

Innovative Approaches to CRA Loan Purchases

A Community Reinvestment Act
Analysis of the loan opportunities
offered by CBC Mortgage Agency



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CBC Mortgage Agency Overview

A unique and innovative approach to providing banks with CRA-eligible loans through direct sales and the CRA Note Exchange, supporting CRA lending performance.

CBC Mortgage Agency (CBCMA) is a HUD-approved housing finance agency (HFA) approved as a Title II Government Lender. CBCMA is a somewhat unique HFA entity in that it was formed and is owned by the Cedar Band of the Paiute Indian Tribe of Utah and is a nationally chartered lender. As a subsidiary of the Cedar Band Corporation (CBC), CBCMA operates the **Chenoa Fund**, its down payment assistance secondary financing and gift program. As a whole, the company is focused primarily on increasing affordable and sustainable homeownership, specifically for creditworthy underserved individuals.

As a government housing authority, CBCMA offers national services including purchase of closed FHA loans from correspondents who have originated, underwritten and funded the original mortgages. In addition to this correspondent loan program, CBCMA also provides borrowers with down payment assistance programs either through a “soft second” which does not need to be repaid by the homebuyer (**DPA Edge**) or a repayable second mortgage (**Rate Advantage**). Throughout its history, CBCMA has routinely sold its first mortgages purchased from correspondents to investors, while maintaining their second mortgages as assets.

With the Rate Advantage program, which creates repayable second mortgages to provide down payment assistance to qualified homebuyers at an affordable rate, CBCMA has built a significant portfolio of second mortgage loans. These second mortgage loans are primarily provided to low- and moderate-income families and are held as assets on CBCMA’s balance sheet.

Building on their experience in acquiring and selling first mortgage loans, CBCMA has identified an opportunity to also **sell second mortgage loans** originated under the Rate Advantage program to banks seeking loans for Community Reinvestment Act goals. Based on borrower income level and/or property location, the majority of these loans are of high value to bank CRA needs. As such, they are desirable for purchase by banks to enhance their CRA lending performance.

To facilitate the sale and purchase of these and other CRA-eligible loans, CBCMA has created the **CRA Note Exchange™**. The CRA Note Exchange is an online portal wherein CBCMA and state housing finance agencies list CRA-eligible mortgage loans that meet geographic and/or borrower qualifications for favorable CRA consideration. Banks are able to review, select and purchase loans in specific geographies that meet their assessment area needs and support their overall CRA lending objectives. Simultaneously, state housing finance agencies are able to sell highly desirable CRA-eligible loans to interested banks, both freeing up capital for future loan originations and realizing short-term financial gain from the sale of the loans at a premium.

Why Banks Purchase Loans for CRA



Purchasing loans to meet CRA lending goals is a decades-long practice that is utilized by banks across the country and supported in CRA exam procedures. However, the limited inventory of available loans coupled with high bank demand has made finding loans difficult for some banks. CBCMA's new approach gives banks access to an original pool of second mortgage loans that are not only CRA-eligible, but also originated in the spirit of CRA as responsive to affordable housing and overall community revitalization needs.

While each bank's requirements regarding CRA performance are based on their asset size, all banks must demonstrate that they are meeting the credit needs of their assessment areas. Lending performance is the only test for which every bank must show measurable results during CRA examinations, and in Large Banks under CRA, the rating a bank receives on its lending performance counts towards 50 percent of the bank's overall CRA Rating. As of 2018, a Large Bank was any bank with assets \$1.252 billion or greater in the previous two calendar years.

Over the 40-plus years that CRA has been in place, banks have sought to meet the credit needs of their communities through direct loan originations to homebuyers and small businesses as well as through other community development lending activity. In some instances, though, no matter how much effort a bank places on seeking qualified borrowers, they still fall short in meeting their lending goals, adding uncertainty to their CRA examination and overall CRA Rating.

For decades, many banks have sought and purchased CRA-eligible loans to supplement their direct lending efforts in their assessment areas. The practice of purchasing CRA loans is common in the banking industry and purchased loans are included in a bank's CRA examination in an equitable fashion to a bank's direct loan originations. Examination guidelines are clear and objective when considering loan purchases and a strategic approach to purchasing CRA-eligible loans is an important solution for many banks.

However, with the reliance on loan purchases by banks to meet CRA needs, the market has become increasingly competitive with limited inventory. The demand for CRA-eligible loans often leads to the same loans being sold repeatedly to multiple banks. With new HMDA guidelines effective January 2018, it is now much easier for bank examiners to track these loans through multiple sales by referring to the Universal Loan Identifier or ULI.

CRA Benefits of Purchasing Loans from CBCMA

Purchasing loans from CBCMA is a unique experience from other CRA loan purchases. CBCMA is one of a select group of nationally chartered lenders that are approved by HUD. CBCMA is dedicated to affordable housing throughout the country, and as a result, has created an expansive portfolio of second mortgage loans that are CRA-eligible.

While most loan purchases under a CRA strategy will focus on first mortgage purchase or refinance transactions, CBCMA has access to a diverse pool of second mortgage loans. This diversity is important because banks are able to purchase a higher quantity of CRA-eligible loans in relation to their overall financial investment. Provided that a bank is active in secondary mortgage origination, purchasing a pool of second mortgage loans from CBCMA can bolster that lending activity. At the end of the day, from a CRA perspective, "a loan is a loan" and banks can secure more loans through a CBCMA purchase, increasing their CRA lending performance.

It is important to note, that unlike some other loans available for purchase, CBCMA's loans are all originated with affordable homeownership in mind. CBCMA believes that every person in America should have access to affordable housing. Not only do

they create opportunities for qualified homebuyers, they also assist those homebuyers to overcome challenges on their path to homeownership. Through their guidance and down payment assistance programs, CBCMA supports individuals on that journey and ensures that they are making educated housing choices that will be sustainable for their lifestyles.

Over time, CBCMA's efforts not only create more affordable housing, but also lead to overall community revitalization and stabilization. By educating and supporting homeowners in low-income communities, as well as providing access to favorable financing and down payment assistance programs, the overall neighborhoods benefit through the deployment of stable housing solutions. The key to creating self-sufficiency for these underserved populations is providing the right opportunities in the right way. CBCMA is committed to finding the right home financing solutions to ensure success.

By purchasing loans from CBCMA, not only will banks access new loans that have not previously been sold, but they will also be able to know that these loans are responsive to the needs of their communities.



A person in a dark suit and tie is shown from the chest down, holding their hands together in front of them. A white outline of a house with a chimney is superimposed over their hands. The background is dark blue with bokeh light effects.

CRA Note Exchange

An online portal providing access for banks to select and purchase the loans they need to bolster CRA lending performance.

While CBCMA works with banks directly to provide loans for purchase to help meet their CRA goals, they have also taken an innovative approach through the development of the CRA Note Exchange. This online platform allows housing finance agencies to list loans for sale that meet important CRA eligibility requirements, including either low- or moderate-income borrowers or loans located in low- or moderate-income census tracts.

Banks can use the CRA Note Exchange to select CRA-eligible loans for purchase within the assessment areas they need, proactively addressing performance gaps within their CRA lending. The CRA Note Exchange allows banks to make informed, self-directed choices about which loans they would like to select.

The CRA Note Exchange was built with bankers in mind, so it includes important data about the loans to fully detail their overall quality and CRA-eligibility. Bankers are able to see key criteria about the loan itself, including property address, loan-to-value, borrower's income, debt-to-income, and more. Banks can also see key CRA data points from the FFIEC about the characteristics and demographics of the census tract where the property is located.

To help streamline the data reporting process, all of the available loans have also been geocoded using standardized reporting requirements for state, county, city and census tract coding, ensuring that when a bank selects a loan based on its location, that reporting it accurately for CRA examinations will be easy and comprehensive.

What Sets CBMCA Mortgage Loans Apart?

- Loans purchased from CBCMA are CRA-eligible either based on borrower income and/or the census tract where the property is located
- CBCMA's loans are originated in the spirit of CRA with a focus on providing affordable housing to underserved populations leading to overall community revitalization
- Loans purchased from CBCMA have never been sold before, unlike some loans that are sold between banks multiple times
- CBCMA's loans are second mortgages, with a much lower overall balance in comparison to higher-dollar first mortgages, allowing a bank to obtain a much higher quantity of CRA-eligible loans for the same overall purchase price

CRA Benefit of Lending Directly to CBCMA

As outlined in the Community Reinvestment Act and its interpretive documents, a bank's community development lending activity includes its home mortgage, small farm and small business loans. In addition, banks can report **Community Development Loans** that it makes with qualifying community development purposes for consideration under its lending test.

As a government entity, CBCMA's primary goal is supporting the creation and financing of affordable housing for low-income individuals and communities throughout the country. Not only does CBCMA impact the lives of individuals and families through their affordable housing programs, but these efforts ultimately result in community revitalization in low-income and underserved neighborhoods nationally.

As can be expected, the demand for CBCMA's services and products is high. In order to meet this demand, CBCMA pursues opportunities for interested banks to provide credit facilities directly to CBCMA for the purpose of funding affordable housing initiatives and loans. These credit facilities are ideally in the form of lines of credits, either through direct or warehouse lending programs offered by financial institutions.

Why Lend to CBCMA?

- HUD-approved Title II Government Lender and housing financing authority
- Creates and finances affordable housing for low-income and underserved populations throughout the nation
- Demand for affordable housing is high and CBCMA is meeting the need
- As a government entity, loans made to CBCMA directly will be viewed as **community development lending** under the CRA and receive favorable consideration during CRA exams

Community Development Lending Credit

As outlined within CRA, providing funding to not-for-profit or tribal organizations that are focused on low- and moderate-income housing or other community development needs qualifies as a community development lending purpose. Any bank that provides CBCMA a line of credit with the understanding that the proceeds of the line will be used to credit and fund affordable housing programs and loans will be able to submit that financing as a community development loan program for favorable CRA examination credit.





This analysis was prepared by findCRA.

findCRA works with banks and nonprofits throughout the nation to support, educate and equip them for success under the requirements of the Community Reinvestment Act.

Community Qualifier™, their powerful online search tool powered by their proprietary CRANIA™ algorithm assists banks in finding CRA-aligned nonprofits throughout the nation.

Learn more at www.findCRA.com.