

The Business Side of Homeownership: What Is It and What Has Changed Over the Last 20 Years?

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Taking Care of Business

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Evolution

- Explains but doesn't predict
- Environmental changes drive “natural” selection
- Even though we can't predict what the next evolutionary step will be, we know it will happen
- There will be winners and losers: those that take advantage of new environment and those who cannot



Evolution of NP housing orgs

- **Pre-CRA: Focused on small n'hoods, helped preserve and rehab affordable rental, FHA foreclosure prevention**
- **After CRA: Started revolving loan funds to help with rehab, dabbled in purchase/rehab/resale**
- **After CRA was enforced: got pushed into homeownership**



NPOs in the 1990s

- Partnered well with banks to find and cultivate LMI HHs to become homeowners
- Developed curricula to train HHs
- Got grant \$\$ from banks to fund programs
- Helped develop and deliver innovative mortgage products
- Got big infusion of public subsidy to promote homeownership



NPOs in the 2000's

- **Hit by perfect storm: consolidation of banking system, shrinking of public and philanthropic subsidy support**
- **Working with poorly constructed business model—dependence on subsidy from banking, public, and philanthropic sectors**
- **Meanwhile: mortgage system completely transformed**



Mortgages in the 2000's

- 1992: 80+% of mortgages made by banks, 20% made by brokers
- 2002: ~80% made by brokers, 20% made by banks
- Subprime market now serves HHs with no-down, no-doc, no-HEC, inferior loans
- Brokers are main vector for predatory lending problems



Where are we today

- Crowded field with too many small CBOs
- Stiffer competition for increasingly scarce sustenance
- Evolutionary mandate: *change or die*
- What kind of change?
 - Upsize through merger and acquisition
 - Scale up with better business model
 - Reduce dependence on subsidy



Questions

- How does one become stronger and more financially sustainable?
- Can one adopt a new business approach that aligns with mission?
- Specialize or generalize?
- *A: Need to leverage core competencies, hire or partner to fill gaps, build on comparative advantage*



One option

- **Non-profit mortgage brokers and bankers working at scale to provide high quality lending services in their local markets**
- **Partner to nationally brand and market standardized products**
- **Once scale is reached, bridge to secondary market to securitize the debt**



The mission

- **Better lending services to communities poorly served by conventional markets**
- **Displacement of bad lenders from neighborhoods**
 - Lower incidence of foreclosure
 - Higher rate of asset building for families served
- **Improved financial stability of CBOs**



Comparative Advantage

- **Community-based lenders have already established front-end of market:**
 - Homebuyer education
 - Housing production
 - Subordinate lending
- **Credit Enhancement: clients of CBOs perform better**
- **Lenders already turning to CBOs for foreclosure prevention assistance**



Challenges

- Limited number of community-based lenders working at limited scale
- “Mission-based” resistance
- IRS: UBIT
- Establishing effective links to secondary markets
- Big issue: can adequate capacity be reached to be taken seriously



Important planning considerations:

- **Different skill sets are needed to advance these efforts at different points**
- **Different strategies, partners, and systems are needed at different points of the life cycle**
- **The role of subsidy, philanthropy, public and private sectors changes through the life cycle**



Obvious points

- **Philanthropic resources, while impressive, not sufficient to get to scale—leverage required**
- **Customary approaches will not work for CBOs—must adopt sound business models, aggressive marketing**
- **Need to think big at the beginning—all decisions should be aligned with scalability from the start**



Evolutionary success

- **Key indicator: GROWTH / SCALE—** individuals flourish as well as the species—measured in market share
- **Successful species are better aligned with their environment and displace those with poor alignment—called natural selection**
- **Proactive rather than passive and reactive**

