A Brief Overview of Habitat for Humanity Mortgage Asset Leveraging in Other States

In the following eight states, Habitat for Humanity has partnered with elected officials to establish statewide mortgage leveraging programs:

- Alabama
- Idaho
- **Iowa**
- **Michigan**
- **Minnesota**
- **South Dakota**
- Virginia
- West Virginia

For half of these programs (Alabama, Idaho, Virginia and West Virginia), the state Housing Finance Agency purchases all or a portion of the mortgages and services them. That does not seem to be the best way to proceed in Oregon, because Oregon Housing and Community Services (OHCS) does not currently service mortgages. In West Virginia the state finance agency services only Habitat for Humanity mortgages, because that is how their program was established in state statute. Our preference in Oregon is to put all state money to work leveraging Habitat for Humanity mortgages and avoid the creation of a new level of administration that needs to be funded in each budget cycle.

For the four states in bold (Iowa, Michigan, Minnesota and South Dakota), the value of the mortgages is leveraged to provide capital that enables local affiliates to expand their homebuilding capacity. Michigan's Habitat for Humanity state support organization (SSO) is in the unique position of servicing all Habitat mortgages in the state. For the remaining three states, local Habitat affiliates maintain servicing responsibilities for all loans pledged into the state capital pool. Two of these states—Minnesota and South Dakota—have both established 0%-interest mortgage leveraging programs that enable affiliates to leverage the total value of their mortgage on the day of closing. Both programs have been extremely popular with Habitat for Humanity affiliates in their states and have resulted in increased Habitat for Humanity home building capacity.

In South Dakota, the Habitat for Humanity SSO serves as the intermediary between affiliates and the state housing finance agency. In years when the program has funding available, the South Dakota SSO packages 5-10 mortgages for leveraging. They collect monthly mortgage proceeds from participating affiliates and deliver a single payment to the housing finance agency. For this service, they receive a $1,500 packaging fee and annual fee of 0.25% of the outstanding loan balance from affiliates for each mortgage leveraged. The main drawback of this program is that it was not created with an eye toward sustainability. As a matter of practice, all available mortgage purchase funds have been loaned out as available. As a result, it may be several years before collected loan repayments result in sufficient capital available for a new mortgage leveraging pool benefitting 5-10 Habitat affiliates.

Minnesota's 30-year, 0%-interest mortgage leveraging program is widely acknowledged to have had the greatest impact on increasing in-state Habitat for Humanity homebuilding capacity. This program was funded with an initial $21 Million investment from the state. Minnesota gifted this money to the SSO who, in turn, created and manages a revolving loan fund securitized against affiliate mortgage assets. For each affiliate mortgage leveraged, the Minnesota SSO charges an 8% fee. These proceeds ensure the ongoing administration of the fund. After the first several years of operation, they even "spin off" a modest amount of annual operating funding for the SSO's affiliate training program (averaging $30,000 after the first four years of operation). Their program currently disburses $3.4 million per year, leveraging 44 mortgages from 22 affiliates. At an average new home cost of $100,000 per home, that's enough leveraged mortgage capital to house an additional 34 families each year.

Many states—including Minnesota, Iowa and Michigan—also provide affiliates with interest bearing mortgage leveraging opportunities. These states report an asset leveraging "sweet spot" with affiliates of 3% or less in interest charged. Because of the impact of interest over time, each SSO generally will not fund a mortgage with a term greater than 25 years in this manner. While still very helpful to affiliates, this asset leveraging tool has not been quite as transformational. For example, an affiliate with a $100,000 first mortgage in the 0%-interest mortgage leveraging example realizes $92,000 on the day of closing, whereas the affiliate using the 3%-interest tool received $76,429.

In every state, rural Habitat for Humanity affiliates with little or no staff have demonstrated a strong aversion to leveraging mortgages at any interest rate, even with very favorable terms. This example is perhaps most clearly demonstrated in Minnesota, who operates both types of funds. The urban and sophisticated Twin Cities affiliate will take advantage of all mortgage leveraging opportunities that come their way from the SSO. In contrast, rural affiliates who apply for annual mortgage leveraging opportunities will sometimes reject their approved funding opportunity if interest is attached. In Oregon, 22 affiliates are located in rural communities as defined by the USDA. Half of the 30 Oregon affiliates have one or fewer paid staff positions. These rural affiliates are the ones who have the most to gain from a new statewide mortgage leveraging program, which is why we hope to kick things off in our state by establishing a 0%-interest, 30-year asset leveraging program based on the extremely successful Minnesota model.