20th Anniversary
Oweesta
4th Annual
Native CDFI
Capital Access Convening

June 25–27, 2019 • Lihue, Hawaii
Innovative Capitalization Strategies for Native CDFI Housing Lenders

June 25, 2019 | Lihue, Hawaii
Presenters

Joanna Donohoe, Partner
Seven Sisters Community Development Group, LLC

Kellie Coffey, Product Manager – Duty to Serve Initiatives & Rural Housing
Fannie Mae, Single Family Mortgage Business
Session Topics

• Mortgage capitalization strategies

• Housing CDFI models

• Native CDFI capacity building strategies
Types of Mortgage Lenders

- Direct Lender
- Mortgage Banker
- Correspondent Lender
- Mortgage Broker
Direct Lender

- Holds in portfolio
- Sells to secondary market
Mortgage Banker

1. Mortgage Banker
2. Borrows money to lend from warehouse lender
3. Sells to secondary market
Correspondent Lender

Correspondent Lender (Third Party Originator) → Sells to aggregator (sponsor) → Aggregator sells to secondary market
Mortgage Broker

Mortgage Broker → Lends on behalf of other banks → Earns origination fee
## Capital Sources

<table>
<thead>
<tr>
<th>Type of Lender</th>
<th>Source of Capital</th>
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<tbody>
<tr>
<td>Direct Lender</td>
<td>Deposits, Warehouse Loans, Own Capital, Secondary Market</td>
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<tr>
<td>Mortgage Banker</td>
<td>Warehouse Loans, Own Capital, Secondary Market</td>
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<td>Correspondent Lender</td>
<td>Warehouse Loans, Own Capital, Sponsor Sells to Secondary Market</td>
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<tr>
<td>Mortgage Broker</td>
<td>Other Lender</td>
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Wholesale v. Retail

Wholesale Lender
- Big banks
- Federal Home Loan Banks

Retail Lender
- Banks
- Credit Unions
- CDFIs
- Mortgage Brokers
Housing CDFI Models

- Portfolio lender
- Mortgage broker
- Correspondent lender
- Mortgage lender
- Direct lender
Housing CDFI Roles

- Borrower Prep
- Loan Brokering
- Lending
- Servicing
- Real Estate Development
- Foreclosure Intervention
Capacity Considerations

- Licensing
- Compliance
- Technology — loan origination system (LOS)
- Personnel
- Operating and lending capital
- Enough loan volume to get to scale
Native CDFI Capacity Building Strategies

Homebuyer Education Provider → Loan Packager → Mortgage Broker

Seller/Servicer ← Direct Lender ← Correspondent Lender
Bottom Line

The best way to capitalize a housing CDFI is to somehow access the secondary market either directly or through an aggregator.
Selling to Secondary Market

**Benefits**
- Liquidity, revolving capital
- Range of products
  - Conventional
  - Government backed
- Affordability to borrower (lower interest rates and origination fees)

**Challenges**
- Loans must be conforming
- Requires experience and capacity
- Need economies of scale
- Must have access to short-term capital to lend
How Does Secondary Market Work?

1. Lender makes mortgage that conforms to secondary market guidelines.
2. Fannie Mae purchases loan after closing.
3. Fannie Mae bundles loan with other loans with similar terms (interest rate, term) and creates a single mortgage-backed security (MBS).
How Does Secondary Market Work?

4. Creating MBS allows Fannie Mae to offer investment options of all sizes with less risk due to the multiple borrowers included in one bundle.

5. Fannie Mae offers MBS to investors and provides insurance policy against losses on loans included in MBS.
Approved lender makes loans

Sells conforming loans to FM
Selling through Aggregator

Lender makes conforming loans

Sells loans to aggregator

Aggregator sells loans to FM
Building Native CDFI Capacity Now

1. Develop strategic plan/business model.
2. Build organizational infrastructure.
3. Hire qualified personnel.
4. Develop policies and procedures.
Building Native CDFI Capacity Now

5. Identify lending process.
6. Address insurance and compliance issues.
Optional 'Brown Bag' Lunch Rountable:
Fannie Mae Discussion on Housing in Native Communities
12:15 to 1:15 | Plumeria Room
Questions? Contact Information

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