BlueHub SUN FAQ

BlueHub SUN is a first-of-its-kind nonprofit initiative that keeps families facing foreclosure in their homes—as homeowners. BlueHub SUN is an affiliate of BlueHub Capital, a community finance organization based in Roxbury, MA with a 35-year history of building healthy communities where low-income people live and work.

1. How does BlueHub SUN work?

The BlueHub SUN program is a nonprofit foreclosure relief initiative run by Aura Mortgage Advisors (Aura) and NSP Residential (NSP). BlueHub SUN (SUN), through NSP, purchases homes in foreclosure before residents are evicted, then sells them back to homeowners, often on the same day, with new fixed-rate mortgages (issued by Aura) they can afford and a shared appreciation mortgage (issued by NSP). To finance these mortgages, SUN borrows money from investors and the U.S. Treasury. SUN's investors and the U.S. Treasury require repayment. For homeowners facing foreclosure with sufficient equity, Aura also refinances mortgage loans.

The program only makes mortgage loans that homeowners can afford, so borrowers must have a source of stable income, such as employment or Social Security, to be eligible for SUN. Aura, a licensed mortgage lender, qualifies potential borrowers through rigorous underwriting—examining credit, financial information and sources of income. Once borrowers are through the application process, NSP, which buys and resells homes, negotiates with a homeowner's existing mortgage lender to buy the home at the distressed market value—which is generally less than the amount previously owed by the homeowner and results in much smaller first mortgage principal balance.

NSP works through the intensive process of clearing the title to the property, then conducts a second transaction – selling the property back to the homeowner with a new first mortgage for the purchase price issued by Aura and a second shared appreciation mortgage issued by NSP. Borrowers are expected to make timely payments on their first mortgage until they refinance or sell or payoff the first mortgage, at which point they pay back the first mortgage loan and the shared appreciation mortgage.

BlueHub SUN partners with homeowners so they can rebuild their credit, stabilize their finances, save their home and then eventually refinance out of the program and reenter the conventional mortgage market.

On average, SUN reduces borrowers' monthly payments by 25% and outstanding principal balance by approximately 30%. This program enables borrowers to build home equity, a main source of family wealth in the U.S. Aura'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.

> ***Example:*** John owed $300,000 on his mortgage with Local Bank, which was more than the house was worth. He could not pay his mortgage and went into default and foreclosure. He applies and is accepted into the BlueHub SUN Initiative. NSP negotiates

with Local Bank to purchase his home for the distressed market value and Aura offers him a new mortgage of $200,000. This saved John $100,000, or 33%, on his mortgage principal and he now has smaller monthly payments. Three years later, John sells his home for $275,000. He keeps 67% of the appreciation ($50,250) and pays NSP 33% ($24,750) of the appreciation per the shared appreciation mortgage agreement. The $24,750 from John is reinvested into the BlueHub SUN program to help more families facing foreclosure.

2. Why do homeowners participate in SUN?

Homeowners who come to SUN are in the midst of foreclosure, some have already lost title, and many are facing eviction. They are on the verge of losing their homes, any potential to benefit from future gains in home values, and the comfort of remaining in place. They have often tried negotiating with their lender and have reached out to several other options before coming to SUN.

Historically, homeowners who work with SUN are also in situations where the amount of money they owe on their existing mortgage is more than the value of their home. Put another way, even if they were able to sell their home at the market price, the amount they would receive from the sale would be insufficient to pay their existing mortgage loan. They do not have any equity in the home. Additionally, homeowners who come to us have often not been able to pay their mortgages for many months or years—perhaps due to an unforeseen hardship such as a medical issue or loss of employment.

Upon working with SUN, borrowers experience significant, immediate financial benefits in the form of reduced mortgage principal balances and reduced monthly payments. Over the life of the initiative, SUN borrowers have seen their outstanding principal balances reduced by approximately 30% on average, depending on market conditions.

Because SUN borrowers have newly affordable mortgages, they are able to stabilize their finances, rebuild credit and build home equity. In recent years with the hot housing market, SUN borrowers' home equity has climbed. Without their Aura mortgage, these borrowers would have lost title to their home and lost any equity in the property.

3. What is the impact of BlueHub SUN's work?

Since its inception in 2009, SUN has made more than 950 mortgage loans, totaling more than $190 million, and preventing more than 1,150 families from experiencing the serious disruption that comes from losing a home. Collectively, SUN has reduced borrowers' outstanding mortgage principal by approximately $72 million and saved them a total of $555,000 each month on their mortgage expenses.

About 30% of borrowers in have successfully paid off their Aura mortgage and shared appreciation mortgage (if applicable) and reentered the conventional mortgage market, accessing lower interest rates, providing them with even more savings.

About 64% of all SUN borrowers are people of color.

SUN is also working to close the racial wealth gap by maintaining homeownership, one of the key drivers of personal wealth. Through the life of this program, borrowers have gained total of $19.5 million in personal wealth; money that is put back into the community, and wealth that would not otherwise be available to them if they had lost their home to foreclosure.

4. Do homeowners who are facing foreclosure have any other options?

BlueHub SUN is one of very few nonprofits in the country that lend to homeowners in foreclosure to help them keep their home. Virtually all of the borrowers who come into the SUN program are in default or foreclosure, meaning that they are deemed high-risk borrowers by the mortgage industry and do not qualify for loans at market interest rates; in fact, because of their poor credit, they are often not able to obtain mortgage financing at all. They may be able to obtain a loan modification from their existing lender or complete a short sale. We encourage homeowners to examine their options to be sure they do what is best for them.

5. What is SUN's process for qualifying borrowers?

SUN is for people who meet three criteria:

1.) They are late on their mortgage payments, going through foreclosure, or facing eviction due to foreclosure.
2.) They live in one of the 12 states that SUN serves (Massachusetts, Connecticut, Illinois, Maryland, New Jersey, Pennsylvania, Rhode Island, Ohio, Delaware, Michigan, Wisconsin and Florida).
3.) They have stable income, so that they are able to pay a mortgage.

Once we have determined that a borrower is eligible, we begin a rigorous underwriting process. By the time they come to SUN, most borrowers have not made mortgage payments for months or even years. One of the things we do is carefully assess why they stopped making those payments – what hardship caused them to fall behind? We also look at what happened to funds that ordinarily would have been put towards the mortgage. Was other household debt reduced? Did household savings increase? Or did those funds go towards critical medical expenses due to an unforeseen illness?

The goal of this evaluation is to ensure that the people we lend to can pay a new mortgage if it is priced right. It's critically important that we do this for three reasons:

1. We don't want our borrowers to simply move from one foreclosure to another – we want them to be able to stay in the home with a mortgage they can afford, rebuild their credit and eventually exit the SUN program to access a lower-rate mortgage.
2. We need our borrowers to make their payments so that we can, in turn, repay the loans that we took out to finance our mortgage lending.
3. All mortgage lenders, including SUN, are heavily regulated. We are overseen by regulators such as the Massachusetts Division of Banks, the Massachusetts Office of the Attorney General, and the Consumer Financial Protection Bureau, who require that the mortgages we make have a reasonable likelihood of repayment.

6. How does BlueHub SUN get borrowers?

Most SUN borrowers are referred by a trusted partner, like housing councilors, bankruptcy attorneys, judges, state Attorneys General, and other local nonprofit and advocacy organizations.

7. **What happens once homeowners hold a SUN mortgage? Do your borrowers usually make their payments on time?**

The vast majority—about 95%—of SUN borrowers make their payments in full and on time. We think this fact challenges the stereotype that people with poor credit cannot be counted on to pay their mortgage. In fact, what we've found is that when people are provided with a mortgage that they can afford and that reflects the actual value of their home – not a bubble-inflated value – then they meet their obligations as borrowers.

8. **What happens if people fall behind on their payments?**

When our borrowers encounter difficulty making their mortgage payment, we work very hard, on a one-on-one basis, to understand their situation and offer solutions to help them stay in their home.

Since the beginning of the pandemic, we made a concerted effort to connect with SUN borrowers to identify their unique challenges brought on by COVID-19, and we are working with them to address those hurdles. In line with federal regulations, we offered our current borrowers payment deferral; about 23% of SUN borrowers took advantage of the offer, and 70% of them have already returned to their payment schedules.

The goal of the SUN initiative is to keep families in their homes; nevertheless, there are rare cases where borrowers simply can no longer afford their mortgages. We have foreclosed on approximately two dozen homes, a small fraction of the more than 950 loans that we have made through the SUN initiative since it began in 2009.

9. **Many SUN borrowers receive a shared appreciation mortgage when they take out a mortgage with SUN. What is a shared appreciation mortgage?**

BlueHub SUN works by making a shared investment in its borrowers. Just as they have put their resources into their properties, so have we. A shared appreciation mortgage is a mortgage that requires a borrower or purchaser of a home to share a percentage of the appreciation of a property's value with the lender or seller.

The amount of the shared appreciation mortgage in the BlueHub SUN program is based on how much money SUN was able to save the homeowner on the principal balance of their previous mortgage. The payment on the shared appreciation mortgage will be due to NSP when the borrower ends their first mortgage loan with Aura – by refinancing and paying it off, by selling the home and paying it off, or after the final payment is made on the first mortgage loan.

NSP's shared appreciation mortgage is not a loan; it is contingent on whether the property appreciates. If the property doesn't appreciate then the shared appreciation mortgage has no value

Under SUN's terms, the share of appreciation owed NSP equals approximately the percentage saved by the borrower from a loan it had prior to SUN. For example, if the Aura mortgage is $200,000, and the previous outstanding mortgage balance was $300,000, then the homeowner saved $100,000, or 33%. Therefore, NSP would be owed 33% of the appreciation of the home when the homeowner decides to sell or refinance, and the borrower would keep 67% of the appreciation in the property.

10. Why does SUN use the shared appreciation mortgage?

The shared appreciation mortgage is integral to SUN's functioning for three reasons.

1. It guards against the potential for homeowners to deliberately default on their existing mortgage in order to qualify for a SUN mortgage—which is a concern to the mortgage lenders we work with, whose cooperation we rely on in order to conduct SUN's operations.
2. It combats a sense of unfairness among neighboring homeowners who have made their mortgage payments on time and have not had the benefits of reduction in outstanding payments that SUN borrowers receive.
3. The shared appreciation mortgage enables SUN to continue to serve people facing foreclosure by helping the program to be self-sustaining. Funding received from paid-off shared appreciation mortgages is reinvested into the program to help more families avoid foreclosure and help fund BlueHub's mission of building healthy communities where low-income people live and work.

11. Do any other lenders or sellers offer shared appreciation mortgages?

Yes. The concept of shared appreciation is not new and not unique to SUN; other lenders and sellers use variations of a shared appreciation arrangement. Local housing authorities, city governments, and other nonprofits offer shared appreciation mortgages.

12. Why are mortgage lenders willing to work with SUN?

When BlueHub Capital was designing the SUN Initiative, mortgage bankers refused to sell homes to SUN because SUN was planning to sell those homes at a discount back to the defaulting borrower. The lenders were concerned about moral hazard – the risk that borrowers would simply default on their existing underwater mortgages if they knew they could work with SUN to buy back the home, get a portion of their outstanding debt forgiven, and still have full equity available to them.

SUN cannot buy back the foreclosed property without the cooperation of the bank or mortgage lender, so the industry's moral hazard concerns needed to be addressed. The solution was for NSP to require homeowners to grant a shared appreciation mortgage when they buy back their homes for an amount lower than their prior debt. This approach allows borrowers to benefit if their homes gain value over time but the need to share future appreciation discourages borrowers from strategically defaulting by tying the benefit from their potential appreciation to the discount of the original mortgage.

13. Why don't the foreclosing lenders offer homeowners a second chance and provide a new, affordable mortgage?

We can't speak for other mortgage lenders, but we assume they view this kind of lending as too risky. We believe we are able to effectively manage this risk with robust underwriting and healthy financial reserves.

14. What are other facets of SUN that make it different from a typical mortgage lender?

SUN's model incorporates a few key features that enable the initiative to best support homeowners while mitigating financial risk to the program. These are all tactics that help SUN homeowner gain financial stability.

For one, the difference between SUN's purchase price for each property (the distressed market value) and the homeowner's price from SUN (roughly the fair market value) creates a "loan loss reserve" for the transaction. BlueHub SUN does not sell and securitize its mortgages like most banks do – it owns the loans for their entire lifetime.

SUN also establishes a capital reserve account for each homeowner. This account functions like a rainy-day fund. It is available to homeowners 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 paying down the mortgage principal. (Capital reserve accounts are not available to residents of Pennsylvania).

15. Where does SUN operate?

SUN acquired its first lending license in Massachusetts and has gradually expanded to 11 other states—Connecticut, Delaware, Illinois, Maryland, Michigan, New Jersey, Ohio, Pennsylvania, Rhode Island, Florida and Wisconsin--over the last decade.

16. What happens to profits generated by SUN?

BlueHub Capital and the entities that carry out the BlueHub SUN program are nonprofits. As a nonprofit, the program is designed for funds from paid-off shared appreciation mortgages and Aura loans to be reinvested to help more families stay in their homes and support BlueHub's mission of building healthy communities where low-income people live and work.

As a nonprofit, we do not have shareholders and we do not generate and distribute profits. We aim to have our programs and services, including SUN, operate at a surplus – meaning their revenues exceed their expenses—because that's what enables us to be a healthy organization. Any surplus goes back into the communities we serve, generally in the form of additional lending.

As a mission-driven lending organization, financial responsibility must be a priority for us—without a sound balance sheet, we cannot continue to serve homeowners, and grow to meet the needs of more communities. Our approach, which has been honed over three and a half decades of service, is to be responsible stewards of our resources so that we can sustainably provide services to others.

As a lender, our focus is on providing capital to borrowers – be they homeowners or, in the case of most of our capital, other organizations – that they cannot access elsewhere. We are, in essence, a financial intermediary: in order to lend out, we first raise funding from our own lenders who require repayment.

17. What kind of feedback do you receive from communities about SUN?

Over the years, mayors, housing advocates, economists, and community leaders have spoken about the benefits of SUN for homeowners, families, and neighborhoods.

Among those who have celebrated the SUN initiative is former Boston Mayor Thomas M. Menino, who said, “By helping individual homeowners, SUN is not only bringing hope to its clients, but also making a difference in the quality of life of our city neighborhoods.”

Washington Post finance columnist Michelle Singletary is among those who have covered the initiative in the media, calling SUN an “innovative solution,” and an “amazing program that specifically targets folks such as [SUN borrower Lisa] Shepard who are back on their feet financially and can afford to stay in their homes if the price is right.” And reporter David Dayen highlighted SUN’s myriad benefits in a piece for Salon: “Careful underwriting has ensured that the situation works for everyone involved. The lender gets paid off with the market price, more than they would in a foreclosure sale. The borrower gets a loan they can afford. And the community gets much-needed stability.”

18. Why does SUN have robust levels of financial reserves?

SUN needs healthy financial reserves to ensure the soundness and sustainability of the initiative through good times and bad, so that it continues to be available to borrowers who need it. The SUN program was launched during the Great Recession, after home prices had begun their steep decline from the peak in 2006-2007. Since then, home prices have been rising.

Many of our borrowers have benefited during this time of rising home prices, but history tells us that we need sufficient reserves in order to be ready when the economy goes into recession. During recessions, home values typically decline, and mortgages go “underwater,” meaning that the outstanding principal amount of the mortgage becomes greater than the market value of the home. And borrowers struggle more with finding and keeping well-paying jobs, so they have a harder time repaying their mortgage debt.

BlueHub Capital has experienced numerous economic cycles over our 35-year history, so we know that we have to be prepared for these challenges. With sufficient reserves, we believe we’ll ensure SUN’s stability even through a recession.

19. Does BlueHub Capital do anything besides SUN?

BlueHub Capital is a national community finance organization with a 35-year history of building healthy communities where low-income people live and work. In total, we have over $1 billion in assets under management, and we’ve provided more than $2.2 billion in financing to the communities we serve, leveraging another $10 billion in public and private capital. In addition to BlueHub SUN, our two other main affiliates are BlueHub Loan Fund and BlueHub Energy. The BlueHub Loan Fund finances affordable housing, childcare centers, youth programs, schools, healthcare facilities, and other vital community resources, and BlueHub Energy ensures that low-income communities are able to participate in the benefits of solar energy.