



Dangerous lending practices and loose underwriting in the subprime mortgage market have left more than 2.2 million families in danger of losing their homes to foreclosure over the next few years. Self-Help's Center for Responsible Lending estimates that 2.2 million foreclosures would not only cost these borrowers as much as \$164 billion in lost equity, but their neighbors will lose an estimated \$202 billion in home value due to neighborhood depreciation due to abandoned/vacant properties.

This crisis is threatening the very foundations on which healthy communities are built, and is reversing years of progress that has been made by community development organizations. Accordingly, we at Self-Help have instituted a Foreclosure Recovery Initiative that is designed to minimize the neighborhood costs of foreclosed properties, and turn those same properties into wealth-building assets for low-income families.

The hallmark of the Foreclosure Recovery Initiative is the new lease-purchase mortgage product through Self-Help's national secondary market program. Self-Help's goals for this new product are two-fold: to stabilize neighborhoods by occupying vacant properties as quickly as possible and to help families become homeowners by curing credit issues and saving for down payments. To accomplish these goals, Self-Help is working with local nonprofit housing organizations that acquire and rehab vacant or foreclosed properties in neighborhoods throughout the nation. These nonprofits identify "tenant purchasers" – renters who are likely to be able to assume the mortgage on the property in one to five years – and provide credit and homeownership counseling and property management services during the rental period.

Nonprofits can use any number of sources for acquisition/rehab financing, including local government funds, Self-Help financing, or other sources. Once rehab of the property is complete, the nonprofit pays back the acquisition/rehab financing by taking out a lease-purchase mortgage on the property. This mortgage is originated by a bank partner and sold to Self-Help. Self-Help retains the credit risk and sells the mortgage to Fannie Mae. After the rental period, when the tenant purchaser can qualify for the mortgage under standard underwriting criteria, the tenant purchaser will assume this lease-purchase mortgage from the nonprofit. Self-Help has received approval to deliver \$200 million of these lease-purchase mortgages to Fannie Mae.

Self-Help's own lease-purchase pilot in Charlotte, NC has successfully purchased 18 foreclosed properties, renovated 10 homes, sold 5 homes to homebuyers and is increasing its pipeline of future tenant purchasers. In addition, it will be receiving NSP funds to expand its original goal of 25 homes in the pilot to at least 35 homes. With a commitment from Fannie Mae to purchase \$200 million lease-purchase loans, and the immediate need to stem the deterioration of neighborhoods occurring across the country, Self-Help is looking to partner with other nonprofits across the country to bring this lease-purchase product to scale. It is Self-Help's hope that this product may prove to be a valuable addition to the tools available to address the foreclosure fire that is spreading so quickly.

# **Product Description**

**SELF-HELP**  
**Secondary Market Lease-Purchase Product Underwriting Guidelines**

**Product Description**

**Lease-Purchase Mortgage Loans**

In connection with the Mortgages, Eligible Corporations (defined below) purchase single-family homes that they lease to families who intend to assume the Mortgage. These mortgages will be originated as part of locally-based initiatives designed to turn foreclosed properties into wealth-building assets for low-income families and/or their communities.

Fannie Mae will purchase long-term fixed-rate first Mortgages made to Eligible Corporations under the Self Help Secondary Marketing Program’s Product Terms and Conditions and will permit a one-time assumption by the Tenant/Purchaser when the Tenant/Purchaser is ready to purchase the home.

<b>Lease-Purchase Mortgage (Manual Underwrite)</b>	
<b>Loan Purpose</b>	Purchase or Refinance or Limited Cash Out Refinance
<b>Term</b>	30-year fixed rate
<b>Loan Amount</b>	No min/Fannie Mae max
<b>Max LTV</b>	Single Family: 97% Condos: 97% with full review
<b>Max CLTV</b>	103% (Community Seconds allowed. Must meet Fannie Mae requirements per Guide.)
<b>Income Limits</b>	None. Properties must be in a designated Neighborhood Preservation area (to be defined by Self-Help).
<b>Borrower Eligibility</b>	<p><u>Eligible Borrowers:</u> Community development corporations or other nonprofit housing organizations ("Eligible Corporations") that have a minimum of two years of experience in successfully developing or managing low- and moderate-income housing, as evidenced by an organizational resume or history detailing the Eligible Corporation's experience in providing such housing together with a list of its principal officers, their titles, and their resumes. The Eligible Corporation must also demonstrate evidence of local community support for its lease-purchase program and corporate authority to obtain the Mortgage from the Lender and otherwise enter into the Lease-Purchase Agreements with the Tenant/Purchasers.</p> <p><u>Underwriting Criteria:</u> See attached for description of how Eligible Corporations will be underwritten for eligibility by Self-Help.</p>

<b>Counseling</b>	Required. This should include, but not be limited to extensive face-to-face pre- and post-purchase homebuyer education and early delinquency intervention. Prior to signing of the lease, tenant borrower will be required to schedule initial counseling session for purpose of establishing budget, debt management plan, checking and/or savings, and IDA accounts, if applicable. During the lease period, credit counseling, financial planning, and homebuyer education MUST be provided by the Participating Non-profit and/or its designated representative.
<b>Required lease terms</b>	The Tenant/Purchaser's monthly payment must include an amount sufficient to meet all of the Eligible Corporation's operating costs for the property (i.e., principal, interest, taxes, insurance, and any other assessments) as well as an amount to be set aside as a contribution toward an eventual down payment to purchase the property. The amount of the down payment contribution must be sufficient to ensure an accumulation of funds equal to the minimum required down payment (and in some cases, closing costs) by the end of the lease period.
<b>Homeownership Account</b>	<p>The Eligible Corporation must establish an account in a federally insured depository institution in which it will deposit the Tenant/Purchaser's monthly contribution toward the required down payment or reserves (the "Homeownership Account"). Funds in excess of the monthly rental payment covering the Eligible Corporation's operating costs for the property may be credited to the Homeownership Account. The Eligible Corporation is responsible for ensuring that the establishment and management of the Homeownership Account is in compliance with all state and federal statutes governing such accounts.</p> <p>Fannie Mae suggests that the Eligible Corporation provide a periodic statement to the Tenant/Purchaser indicating the cumulative balance in the Homeownership Account.</p>
<b>Tenant-Purchaser Eligibility (at origination)</b>	<p>The Eligible Corporation must prequalify each Tenant/Purchaser before entering into a Lease-Purchase Agreement to document the likelihood of the Tenant/Purchaser's ability to make timely Mortgage payments at the time of the Mortgage assumption.</p> <p>Lender's prequalification must ensure the Tenant/Purchase's can meet the terms of Lease-Purchase Agreement and has adequate income to support their total housing expense and all other debt. (Front end ratio of 38%, Back end of 50%).</p> <p>The Tenant/Purchaser must have a minimum 12 months on the job that is documented with pay stubs, VOE and/or telephone verification.</p> <p>When a Lease-Purchase Agreement involves co-Tenant/Purchasers, all of the co-Tenant/Purchasers must occupy the property upon assumption.</p>
<b>Tenant-Purchaser Eligibility (at assumption)</b>	<p>The Tenant/Purchaser must be qualified by the Lender immediately prior to Mortgage assumption. Lender must review the tenant's lease payment history to verify its acceptability and verify sources of funds for down payment and closing costs. Further, Lender must obtain new credit reports and other verifications necessary for their performance of a full underwriting analysis. Minimum FICO of 620. DTI front-end of 38%/back-end of 41%.</p> <p>If the borrower has a prior bankruptcy or foreclosure in his or her credit history, he/she must have reestablished credit that satisfies the requirements of <a href="#">Part X, Section 803.02</a>.</p>
<b>Assumption</b>	Following the lease period, the Tenant/Purchaser must be given the right to purchase the property and assume the Eligible Corporation's Mortgage, provided that the Tenant/Purchaser qualifies under the terms and conditions as set forth herein and in the applicable Lease-Purchase Agreement, and demonstrates an ability to make timely Mortgage payments.

	<p>Fannie Mae will waive enforcement of the due-on-sale clause in the Mortgage documents only for this one-time transfer to, and assumption by, an eligible Tenant/Purchaser. Lender will release the Eligible Corporation from all liability for the original Mortgage in accordance with requirements outlined in Part III, Section 408 of the Servicing Guide.</p> <p>Under the Lease-Purchase Agreement, the Tenant/Purchaser must be permitted to purchase the property and assume the Eligible Corporation's Mortgage within a pre-determined period and upon meeting certain conditions that have been established in the Lease-Purchase Agreement and as additionally set forth herein. Lease term must be at least one year, up to a maximum term of five years. In addition, the Lease-Purchase Agreement must establish the first day of each month as the due date for each rent payment from the Tenant/Purchaser. The assumption or sales price of the property is generally established by the Eligible Corporation when the Tenant/Purchaser begins renting, thus ensuring the Tenant/Purchaser of an affordable home upon assumption.</p>
<b>Occupancy</b>	Although the original mortgagor will be an Eligible Corporation, Fannie Mae will consider these Mortgages owner-occupied and will waive the additional yield and fee normally required for investor-owned properties.
<b>Property Type</b>	Single Family dwellings only. Fannie Mae eligible condos and PUDs permitted, with the exception of condos with leaseholds. Manufactured housing NOT permitted.
<b>Seller Contributions</b>	Maximum of 3%
<b>MI Coverage</b>	No mortgage insurance required. Self-Help will charge lender an annual recourse fee for credit risk.

# **Nonprofit Underwriting Standards**

## **Self-Help Underwriting for Lease-Purchase “Eligible Corporation”**

Self-Help will prudently underwrite each nonprofit participant in the Lease-Purchase Mortgage Pilot to assess the risk of that entity as a borrower under the pilot program. Fundamental considerations are the nonprofit’s capacity to carry out a successful pilot, its credit worthiness and financial strength, and the financial feasibility of the nonprofit’s lease-purchase program. We anticipate that local nonprofit partners will be using the lease-purchase mortgage product as just one disposition tool in a larger REO acquisition/disposition program. If this is the case, Self-Help shall evaluate the full REO acquisition/disposition program and its impact on the programmatic and financial strength of the organization. We envision in many cases that we will be providing acquisition and rehab financing to the nonprofit organization, and as such, we will have fully underwritten the nonprofit and its REO acquisition/disposition program and have had the opportunity to observe the nonprofit’s performance over a period of time in advance of this underwriting for the purposes of the lease-purchase mortgage product.

### Management Capacity

Self-Help shall evaluate the borrower’s capacity to manage the lease-purchase program from a management, staff, and operational perspective. Specifically, Self-Help will evaluate the nonprofit’s ability – itself or through contracting with other organizations – to satisfy the following:

- Positive track record developing/rehabbing/marketing single family or multifamily housing stock.
- Property management experience (on appropriate scale)
- Neighborhood/market knowledge.
- Support from local stakeholders.
- Capacity and experience marketing to homebuyers/renters.
- Pipeline of eligible tenants.
- Counseling capacity.

### Credit and Financial Strength

Self-Help will analyze historical and projected financial information on the nonprofit organization to assess its credit worthiness and financial capacity to manage the lease-purchase program. Each borrower’s situation must be evaluated in light of its particular circumstances. Self-Help shall evaluate the consistency and stability of the organization’s revenue, the organization’s ability to meet current and long-term obligations, and how the lease-purchase program impacts the overall financial condition of the organization. Additionally, Self-Help will ascertain whether the organization has sufficient resources to withstand a sustained period of negative events. The minimum amount of reserves, net worth, cash flow, or liquidity needed for any given borrower will vary depending on the nature and magnitude of its exposures. Financial information that shall be analyzed includes:

- 3 years historical financials,
- tax returns,
- interim financials and operating budget,
- operating budget projections

Self-Help assesses the borrower's organizational credit capacity and financial strength using several measures, which are combined to compose an overall assessment of credit risk. Financial indicators include:

- Ability to pay debt (organizational debt service coverage ratio, current ratio, long-term asset-liability balance)
- Operational liquidity (months of cash to pay operating expenses)
- Capital adequacy (net worth/asset ratio)
- Review of credit reports
- Collateral available to secure loans, and valuation of collateral

#### Project Cash Flow and Risk Assessment

Self-Help shall review a minimum 5-year operating proforma for the full proposed portfolio of lease-purchase mortgages for financial viability. In addition, other factors that affect the project's ability to repay the loan will be assessed. Specifically, the proforma should demonstrate:

- Operating costs of property management, insurance, counseling, administration of program are built into the program.
- 1.10 - 1.15 debt service coverage ratio at stabilization
- 5%-10% vacancy rate
- Minimum 5% reserves (operating and replacement)
- Assessment of property valuation as second source of loan repayment
- Presence and terms of subordinate financing, if any
- If development and/or operating subsidies are required, analyze certainty of commitment and terms and conditions of these subsidies.
- Assessment of market (current rental rates and sales prices, amount of activity)
- Amount of risk protection provided by any credit enhancements

## CHECKLIST FOR SELF-HELP LEASE-PURCHASE BORROWER UNDERWRITING

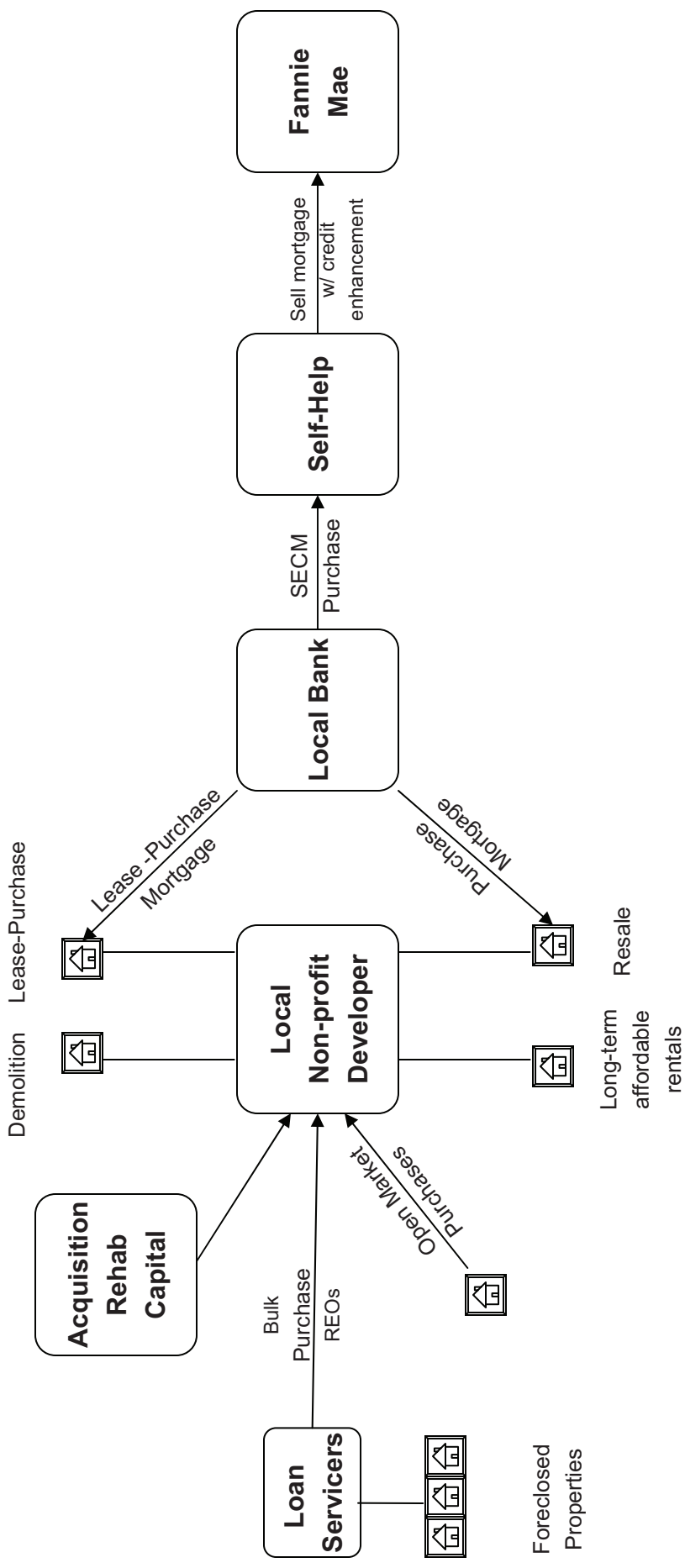
Self-Help underwrites each nonprofit interested in using Self-Help's lease-purchase mortgage loan product to finance single family homes as part of a broader neighborhood stabilization and/or foreclosure recovery effort. The nonprofit is the initial borrower on the lease-purchase mortgage, and as such is responsible for full and timely payments under the loan. Self-Help will underwrite each prospective nonprofit borrower for the nonprofit's projected target volume of lease-purchase loans, assessing the organization's financial, operational, and management capacity to successfully perform under the terms of the lease-purchase mortgage loan(s). The following information will assist Self-Help in this underwriting process:

1. Stabilization Plan
  - Describe your organization's overall neighborhood stabilization plan (e.g., number of homes targeted to be acquired, level of rehab to be performed, number of homes targeted for lease-purchase financing, partner organizations, level of governmental support, etc.)
  - Description of the target neighborhood(s) including zip code(s) and/or census tracts
2. Development Track Record
  - Describe your organization's residential real estate development experience.
3. Organization & Management Capacity
  - Most recent annual report
  - List of board of directors
  - 501(c)3 letter
  - Articles of incorporation and by-laws
  - Resumes of senior management and project manager for lease-purchase portfolio
4. Financial Capacity
  - Development budget and operating proforma for portfolio of homes planned to be financed with lease-purchase product
  - Audited financials for past 3 years
  - Most recent interim financials, including actual-to-budget
  - Tax returns for past 3 years
5. Operational Capacity
  - Describe the organization's experience in and plan for performing the following functions with respect to the lease-purchase properties.
    - i. Leasing rental housing (lease-purchase housing or pure rental housing)
    - ii. Sourcing and screening prospective renters and/or tenant-purchasers
    - iii. Property management on scattered site single family housing (including but not limited to property maintenance and rent collection)
    - iv. Homebuyer and credit counseling
  - If these functions are going to be contracted out to a third-party entity, please provide information on this entity as well as a copy of contract(s) or LOIs with these entities.
  - Copy of lease agreement with tenant-purchasers.

Please send this information to [catherine.godschalk@self-help.org](mailto:catherine.godschalk@self-help.org) and [vanita.kalra@self-help.org](mailto:vanita.kalra@self-help.org).

# Flow Chart

# Self-Help Facilitates Permanent Financing



# **Frequently Asked Questions**

## FREQUENTLY ASKED QUESTIONS

### 1. What is Self-Help's role?

Self-Help provides a credit enhancement for the lease purchase mortgage so that the loans are saleable to Fannie Mae. In turn, Self-Help will underwrite the nonprofit borrowers to ensure that the nonprofit borrowers are a good credit risk. Self-Help will evaluate their financial, operational, and management capacity to participate in the lease-purchase program.

### 2. What is the nonprofit's role?

The nonprofit identifies neighborhoods with sufficient concentrations of vacant or foreclosed properties, acquires these properties and rehabs them for occupancy, and identifies a tenant purchaser to enter the program. Once the home is ready to be occupied and a tenant purchaser has been identified, the nonprofit provides credit and homeownership counseling and property management services during the one to five year rental period. These services can be provided directly by the nonprofit or contracted out. The nonprofit is the borrower on the lease-purchase mortgage and as such is responsible for the monthly principal, interest, taxes, and insurance payments on the loan.

### 3. As a nonprofit, how many homes can I finance with this lease-purchase product?

The product allows for any one nonprofit to borrow up to \$10M in lease-purchase mortgages. Fannie Mae needs to underwrite and approve any nonprofit to borrow more than \$10M of lease-purchase financing.

### 4. What sources of acquisition/rehab capital exist?

Self-Help is able to provide acquisition/rehab capital; interested nonprofits should contact Self-Help for more information. Additionally, HUD is allocating \$3.92 billion in Neighborhood Stabilization Funds through the Housing and Economic Recovery Act, providing money to local governments for acquisition and rehab of foreclosed and vacant properties. Nonprofits with existing bank partners may also be able to secure acquisition/rehab capital through these networks.

### 5. Is this product limited to low income borrowers?

Not exactly, but one of the following criteria must be fulfilled:

- A. Tenant's income is less than or equal to 80% of the local area median income (AMI); or
- B. Tenant's income is less than or equal to 115% of AMI and:
  - i. Property lies in a census tract located within an MSA that has a median income of 80% AMI, or is in a census tract that is not in an MSA but that within the census tract the median income is less than 80% of state or national non-MSA median income; or

- ii. Property is located in a census tract with population greater than 30% minority; or
- iii. Tenant is a minority.

C. The property is in a distressed neighborhood as determined by Self-Help

6. What qualifications must the tenant purchaser meet?

At the beginning of the rental period, a tenant purchaser must meet the affordability criteria (debt to income ratio of 38% front end, 41% back end). Also, the tenant purchaser must be able to show 12 months consecutive employment history. After the rental period, when the tenant purchaser assumes the mortgage from the nonprofit, the tenant purchaser must qualify under standard underwriting criteria, including an adequate credit score.

7. What if the tenant doesn't qualify at the end of the rental period?

Some tenant purchasers may not be able to qualify under Fannie Mae's underwriting standards at the time of assumption. If this is the case, and the tenant is interested in remaining in the house, there are a few options. 1) The tenant may be able to qualify for a mortgage to buy the house from the nonprofit from another source. There is no prepayment penalty on the lease-purchase mortgage. 2) The nonprofit may continue renting the house to the tenant purchaser until s/he qualifies for a mortgage and can buy the house from the nonprofit.

If the tenant is not eligible or chooses not to assume the mortgage, the nonprofit will identify a subsequent tenant-purchaser and re-start the one to five year rental period. Nonprofits may choose, depending on state laws, to keep the amount collected through the homeownership fund to pay for preparing the home for the new tenant purchaser. If no suitable tenant purchaser can be immediately identified, the nonprofit may simply rent the property to fill the gap until a new tenant purchaser is identified.

8. Does this product allow for an equity sharing structure between the nonprofit and the tenant purchaser?

The product does not ban equity sharing between the nonprofit and the tenant purchaser for the value of the appreciation during the rental period. Each nonprofit may decide if it wants to do an equity share and how it would like to structure the share.

9. What level of counseling is required?

The form and frequency of counseling is up to the nonprofit partner to determine. Self-Help will evaluate the counseling plan in the context of underwriting the nonprofit borrower to confirm the plan is aligned with the needs of the target population for tenant purchasers.

10. What is the homeownership fund?

The homeownership fund is established by the nonprofit at the beginning of the rental period and receives monthly deposits by the tenant purchaser. This fund is used to pay back the nonprofit at the time the tenant purchaser assumes the loan for the amount of money the nonprofit paid as a down payment when acquiring the home. In the event that the nonprofit did not pay out a down payment these funds can be used towards an equity share arrangement or maintenance costs. If the tenant purchaser does not assume the mortgage at the end of the rental period, these funds could also be used towards preparing the home for the next tenant purchaser. Check your local tenants' rights laws to make sure your anticipated use of the funds complies.