

## Innovative ‘Small Dollar’ Loans Can Help Bridge the Capital Gap in Middle Neighborhoods

CHN Housing Capital  
Cleveland, OH

A persistent challenge in middle neighborhoods is the lack of loan capital made available by conventional lenders. This may include home rehabilitation for buyers where appraisal gaps exist or for landlords who want to improve rental properties and abate lead, as well as home purchases by buyers with lower credit scores or other underwriting obstacles. This gap in loan capital, if filled at all, is often bridged by non-profit lenders who pull together a variety of capital sources and subsidies to create flexible loan products that actually meet the needs of neighborhoods.

CHN Housing Capital – the lending arm of CHN Housing Partners and about to become a certified Community Development Financial Institution (CDFI) – offers affordable ‘small dollar’ home purchase and rehab loans for both homebuyers and landlords. Each product uses a holistic underwriting approach and focuses closely on the needs of local borrowers and neighborhoods. Formed in 2019, the lending arm has become an integral part of CHN’s 40-year history of promoting affordable and stable homeownership and is providing critical service in the current market. See details on each product below:

### **The Believe Mortgage**

The Believe Mortgage provides first mortgages plus second mortgages of up to \$8,000 each to finance health and safety repairs as needed. Lower credit scores (as low as 570) and lower down payments are allowed, and private mortgage insurance (PMI) is not required. Participants do not need to be first-time buyers (although buyers cannot currently own a home) and there are no income limits. Buyers must provide a 3% down payment and can receive up to 7% in seller concessions. In addition, CHN allows for higher-than-normal debt-to-income ratios when needed. The first mortgage is originated by



CHN, underwritten by Huntington Bank, closed by CHN, and then sold to Huntington Bank. Huntington Bank keeps the loans in portfolio until they prove to be low risk (i.e., the borrower proves they can consistently make payments on time), at which point they are sold to the secondary market. Second mortgages are originated, underwritten, and serviced by CHN, and most have five-year repayment terms. This product is funded by the Huntington National Bank warehouse line.

### **Home Repair Loans with No LTV Limit for Incomes up to 120% AMI**

CHN offers home repair loans up to \$20,000 to help homeowners complete health and safety repairs. These loans have no loan-to-value requirement and are available to those earning up to 120% of the area median income (AMI). They are forgiven after five years if the owner lives in the home for that period of time and has a homestead exemption, a benefit built into the program from Cuyahoga County and Cuyahoga Land Bank. Funds are commonly used for roofs, driveways, basements, heating and plumbing systems, and so on. For homeowners without a homestead exemption, funds are repaid to

CHN upon sale or transfer of the property. The homestead exemption provides a property tax exemption each year for income-qualified individuals who are retired or disabled. The funding sources is Cuyahoga Land Bank and in 2021, CHN was able to help 84 families with this program.

### **Lead Safe Home Fund**

CHN manages a Lead Safe Home Fund on behalf of the Lead Safe Cleveland Coalition. As administrator of the fund, CHN distributes financial products (loans, grants, and incentives) in tandem with construction management services to both landlords and homeowners. The goal of the fund is to help property owners comply with the City of Cleveland's lead safe ordinance and help make Cleveland neighborhoods safe for children and families. Eligible properties must be residential properties built prior to 1978, have a valid rental registration from the Cleveland Department of Building and Housing, and the owner must be current on property taxes or on a current payment plan. Loan sizes range from \$1,500 to \$7,500 and require a 10% down payment. There are no application, origination, or loan preparation fees. Grants are income based and range in size from \$500 to \$7,000, with a down payment equal to the lesser of 10% of the total project cost or \$500. Incentives of \$500 per project/unit are available for landlords who apply for and receive a loan and there are no income or down payment requirements. In 2021, CHN helped 55 households receive lead clearance through the Lead Safe Home Fund.

### **Year-16 Lease-Purchase Program**

Launched in 1987, CHN's flagship Year-16 Lease-Purchase program leverages the Low-Income Housing Tax Credit (LIHTC) to help low-income families address housing disparities and become homeowners. Participating households lease a newly renovated or new construction home for 15 years at an affordable rent. Upon move-in, residents are required to attend in-depth Family Success counseling with HUD-approved counselors and homeownership coaches. Counseling, which covers topics such as credit scores, savings, and budgeting, is required for the duration of their tenancy. At the end of year 15, the tenant may elect to assume title of the property, with purchase prices set at approximately one third of market rate (CHN uses equity in the Low Income Tax Credit to reduce the overall debt obligation for the household). Half of families purchase in Year 16, 20% in Y17, and 20% in Y18 (the remaining 10% continue to rent). On average, renters borrow about \$15,000 in year 16 with a five-year term to purchase the home, though the home may be worth \$50,000 or more. In addition to the benefit of instant equity, borrowers do not have payment shock; their mortgage payment is about the same as rent. In addition, down payment and closing cost fees are low: borrowers need to save 3% for the down payment and have three years to accumulate their down payment with support from their homeownership coach. Debt-to-income ratios can be up to 45%, and participants must be current on rent payments for at least 18 months prior to purchase and have two years of steady income. Since its inception, this program has helped more than 1,400 families become homeowners.



### Down Payment Assistance and Other Support

CHN also manages several down payment assistance programs including the Mayor’s Neighborhood Transformation Initiative, which provides up to \$20,000 for any interested buyer in the Glenville-Circle North neighborhood. Buyers earning up to 120% of the area median income (AMI) must provide 3% of the purchase price for the down payment, while those earning over 120% AMI must provide 5%. The \$20,000 loan is a deferred second mortgage that is forgiven once the buyer lives in the home for five years. The source of funding is Cuyahoga County.

### Best Practices for Serving Homebuyers in Competitive Markets

Below are some tips for building lending opportunities for buyers in difficult housing markets.

Build strong relationships	To support affordable homeownership, organizations should build strong relationships with neighborhoods, residents, and local lending partners. Having a long history helps, and outreach and communication efforts are critical to building trust. Reach out to community organizations that can help identify needs and service gaps and build partnerships with real estate agents who can help share program details with customers.
Provide what people need	Create rehab lending products that resonate with the neighborhood. Have open discussions with community members to find out what’s needed and provide a response. If lead paint is an issue, consider an abatement program. If small, independent landlords need affordable loan products for repairs, add that to your offerings. If borrowers need loan options that allow higher debt-to-income ratios, build that into an existing loan product.
Find flexible loan capital and other funding	Speak to local lenders within your community who can assist with affordable housing lending products and are willing to capitalize projects or lending programs through a correspondent agreement. Local and state government agencies are also helpful resources who are willing to capitalize affordable housing programs.
Create a simple process	Create a clear process so borrowers and lenders can participate without unnecessary challenges causing delays or difficulty in accessing funds.
Create products with flexibility	When possible, build in flexibilities such as lower credit scores, higher debt-to-income ratios, flexible income limits, lower down payments, and little or no PMI. This will help expand the program and serve more buyers.
Establish benefits for lenders	Create products that help lenders attain CRA credits.
Focus on equitable housing	Create products that can successfully help populations that have been shut out of homeownership. Help lenders reach borrowers they otherwise would not be able to help. Be creative and focus on affordability.
Consider acquisition-rehab	Acquisition-rehab programs are a great benefit to neighborhoods that have aging housing stock. Purchasing properties and rehabbing them supports the overall home values in the neighborhood and creates affordable purchase opportunities for first-time buyers. The effort fits with any entity working toward neighborhood revitalization and housing stability.

### Questions?

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