

NCSHA 2015 Annual Awards Entry Form

(Complete one form for each entry)

Deadline: Wednesday, June 10, 2015

Visit ncsha.org/awards to view the Annual Awards Call for Entries.

Instructions: Type entry information into the form and save it as a PDF. Do not write on or scan the form. If you have any questions contact Matt Cunningham at mcunningham@ncsha.org or 202-624-5424.

Fill out the entry name *exactly* as you want it listed in the program.

Entry Name: _____

HFA: _____

Submission Contact: (Must be HFA Staff Member) _____ **Email:** _____

Please provide a 15-word (maximum) description of your nomination to appear on the NCSHA website.

Use this header on the upper right corner of each page:

HFA: _____

Entry Name: _____

Select the appropriate subcategory of your entry and indicate if you are providing visual aids.

Communications	Homeownership	Legislative Advocacy	Management Innovation
Annual Report	Empowering New Buyers	Federal Advocacy	Financial
Creative Media	Encouraging New Production	State Advocacy	Human Resources
Promotional Materials and Newsletters	Home Improvement and Rehabilitation		Operations
			Technology
Rental Housing	Special Needs Housing	Special Achievement	Are you providing visual aids?
Encouraging New Production	Combating Homelessness	Special Achievement	Yes
Multifamily Management	Housing for Persons with Special Needs		No
Preservation and Rehabilitation			

MassHousing
Howeownership – Empowering New Buyers
Lender Paid Mortgage Insurance

Overview

To say the mortgage market has been constantly changing and evolving over the last several years seems as obvious as saying that grass is green. As such, it has proven particularly important for housing finance agencies to stay agile and ready to respond to new opportunities with programs that effectively increase affordable homeownership opportunities.

MassHousing's development of a Lender Paid Mortgage Insurance (LPMI) Program is just one example of the Agency's efforts to meet the needs of borrowers in a new way. This program has been tremendously successful in empowering new buyers by eliminating the need for mortgage insurance and as such increasing their homebuying power.

MassHousing's LPMI Program has provided key benefits that include:

- Lowering monthly PIMI payments for consumers, improving an borrowers' homebuying power
- Providing MassHousing with an innovative and simple to use mortgage product to make MassHousing and its lenders more competitive in the marketplace
- Reducing risk share liability for MassHousing which has freed up capital held in reserve for repurchases to be used for other MassHousing programs
- Making MI Plus benefits available for MassHousing borrowers in a no MI program where it was not available previously

Background

Private Mortgage Insurance Companies have offered prepaid single premiums for a number of years. MassHousing has offered this insurance premium payment option as well. It had been particularly useful with third parties who wanted to provide cost effective downpayment and closing costs, but it was rarely used by lenders, as conventional single premiums for standard coverage made prepaying a single premium financially prohibitive from a cash flow perspective. Specifically, yield price premiums used to pay single premiums required increases in interest rates that, more often than not, were more expensive than the simple monthly premiums.

MassHousing's LPMI Program

MassHousing's Mortgage Insurance Fund used the advantage given HFAs under the HFA preferred program with Fannie Mae to create single premiums for charter coverage. MassHousing used yield price premiums realized by charging a higher interest rate than a conventional loan with monthly mortgage insurance premiums and found that there was a way to make this work for the Agency as well as the borrower. With MassHousing's LPMI Program,

even though the interest rate is higher, the monthly payment **without** an MI premium is actually lower than with a lower interest rate loan **with** monthly MI. This provides a distinct advantage for homebuyers.

As an added benefit, the increase in interest rate to create the yield price premium (0.375%) was lower than the difference in the guarantee fee of the HFA Risk Share (1.00%) over the HFA preferred (0.475%). In this way, by combining Lender Paid MI funded by premium created by a higher interest rate (.375%) plus the guarantee fee on an HFA preferred loan (0.475%) the total cost in rate (0.85%) was lower than the guarantee fee on the HFA Risk Share (1.00%). As a result, this reduced the borrower payment on the same loan as an LPMI by \$25 a month when compared to the HFA Risk Share Loan.

It is important to note that the LPMI product provides an additional benefit for MassHousing borrowers which a loan with the HFA Risk Share No MI Program did not. This benefit comes in the form of access to MassHousing’s mortgage payment protection insurance, known as MI Plus. MI Plus is MassHousing’s unique mortgage payment protection insurance program which comes at no additional cost on a MassHousing mortgage to any borrower who purchases a home with less than 20% down. MI Plus pays the principal and interest on a borrower’s mortgage for up to six months if he or she becomes unemployed. Since its creation in 2005, MI Plus has kept over 800 homebuyers, who lost their jobs and were unemployed for an average of five months, remain safely in their homes and current on their mortgages through MI Plus Benefits.

MassHousing’s LPMI Program even proves to be a more affordable option than an FHA loan, even though the FHA loan has a lower interest rate. The chart below illustrates the point and in this example shows that the borrower would save \$43 per month.

	FHA Insured Loan	MassHousing Mortgage w/LPMI
Purchase Price	\$300,000	\$300,000
Downpayment (3.5%)	\$10,500	\$10,500
Loan Amount	\$289,500	\$289,500
Mortgage Insurance Premium	\$5066.25	--
Gross Loan Amount	\$294,566.25	\$289,500
Interest Rate	3.25%	4.25%
Monthly Principal and Interest Payment	\$1,278.46	\$1,443.93
Monthly MI Premium	\$208.65	--
Gross Monthly Payment	\$1,487.11	\$1,443.93
Difference		(\$43.18)

Replicability and Responsiveness to State Housing Needs

Any HFA can offer LPMI by using charter coverage single premiums offered by a traditional Mortgage Insurance Company and funding the single premium through yield price premiums received on selling the loans into higher coupon Fannie Mae mortgage backed securities. With the creation of this program, MassHousing responded to an important state housing need by improving housing affordability. For example, a monthly saving of just \$25 monthly at today's interest rates increases a borrowers home buying and borrowing power by \$5,250.

MassHousing has reduced its reliance on the HFA Risk Share which was costly and capital consumptive for an HFA to offer. (This relieved some concern over Fannie Mae's discontinuance of the program as well.) It is also a versatile solution as it could be used with MBS collateralized MRB issuances as well.

Implementation and Track Record

MassHousing enlisted the help of its lenders all across the state to promote this new program for low-income homebuyers. As a result of this enhanced marketing, volume in this program grew at a time when overall market activity was slowing due to rising prices and declining housing inventory.

Within a matter of months, whereas MassHousing's origination of first mortgages had been 82% HFA Risk Share No MI Loans, 63% were LPMI and 20% were HFA Risk Share No MI Loans. At the same time, MassHousing's market share during the same time period increased from 5.5% to 7.0%. For the first quarter of FY 2015, MassHousing was Fannie Mae's largest lender of **any** lender, public or private, in Massachusetts.

There was no incremental cost to MassHousing to undertake this loan program and pricing margins were the same for both products. Specifically, the Agency used funding provided by Fannie Mae under the HFA Preferred lending initiative and Mortgage Insurance provided by MassHousing's Mortgage Insurance Fund. The LPMI then combined the resources provided in Fannie Mae's HFA preferred mortgage program, mortgage insurance provided by the Mortgage Insurance Fund of MassHousing and reinsurance provided by Partner's Reinsurance and Everest Reinsurance.