

## Mortgage Loan Performance

# NeighborWorks® Homeownership Loans Earn a 'Very Good'



BY J. MICHAEL COLLINS

Since 1993, NeighborWorks® organizations participating in the Campaign for Home Ownership have helped more than 88,000 families become homeowners. The campaign has been able to focus on minority and low-income, first-time buyers through a variety of innovative approaches. In the process, it has facilitated more than \$8 billion in mortgage lending.

While this is a remarkable achievement, the goal of the campaign is not just to spawn homebuying, but also to support long-term homeownership. Hence, the performance of mortgage borrowers served by the campaign is an ongoing concern of NeighborWorks® organizations, partner financial institutions, and policy-makers.

The good news is that by any of the measures currently available, performance of loans made by and through NeighborWorks® organizations is very good. This, even with certain caveats and at least one puzzling anomaly.

### Tapping Market Data

NeighborWorks® organizations in the Campaign for Home Ownership report to NeighborWorks® America on all homebuyers served during each quarter. These data contain information on the homebuyer, the loan or loans originated, and details concerning the household, property, and terms of the mortgage.

When NeighborWorks® organizations provide property addresses, loans may be matched against the portfolios held by the secondary market institutions Fannie Mae and Freddie Mac. Over the past several years, a matching system between NeighborWorks® America and these institutions has been established, and it allows for new measures of loan performance.

### Comparing Apples to Apples

After obtaining the data themselves, the next problem is finding comparable benchmarks. This is complicated by at least two factors: the risk profile of loans facilitated by NeighborWorks® organizations and the relative age, or "seasoning," of campaign-related mortgages.

The typical homebuyer in the Campaign for Home Ownership has a FICO credit score of 670 and earns \$35,000. More than one-third are minorities. Most buyers also make relatively small out-of-pocket down payments.

Comparing the performance of these loans to higher-income borrowers with low loan-to-value loans and credit scores above 720 would provide a misleading analysis. In many ways, the average campaign buyer is most comparable to FHA-insured borrowers, or even to subprime borrowers.

While some campaign homebuyers are more accurately categorized as prime credit borrowers, on average, FHA or similar benchmarks are probably most useful for analysis.

On loan seasoning, most publicly released loan delinquency data are published for all the loans in surveyed lenders' portfolios. These include a mix of both recently originated loans and loans dating back decades. Since NeighborWorks® organizations have been reporting campaign homebuyer address and loan information for only the last five years, the typical campaign loan will have less seasoning.

Typically loan defaults peak in about the third or fourth year after origination. Younger loans, if carefully underwritten, generally do not default unless the borrower faces an unforeseen health crisis, divorce or job loss. Older loans usually have adequate equity to discourage default or coincide with borrowers' peak income earning years.

As the age distribution of loans facilitated by NeighborWorks® organizations pushes through the three-to-four-year mark, delinquencies should be higher relative to market-wide benchmarks. (Further, even though some campaign loans will begin to date back five years or more, if the volume of campaign loans from recent years grows at increasing rates, the average loan in the portfolio still will remain relatively young, thus keeping delinquency rates elevated.)

### Best Performance Estimates

Given these caveats, Table 1 provides the best existing estimate of loan performance using Neighborhood Housing Services of America (NHTSA), Freddie Mac and Fannie Mae data, compared to the Mortgage Banker's Association National Delinquency Survey. (Unfortunately, data are not available for the same period from all sources, but all portfolios provide a snapshot of loan performance.)

Based on these data, it appears first mortgages associated with NeighborWorks® organizations perform better than either than the FHA or subprime benchmark, with the exception of 30-day delinquencies.

**TABLE 1: LOAN PERFORMANCE MEASURES**

	NHSA NWO Portfolio	NWO-Match Freddie Mac Portfolio	NWO-Match Fannie Mae Portfolio	National Delinquency Survey - FHA	National Delinquency Survey - Subprime
30-days past due	0.45%	9.43%	14.90%	6.85%	5.25%
60-days past due	1.63%	0.91%	0.12%	2.14%	1.49%
90-days past due	1.48%	0.25%	0.03%	2.59%	2.34%
Foreclosure Starts	0.34%	0.64%	0.01%	0.81%	1.07%
Number of loans	2,811	5,301	12,099		
Average Loan (\$000)	68.6	106.1	106.4		

Note: NHSA data from 09/04; Fannie Mae, 12/04; Freddie Mac 03/04; NDS 03/04; NDS for fixed rate loans

Focusing on 90-day delinquencies, NHSA portfolio mortgages exhibit delinquencies on 1.48 percent of all mortgages. This compares to 2.59 percent of FHA and 2.34 percent of subprime loans in the MBA survey. Freddie Mac and Fannie Mae portfolio loans exhibit much lower rates, 0.25 percent and 0.03 percent, respectively (prime conventional rates were 0.29 percent on average in 2005).

This suggests that the Fannie Mae and Freddie Mac portfolios represent less risky pools, as might be predicted. However, the matching process for tracking Fannie Mae and Freddie Mac loans is less than five years old, so these loans may not have yet migrated through the seasoning process into peak delinquency. Nonetheless, these data suggest strong performance.

The 30-day discrepancy may simply be due to reporting problems, though it does merit further inquiry. The NHSA rate appears lower than might be predicted, while the Fannie Mae and Freddie Mac rates appear much higher. In general, high 30-day rates paired with dramatically lower 60- and 90-day rates should not be a sign of concern. Borrowers may face late-payment fees, but pay their mortgage on time the next month. This may suggest borrowers are either forgetting payments or timing them with paychecks or other bills.

**Comparing FICO Scores**

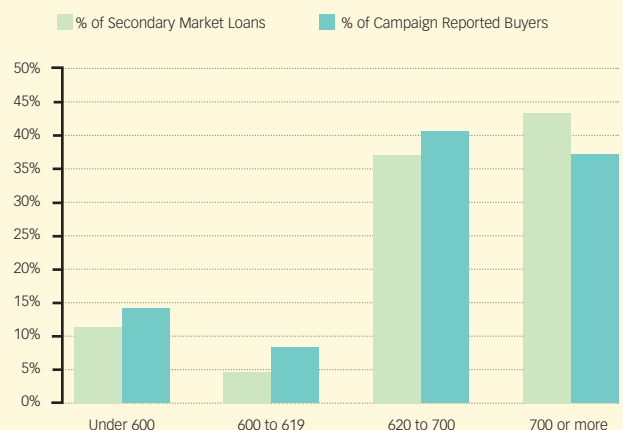
Figure 1 compares the average campaign buyer to loans sold to secondary market government sponsored enterprises (GSEs) such as Fannie Mae and Freddie Mac. As may be predicted, loans sold into the private secondary market tend to be skewed toward higher credit quality.

However, the difference between FICO scores is not significant.

The performance of the loans sold to the private secondary market should be expected to be slightly better than the average for all campaign buyers, but not by a large order of magnitude. ■

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Figure 1  
**GSE PURCHASES COMPARED TO ALL NWO REPORTED BUYERS**





Speaking in March to a Washington, D.C., conference of the National Community Reinvestment Coalition, Federal Reserve Chairman Alan Greenspan renewed a call for “objective and quantifiable standards for assessing community development programs,” and cited NeighborWorks® America’s Success Measures Data System among examples of “developing information systems to promote rigorous evaluation of programs and organizations.”

His topic was “Empowering Communities, Attracting Development Capital, and Creating Opportunities.”

“Data collection programs have produced insights into the markets that community economic development lenders serve,” Greenspan said, “and the characteristics and financial performance of the institutions providing these services.

“For example, the Department of Treasury’s Community Development Financial Institutions (CDFI) Fund launched its Community Investment Impact System in mid-2004, with the goal of establishing a comprehensive repository of data on community development finance institutions and activities. The systematic collection and standardization of information on these institutions’ customers, transactions, and markets holds promise for increasing understanding of the institutions’ impact on the communities and populations they serve.

“Other information collection systems have been launched within the community development field in an attempt to assess organizations’ effectiveness in fulfilling their expressed mission. These data collection programs underscore the importance of identifying the organizational structures and policies characteristic of effective enterprises.

“For example, the Neighborhood Reinvestment Corporation has adopted a data system that defines and tracks success measures of its member organizations. The Success Measures Data System is a participatory evaluation model designed to document the outcomes and measure the impact of community development programs, using parameters defined by the leaders and stakeholders in the field.

“Another program, the CDFI Assessment and Rating System, was developed by the National Community Capital Association to help investors and donors assess the social impact and financial strength of community development finance organizations.

“While these systems are in the early stages, they are a critical step in advancing understanding of the community economic development finance field and in designing policies and practices that can improve economic opportunity for low-income families and neighborhoods.”

To view the full speech, go to [www.federalreserve.gov/boarddocs/speeches/2005](http://www.federalreserve.gov/boarddocs/speeches/2005). ■

## Greenspan Stresses Outcome Measures in Community Development



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