Mortgage Assistance Options for Residents
National Resource Network - 311 for Cities

In October 2015, a city submitted a request for assistance to the National Resource Network's 311 for Cities feature with a question about programs utilized by other municipalities or housing agencies that would incorporate a payroll deduction by the local employers for payment of the mortgage obligation of their employees purchasing properties within the business locale. The National Resource Network conducted research and prepared the following report for the city.

Background from the City

The city has recently gotten a lot of publicity around six businesses relocating to the city. This is important for both the city's revenue and local workforce development. Additionally, the city is facing the challenge of helping people purchase the properties offered through many HUD grants and projects managed by local nonprofits and for-profits, especially HOME (which requires the property to be sold within six months). Because the city has not been able to qualify enough buyers, HUD is citing them for not complying with their rules and encouraging them to consider transitioning the homes to rental, which the city would prefer not to do.

City staff is exploring the idea that local employers offer loan-servicing programs for employees purchasing properties in the city. The goals for this program would be to: 1) encourage confidence in the potential homebuyers; and 2) help employers retain employees. As conceived, the program would:

a. Offer bi-monthly mortgage payments to reduce burden on the employee;
b. Help applicants improve their credit score;
c. Put responsibility on the employers to remit payments (through payroll deduction) to ensure timeliness; and
d. Require all participating employees to take part in pre-purchasing counseling provided by the city.

One of the goals of the proposed program is to encourage employees of these companies to locate in the city, with the idea that it would help reduce absenteeism, tardiness, etc. for the employers. This isn't a condition for any of the businesses relocating to the city and they would not ask those employers to do this from Day 1, but would encourage them to explore the option for employees that have been with the companies for at least a year.

Key Questions from the City

Are any other cities doing something similar?

We could not find other cities that were implementing a similar program. When digging into why that might be the case, it seems like it's a lot of work for the employer to become the servicer, without the financial institution becoming that much more comfortable with the mortgage request. More common were programs where the city serves as a guarantor of the loan.

There are several lending institutions that encourage regular mortgage payment through payroll deduction. Some offer options on payroll deductions as a means to reduce interest payments by one-half of a percentage point (e.g. two credit unions in North Carolina, the Local Government FCU and their State Employees' Credit Union), but none explicitly state that this mortgage product alters the underwriting criteria.

It does not appear that the requesting city's federal credit union offers a payroll deduction option in its mortgage programs. As a potential local partner, it may be worth having a conversation with this institution to explore the possibility.

Would employers be entitled to a servicing fee? Is this something that should be on the table when they talk with the financial institutions?
It is not clear that the employers are providing a service that would just a servicing fee, since this is basically just another payroll deduction. Further, since this step is actually adding costs to the process, the homebuyer might actually need to take on this additional expense.

Are there any confidentiality issues related to the employers knowing that their employees have these mortgages that the city should be aware of? Not that we are aware of, but this should be explored further.

Would there need to be any kind of agreement between the employer and the lender? Potentially. The Network would need to know more about the rights of the buyer to change their deduction in order to answer this question. If the buyers do have that right, the banks and employers would probably need an agreement to help facilitate the change.

Recommendations from the Network
Network staff believe that a key initial step will be engaging with the local financial institutions to determine what it would take for them to see these applicants in a more favorable way. It's really important for the city to understand what will make the bank comfortable lending to these potential homebuyers and that the banks are bought-in to whatever program is developed from the very beginning.

When the city meets with the lending institutions, staff should try to understand what range of qualifying conditions they consider when looking at mortgages. It's possible that the payroll deduction might not make that much of a difference for people who wouldn't otherwise qualify (though it might provide some relief for those people who are already qualified).

The city should let the banks know what its goals are for the effort (e.g. lowering the cost to the homebuyers and widening affordability) and then ask them what they would suggest to achieve those goals. This will help the city identify the key factors that would influence the lending institutions willingness to lend to these traditionally under-qualified homebuyers and provide good guidance on which key elements of the qualifying process the city should invest time in addressing. This could include homebuyer courses, savings accounts, loan guarantees, or other initiatives.

While talking with the banks, the city might also want to ask about their capacity to portfolio the loans (hold them on their books), versus selling them. This would provide the lenders with a lot more flexibility in the terms established

Other Programs for Consideration
There are other means by which jurisdictions have tried to improve the ability of lenders to qualify for mortgages, some using Federal funds such as CDBG and HOME, including:

Local Loan Guarantee Programs: Similar to national loan guarantees provided through the Federal Housing Administration, the U.S. Department of Agriculture, other agencies, and some local governments have established loan guarantees that take on all or a portion of the risk of default, either by covering the lender's loss or by paying off the mortgage and taking title to the property. When matched with strong prequalification requirements by the local government that reduce the risk for default, this program provides a low-cost means for increasing the volume of qualified purchasers. An example is the State of Illinois' Finally Home Program, which helps borrowers who cannot obtain conventional, sustainable mortgages from credible lenders because of factors such as bruised credit or a high debt-to-income ratio.

Down Payment and Closing Cost Assistance – these programs cover all or a portion of the out-of-pocket costs in purchasing a home and are often targeted at first-time homebuyers. They are effective in reducing risk to the lender and increasing the borrowing capacity of the purchaser; however, they do require an outlay of local funds, often through HOME or CDBG. Examples are numerous and include Smart Start, from the New Jersey Housing Mortgage Financing Agency. Some jurisdictions provide the resource as a grant, some forgive the loan over time, and others require repayment in order to reduce the overall outlay of funds and increase the opportunity to use the funds for future households. Effective assistance programs provide homebuyers with only the amount of funding that is needed to close the affordability gap.