BlueHub SUN Mortgage Initiative: The Facts

BlueHub SUN is a first-of-its-kind, national nonprofit initiative that keeps families facing foreclosure in their homes—as homeowners. SUN is an affiliate of BlueHub Capital, a community finance organization with a 35-year history of building healthy communities where low-income people live and work. Here are some frequently asked questions about the SUN initiative.

1. How does SUN work?

SUN purchases homes in foreclosure before residents are evicted, then sells them back to homeowners, often on the same day, with new, 30-year, fixed-rate mortgages they can afford. To finance these mortgages, SUN raises debt capital from investors and from the CDFI Fund of the U.S. Treasury. SUN's investors and the CDFI Fund require repayment.

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. SUN qualifies potential borrowers through rigorous underwriting—examining credit, financial information and sources of income. Once borrowers are through the application process, SUN negotiates with their existing mortgage lender to buy the home at the distressed market value—which is often less than the amount owed by the homeowner. SUN 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 mortgage and a shared appreciation arrangement. Borrowers are expected to make timely payments until they refinance or sell.

For more detail about how SUN works, click here.

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 appreciation, and the comfort of remaining in place.

In many cases, 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 years—often 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 balance reduced by approximately 28% – 38%, on average, depending on market conditions. Currently, our borrowers experienced outstanding principal balance reductions of an average of 30 percent, or $86,000; their monthly mortgage payments declined by an average of 28%, a savings of $7,700 every year (or $640/month). Because SUN borrowers have newly affordable mortgages, they are able to stabilize their finances, rebuild credit, and build home equity. As of the end of

December 2019, the homes of SUN borrowers, collectively, have appreciated by approximately $100 million. The financial benefits that SUN borrowers receive are in addition to having the peace of mind that comes with keeping their homes.

Since inception in 2009, SUN has made more than 900 mortgage loans, totaling more than $185 million, and preventing more than 1,100 families from experiencing the serious disruption that comes from losing a home. Collectively, since 2009, SUN has reduced borrowers' outstanding mortgage principal by approximately $68 million and reduced their monthly mortgage payments by approximately $42 million.

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

SUN is a first-of-its-kind program, and we are not aware of another program like it. Virtually all of the borrowers who come into the SUN program are in default or foreclosure, meaning that they are high-risk borrowers and do not qualify for loans at market interest rates; in fact, because of their poor credit, they are 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's best for them.

4. **What is SUN's process for qualifying borrowers?**

SUN is for people who meet three criteria: they are late on their mortgage payments, going through foreclosure, or facing eviction due to foreclosure; they live in one of the seven states that SUN serves; and they have stable income, so that they are able to pay a mortgage.

Once we have determined that a borrower is eligible for SUN, 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, as was the case for one recent new borrower, did those funds go towards critical medical expenses due to an unforeseen illness?

The goal in this evaluation 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:

First, 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.

Second, 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.

Third, 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.

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

Every SUN borrower is given a chance to repair their credit and avoid the harmful consequences of losing a home. To date, approximately 200 borrowers (roughly one in five SUN borrowers) have paid their loans in full and in most cases rehabilitated their credit.

Most SUN borrowers make their payments in full and on time. We think this fact challenges the stereotype that low-income people or 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.

6. **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. 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 sympathize with the circumstances that these borrowers are in, but we also know that, to ensure the SUN initiative's long-term sustainability, there are some homeowners we aren't able to help. As a result, we have foreclosed on approximately two dozen homes, a small fraction of the more than 900 loans that we have made through the SUN initiative since it began in 2009.

7. **Many SUN borrowers receive a shared appreciation mortgage when they take out a mortgage with SUN. Can you explain what this is?**

Under our arrangement, the borrower and SUN share any appreciation gained on the home between the start of the SUN mortgage and a refinance or sale by the homeowner. SUN does not gain any benefit if the value of a borrower's home decreases over the course of that same time period. The shared appreciation mortgage is zero-interest.

Under SUN's terms, the borrower's share of any appreciation equals 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%.

8. **Why does SUN use the shared appreciation arrangement?**

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

It also 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.

And, the shared appreciation function enables SUN to continue to serve people facing foreclosure by helping the program to be self-sustaining.

9. **Do any other lenders offer shared appreciation loans?**

Yes. The concept of shared appreciation is not new and not unique to SUN; other lenders use variations of a shared appreciation arrangement. We are aware of local housing authorities, city governments, and other nonprofits offering shared appreciation mortgages, as well as colleges and universities.

10. Isn't there a risk that homeowners will deliberately default on their mortgages in order to qualify for SUN?

While we question the validity of the idea of moral hazard – the risk that homeowners might deliberately default on their existing mortgage in order to qualify for a SUN mortgage – mortgage lenders we work with are sufficiently concerned about it to be reluctant to work with us absent a way to mitigate the risk. Again, shared appreciation mitigates the risk by discouraging borrowers from strategically defaulting on their existing mortgages in order to achieve the substantial savings in principal and monthly interest payments that SUN borrowers enjoy.

11. Where has SUN done most of its lending?

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

We worked closely with homeowners and community leaders in communities in Massachusetts to create the initiative. In keeping with SUN's mission, much of the initiative's lending has focused in communities that were particularly hard-hit by the housing crisis, such as Brockton and New Bedford. As Carol Delorey, then-chairwoman of the Brockton Mayor's Task Force on Housing and Foreclosures, said of SUN in 2011 while describing the state of the foreclosure issue in that city, "This program allows families to remain in their homes."

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

Simply put, 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, and we are now well into the longest U.S. economic expansion on record.

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.

13. What happens to profits generated by SUN?

BlueHub Capital is a nonprofit organization. We are driven by our mission, which is to build 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 our borrowers, 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 take care 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 loans, other organizations – that they cannot access elsewhere. We are, in essence, a financial intermediary: in order to lend out, we first raise debt capital from our own lenders who require repayment.

14. If giving homeowners a second chance by providing newly affordable mortgages, why don't the foreclosing lenders just do this themselves?

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.

15. How did SUN come about?

BlueHub Capital (then Boston Community Capital) started the SUN initiative in 2009 during the housing crisis because we saw that many low-income people, in Massachusetts and around the country, were at risk of losing their homes, and no one would make new loans to them to prevent foreclosure and eviction. We wanted to change that.

SUN's launch in 2009 was the culmination of work we started in 2006, when we became concerned about predatory lending practices and skyrocketing home prices in the low-income communities where BlueHub had been working for over two decades. We researched the impact of predatory lending on low-income communities and, in 2007—when few were aware of the true nature of the looming housing crisis—we published "Recouping the True Cost of Predatory Lending," a white paper on the potential costs that would come if predatory mortgages began to default

We met with Massachusetts policymakers and public officials and conducted focus groups with distressed homeowners in the Commonwealth to better understand the circumstances leading to their foreclosures and the tools or financial products that might help them remain in their homes. We integrated what we learned, and what we heard from families, as we set out to create an initiative that would keep families in their homes with mortgages they could afford. We were intent on mitigating the impact of the crisis on communities that we knew would be hardest hit, and we made sure that the initiative would remain financially sustainable over time, so that it could serve more people—and be able to continue to do so in future downturns.

Since early in SUN's operations, the initiative has won praise for its approach to foreclosure prevention. One early endorsement, from the *New York Times Dealbook* in 2010, said that "the program is a rescue at the last possible second" for homeowners. In 2011 former Federal Reserve Chairman Ben Bernanke called SUN "an innovative strategy to prevent occupied homes from becoming vacant and creating a strain on the community." Years later, Alan Pyke at ThinkProgress said that SUN, "is doing what progressive critics of federal housing finance policy have been calling for since the initial crisis."

16. 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] Shepard who are back on their feet financially and can afford to stay in their homes if the price is right." And 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."

17. 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 $2.1 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. You can learn more about the impact of all our work by visiting https://bluehubcapital.org/impact.