

Homeownership – Empowering New Buyers MassHousing's No MI Product

While much has been written about the collapse of the real estate market and the resulting “underwater mortgages” that plague many existing borrowers – as important has been the chilling affect that the collapse has had on new home sales. Particularly hard hit have been first time low- and moderate-income homeowners who have found their financing options limited because of increasing downpayment requirements. Similarly, existing homeowners with low- and moderate-incomes have had difficulty refinancing because of changing lending requirements.

MassHousing's new “No MI Mortgage Loan Program” is designed specifically to help these two categories of borrower. The goal of MassHousing's “No MI” product is to offer low rates, small downpayments and easy terms – essentially all the components that have typically characterized MassHousing loans – but that have been harder to achieve in the current market.

By eliminating the need for mortgage insurance through this loan program, MassHousing is able to save borrowers money every month on their mortgage payment. This is accomplished by charging the borrower a slightly higher rate than would be available as a very low rate in the conventional market – but by eliminating mortgage insurance – the borrower is still able to save money every month.

For example, this spring, a normally qualified borrower would likely get a 30- year fixed-rate mortgage at 4% with a downpayment of 3% and then pay extra for mortgage insurance. Under MassHousing's new program, the borrower paid a slightly higher interest rate of 4.38 percent – but this would likely still work out to about \$100 a month less than an insured loan with the premium rolled in. And as housing finance agencies know well – \$100 a month is a huge difference in the monthly budget for a working family. Obviously, the savings will increase with MassHousing's “No MI” program based on the size of the loan or if the borrowers are refinancing mortgages from other lenders that have higher mortgage insurance premiums.

The requirements for the “No MI Mortgage Loan Program” are the same as MassHousing's traditional lending programs including a minimum credit score of 680, a debt-to-income ratio no higher than 41% and full documentation of a borrower's job status and income. First-time homebuyers must also still participate in homebuyer counseling. The program is also limited to households with incomes below 125% of median – which for Boston is approximately \$120,000 per year.

The program's success thus far has been astounding – and beyond anything MassHousing could have anticipated. Specifically, loan value quadrupled in the first quarter of this year – going from 300 borrowers in 2011 to 1,200 borrowers for the same period in 2012! This represented almost \$400 million in net new reservations with loan volume generally running just under \$30

million per week. In its first week of production in mid-January of 2012 MassHousing registered just under \$20 million in loans compared to \$6 million the prior week demonstrating that market demand for this type of program was extremely high.

MassHousing has been able to create this new program because of the new elements of the affinity agreement negotiated with Fannie Mae which resurrected the "No MI" mortgage at a maximum 97% LTV for state HFAs. Buoyed by its expertise and experience as a Fannie Mae MBS lender and successful producer of No MI loans under the first affinity agreement, MassHousing was the first HFA out of the gate with the new Fannie Mae offering with Fannie Mae guaranteeing the loans after six months.

MassHousing has already produced 20% of Fannie Mae's total allocation of production for this program for the year (\$2 billion) for all participating HFAs and the Agency was able to do this in just the first 14 weeks that MassHousing offered the program. As a result of MassHousing's success, Fannie Mae is reviewing the program for possible extension prior to the end of the agreement for the benefit of MassHousing and all participating HFAs.