A two bath and two- or three-bedroom homes between 1,200

and 1,500 square feet, homeowners would have a mortgage payment between \$600 and \$800 a month utilizing NACA's Best in America Mortgage. The monthly mortgage payment would be significantly less than their rent and could be even lower with government assistance.

HOMEOWNER REHAB MORTGAGE

Homeowners in need of significant repairs can access NACA's Best in America mortgage. If the homeowner has an existing mortgage, NACA would refinance that mortgage to finance the repairs and/or renovations. Homeowner with or without an existing mortgage can refinance to have funds available after the closing to make the repairs. The repairs would address code, safety, health, structural and other significant issues. NACA's HAND department assists the homeowner in this process. This includes a home inspection, evaluating and estimating the repair costs, identifying and reviewing contractors, managing the disbursement process for contractor's payments and more.

AFFORDABLE HOUSING DEVELOPMENT

NACA would develop affordable homes on a large production scale, in partnership with the city/PHA and the community with NACA's Best in America Mortgage and comprehensive counseling. The properties would be mass produced prefab homes developed in an offsite mass production facility with a high standard for quality control. Homes would be one, two and three stories with multiple bathrooms and bedrooms with an anticipated cost of \$85 per square foot. The monthly mortgage payment using NACA's Best in America Mortgage would be significantly less than their rent and could be even lower with government assistance.

The city or PHA would provide the land at no cost to NACA. NACA would create 100% affordable units to low- and moderate-income households without a developer's fee. NACA would work with the city and community leaders to have homeownership properties that are attractive, virtually zero net energy usage and affordable. To ensure long-term affordability a land trust may be a good option where the units remain permanently affordable, and funds are generated to maintain and enhance the community. NACA or another entity could administer the land trust.

Below are the overall terms of NACA's mortgage program. Work is underway to adapt NACA's mortgage to the needs of Hawaiian Home Lands' beneficiaries.

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- Term – 15, 20 or 30-years fully amortizing
- Interest-rate buy-down:
 - 15-year – each one percent permanently reduces the interest rate by 0.25%.
 - 30 or 20-year – each one-and-a-half percent permanently reduces rate by 0.25%.
- Property Types: Single family, condos, co-ops, multi-family (two, three, or four units), mixed-use, new construction or existing.
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