10-YEAR ANNIVERSARY OF BLUEHUB SUN

BlueHub Sun: How it Works

Launched in 2009 during the financial crisis, BlueHub SUN works to prevent foreclosure by providing distressed homeowners with a new mortgage they can afford. To date, BlueHub SUN has kept more than 1,100 families from losing their homes to foreclosure. Here’s how it works.

BlueHub SUN purchases homes in foreclosure and then sells them back to the homeowners with new, 30-year fixed-rate mortgages. The program only makes mortgage loans that borrowers can afford, so borrowers must have a source of stable income, such as employment or Social Security, to be eligible for SUN. To finance these mortgages, SUN raises debt capital from investors who require repayment; since its launch 10 years ago, SUN has always repaid investors in full and on time.

SUN conducts two real estate transactions with most homeowners who enter the program. In the first transaction, SUN acquires the property from the existing lender. Because lenders that work with SUN avoid the substantial costs they would have incurred during the foreclosure and eviction process, they are able to sell the property to SUN at the distressed market value, which is lower than the market value.

SUN works through the intensive process of clearing the title to the property, then conducts the second transaction – selling the property back to the homeowner with a new mortgage. On average, SUN reduces borrowers’ monthly payments and outstanding principal balance by approximately 30% each, and SUN enables borrowers to build home equity, a major source of family wealth in the U.S. SUN’s mortgage loans are worth as much as 100% of the properties’ values (compared with conventional mortgages, which are limited to 80% of the properties’ values, thus requiring borrowers to put 20% down). SUN borrowers are free to sell or refinance their homes at any time.

SUN’s model incorporates a few key features that enable the initiative to best support borrowers while mitigating financial risk to the program. For one, the difference between SUN’s purchase price for each property (the distressed market value) and the borrower’s price from SUN (roughly the fair market value) creates what’s known as a “loan loss reserve” for each mortgage. These reserves protect SUN’s financial stability in light of its 100% loan-to-value mortgages, ensuring that SUN is able to repay investors even if borrowers encounter challenges paying
their new mortgages. (BlueHub SUN does not securitize its mortgages – it owns the loans for their entire lifetime.)

BlueHub SUN also includes a shared appreciation feature which enables borrowers to benefit from gains in the value of their home after they take out their SUN mortgage while protecting against strategic defaults. Under the shared appreciation arrangement, the borrower’s share of any home price appreciation is limited to approximately the principal balance of the new SUN mortgage divided by the outstanding principal balance of the previous mortgage. For example, if the new SUN mortgage is $200,000, and the previous outstanding balance was $300,000, then the homeowner’s share of any appreciation gained between the start of the SUN mortgage and a future sale would be approximately $200,000 ÷ $300,000, or 67%.

The shared appreciation arrangement addresses concerns that homeowners not facing foreclosure or speculators could deliberately default on underwater mortgages in order to receive an unearned “windfall.” In this way, it creates a stronger willingness among mortgage lenders to work with SUN and instills a sense of fairness among neighboring homeowners who have made their mortgage payments on time.

To ensure that any necessary home repairs, such as installing new roofs or HVAC systems, are completed after closing, SUN includes a feature known as a holdback account. The costs of repairs covered by the holdback account are also rolled into the new SUN mortgage amount, given that SUN borrowers typically do not have the funds in hand to cover these repairs. As a result, borrowers not only receive a more affordable mortgage, they are also able to make home repairs they might not otherwise have been able to make.

Finally, SUN establishes a capital reserve account for each borrower. This account functions like a rainy-day fund: It is available to borrowers if an emergency, like an illness or an unexpected home repair, makes it difficult for them to make their mortgage payments. The capital reserve accounts are funded by setting aside 1.5% of the initial loan amount at the time of closing as well as additional funds over the course of each year. Unused funds in the account can be applied to principal reduction.

BlueHub SUN is a first-of-its-kind initiative to keep families facing foreclosure in their homes – as homeowners. With its innovative model, it has helped families avoid the serious disruption that comes from losing a home, while enabling them to build new home equity. After 10 years of serving families, SUN offers a proven model that can in many cases prevent the destabilizing impacts of foreclosure.

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