

Homebuyer Education: An Opportunity for Collaboration

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CHF International's Mission

To be a catalyst for long-lasting positive change in low- and moderate-income communities around the world, helping them improve their social, economic and environmental conditions.

CHF International, founded in 1952, works in post-conflict, unstable, and developing countries.



CHF's Current Presence in Africa

- ✓ **Ethiopia**
- ✓ **Ghana**
- ✓ **Kenya**
- ✓ **Liberia**
- ✓ **Rwanda**
- ✓ **South Sudan**
- Botswana
- Burundi
- Cameroon
- Chad
- Cote d'Ivoire
- Democratic Republic of the Congo
- Eritrea
- Gabon
- Guinea
- Lesotho
- Mali
- Malawi
- Morocco
- Mozambique
- Namibia
- Niger
- Senegal
- Sierra Leone
- Somalia
- South Africa
- Sudan
- Swaziland
- Tanzania
- Togo
- Tunisia
- Uganda
- Zimbabwe

■ Current Programs
■ Past Programs

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What We Do



In Rwanda, a woman receives training to improve sewing skills to create economic opportunities and generate income.

Areas of Practice:
Economic Development
Emergency Response & Transition
Global Health & HIV/AIDS
Governance & Civil Society
Urban Development
Microcredit
SME Finance
Housing Finance
Housing & Infrastructure

CHF's Mortgage Finance Projects -- Jordan

- Jordan National Housing Initiatives Program
 - Initiative by King Abdullah II to provide homeownership opportunities for Jordan's working poor
 - Currently a US\$150 million, OPIC-funded initiative involving two private sector banks
 - CHF providing risk management oversight of the mortgage operations:
 - Initial in-depth review of bank mortgage operations
 - On-going quality control of mortgage originations



CHF's Mortgage Finance Projects – West Bank/Gaza

- The Affordable Mortgage and Loan Company (AMAL)
- An effort to provide up to \$500 million in fixed- and variable-rate funding for mortgages
- Responds to anticipated demand for mortgages
- CHF:
 - Developed mortgage and servicing product parameters
 - Providing overall project technical assistance
 - Minority equity shareholder



CHF's Mortgage Finance Projects – West Bank/Gaza

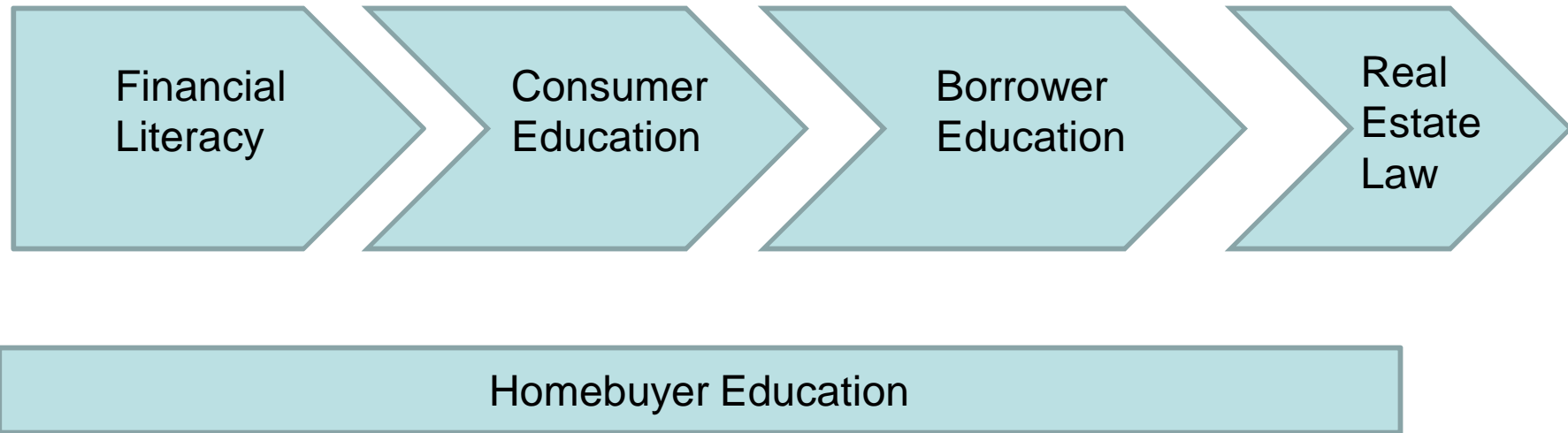
- USAID-funded Mortgage Market Development Program
- CHF is:
 - Strengthening bank capacity in mortgage origination
 - Strengthening the residential property appraisal profession
 - Strengthening condominium sustainability through self-governance
 - Piloting homebuyer education for the public



Agenda

- Homebuyer education vs. the others
- Underlying assumptions
- The benefits of homebuyer education
- What makes homebuyer education successful?
- What should be included in a core curriculum?
- What collaboration can accomplish?

Homebuyer Education vs. the Others



Definition of a Mortgage

From Black's Law Dictionary:

A “mortgage” is a pledge of **property (esp. real property)** to a creditor as security for the performance of an obligation (esp. a debt involving the property), the pledge being extinguished once the **obligation is satisfied**.

A “lien” is a **legal right or interest** that a creditor has in another's property, lasting usually until a debt or duty that it secures is satisfied.

A “security interest” is a **property interest** created by agreement or by operation of law to **secure performance** of an obligation.

A “purchase money security interest” is a security interest that is created when a buyer uses the lender's money to make the purchase and **immediately gives the lender security**.

Underlying Assumptions

1. **Better educated consumers make better borrowers.**
2. **Lack of knowledge about credit does not necessarily translate into poor credit management.**
3. **People often do not understand the terms of their mortgage as they should.**

The Benefits of Homebuyer Education

- More efficient mortgage loan transaction
 - For the homebuyer
 - For the property seller
 - For settlement agents, deeds registries, etc
 - For the lender
 - Lower frequency of incomplete applications
 - Lower frequency of denied applications
 - Lower mortgage processing costs
 - Higher volume
- Stronger loan performance, which benefits:
 - The borrower
 - The lender
 - Lower frequency of delinquency and default!
 - Regulators and mortgage insurers/guarantors

The Benefits of Homebuyer Education

- Helps potential borrowers overcome the most common barriers to homeownership via a mortgage:
 - Credit issues
 - Lack of savings for downpayment and closing costs
 - Affordability
- By providing borrowers with reliable information and the resources necessary to make the kind of informed decisions that ultimately lead to sustainable homeownership!

What Makes Homebuyer Education Successful?

- A successful homebuyer education initiative combines the following:
 - Financial literacy
 - Mortgage finance
 - Product education
 - Consumer protection
 - Real estate law
- It should:
 - Present material in an accessible way
 - Provide examples that “speak” to the audience in a way that gets the information across to the target audience
 - Provide opportunities for consumer self-reflection
 - Empower consumers with questions to ask
 - Empower consumers to identify the product best suited to their needs



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What Makes Homebuyer Education Successful?

- By definition, collaboration between:
 - Me, myself, and I
 - Consumer and the loan officer
 - Lenders and lenders (inter and intra-country)
 - Mortgage insurers, government agencies, and consumers
- A best practices homebuyer education campaign:
 - DOES NOT convince someone they should run to their closest mortgage lender and seek a mortgage now!
 - IS provided by a neutral third-party

What Information Should Be in a Core Curriculum?

- Renting vs. owning
- Assessing readiness for homeownership
- Buying a home with a mortgage vs. other products
- How to identify a home to buy
- How a consumer can protect themselves throughout the process
- Applying for a mortgage
- Loan closing/settlement and recordation
- Responsibilities of homeownership
- What to do if financial hardship hits

What Else Should Be in a Core Curriculum?

- A glossary of terms (“in English”)!
- Worksheets:
 - Housing option considerations
 - Budgeting
 - Bank/Lender comparison matrix
- Examples that illustrate various key points
- Questions that the individual/family can ask of lenders, property sellers, developers, and others
- Tables, lists and charts...
 - Illustrating how loan amortization (and equity build-up) work
 - And....

Differences between Financing Options

Mortgage Loan

- Larger loan size
- Longer repayment terms
- Properties must be registered
- Loan secured by the property being financed
- Possibility of prepayment penalties
- Property appraised and LTV evaluated
- Insurances typically required (e.g., life, property)
- Higher transaction costs

Micro-Housing Loan

- Smaller loan size
- Shorter repayment terms
- May be able to get loan for if real estate unregistered
- If loan not repaid, guarantor(s) contacted for repayment
- Prepayment penalties rarely charged
- Property not appraised
- Supplemental insurances not required
- Lower transaction costs

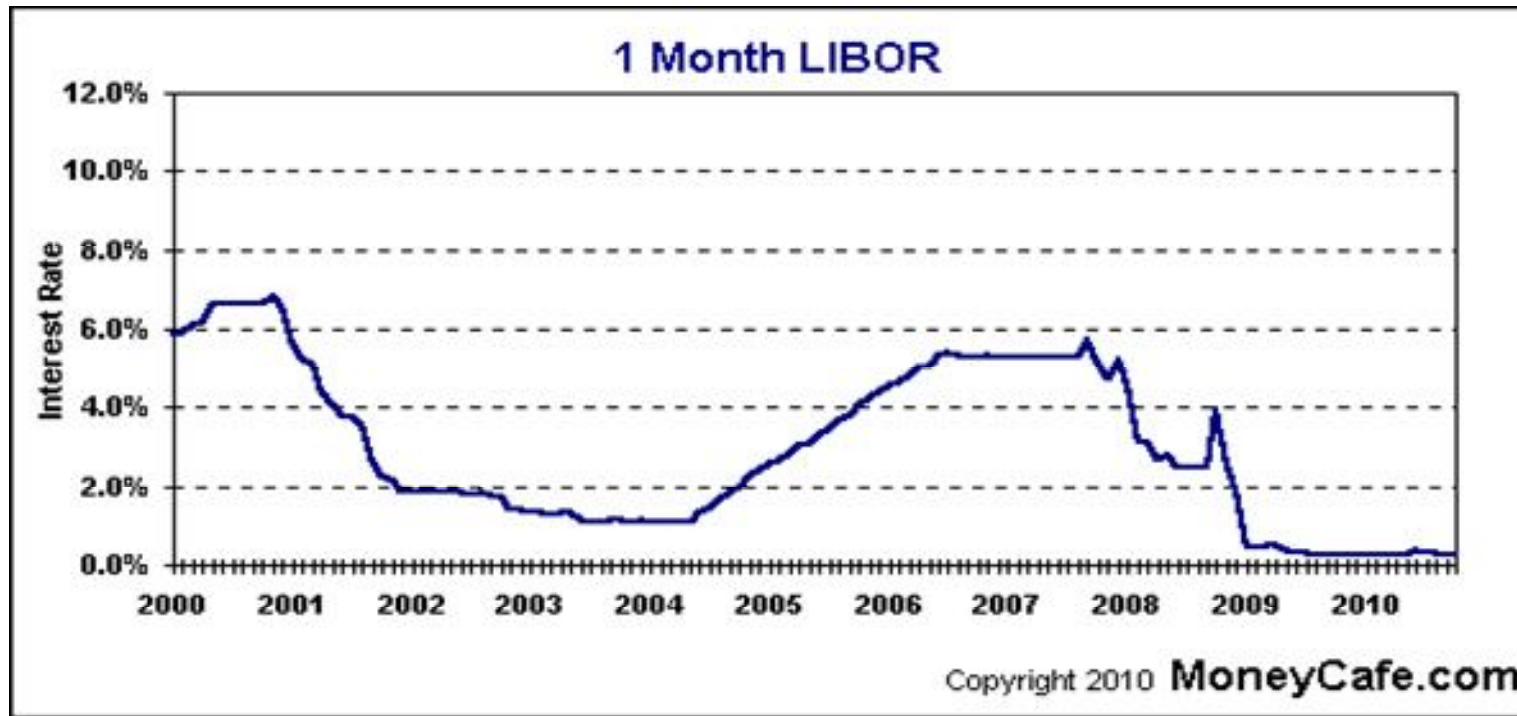
Mortgage Product Considerations

Mortgage Product Offering

- Eligible property
- Eligible borrower
- Term
- Affordability
- Interest Rate
- Collateral
- Loan-to-Value
- Downpayment
- Fees
- Penalties
- Currency
- Insurances



Impact of Base Rate Variability



Impact of Interest Rates

(20 year, US\$100,000 FRM)

Fixed Monthly Payment			
Term			
	15 yrs	20 yrs	25 yrs
7%	\$ 488.96	\$ 421.76	\$ 384.49
8%	\$ 519.87	\$ 455.02	\$ 419.87
9%	\$ 551.76	\$ 489.45	\$ 456.52
10%	\$ 584.59	\$ 524.97	\$ 494.33
11%	\$ 618.31	\$ 561.51	\$ 533.18
Total Cost of a Fixed Rate Mortgage			
Term			
	15 yrs	20 yrs	25 yrs
7%	\$ 88,012.80	\$ 101,222.40	\$ 115,347.00
8%	\$ 93,576.60	\$ 109,204.80	\$ 125,961.00
9%	\$ 99,316.80	\$ 117,468.00	\$ 136,956.00
10%	\$ 105,226.20	\$ 125,992.80	\$ 148,299.00
11%	\$ 111,295.80	\$ 134,762.40	\$ 159,954.00

Interest Rate (%)	Monthly Payment Amount	Total Interest Paid Over Term of Loan	Sum of All Payments to Principal and Interest Over Life of Loan
6	\$ 716.43	\$ 71,943.20	\$ 171,943.20
6.25	\$ 730.93	\$ 75,423.20	\$ 175,423.20
6.5	\$ 745.57	\$ 78,936.80	\$ 178,936.80
6.75	\$ 760.36	\$ 82,486.40	\$ 182,486.40
7	\$ 775.30	\$ 86,072.00	\$ 186,072.00
7.25	\$ 790.38	\$ 89,691.20	\$ 189,691.20
7.5	\$ 805.59	\$ 93,341.60	\$ 193,341.60
7.75	\$ 820.95	\$ 97,028.00	\$ 197,028.00
8	\$ 836.44	\$ 100,745.60	\$ 200,745.60
8.25	\$ 852.07	\$ 104,496.80	\$ 204,496.80
8.5	\$ 867.82	\$ 108,276.80	\$ 208,276.80
8.75	\$ 883.71	\$ 112,090.40	\$ 212,090.40
9	\$ 899.73	\$ 115,935.20	\$ 215,935.20
9.25	\$ 915.87	\$ 119,808.80	\$ 219,808.80
9.5	\$ 932.13	\$ 123,711.20	\$ 223,711.20
9.75	\$ 948.52	\$ 127,644.80	\$ 227,644.80
10	\$ 965.02	\$ 131,604.80	\$ 231,604.80
10.25	\$ 981.64	\$ 135,593.60	\$ 235,593.60
10.5	\$ 998.38	\$ 139,611.20	\$ 239,611.20
10.75	\$ 1,015.23	\$ 143,655.20	\$ 243,655.20
11	\$ 1,032.19	\$ 147,725.60	\$ 247,725.60



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Why Does Collaboration Make “Cents”?

Because:

- ... the benefits of homebuyer education extend beyond just the homeowner and individual consumers may under invest in education and counseling relative to the optimal level of investment, after accounting for the benefits that accrue to all of the other parties.
- ... people don't know what they don't know, so they typically are reluctant to pay for homebuyer education.
- ... when doing higher LTV lending, the lender potentially has a lot more to lose than the borrower, should the borrower go into default.
- ... within a country, standardization of curriculum offering helps insure the same information is conveyed to all participants.
- ... there is a core set of materials that is common across markets, so collaborating on core materials development saves money!

Thank You!

