



# Technical Briefs

*Federal Reserve Bank of Philadelphia  
Community Affairs Department*

## **Neighborhood Ownership Recovery Mortgage Assistance Loan Program (NORMAL)**

In the 1990s, credit became increasingly available from both prime and sub-prime lenders. Around the country, many low- and moderate-income home owners who had impaired credit refinanced with loans from sub-prime lenders. Some refinanced several times, faced monthly payments beyond their means, and lost their homes.

In 1996, Neighborhood Housing Services of Chicago, Inc. (NHSC), a community development financial institution, developed a foreclosure-intervention program to respond to a wave of foreclosures on FHA-insured and other loans. Starting in 1998, NHSC began seeing a pattern of loans in which home equity was rapidly being depleted by refinancings that included fees in excess of 10 percent of the loan amount. The loans, located throughout Chicago, were originated by sub-prime lenders through mortgage brokers. NHSC became concerned that a proliferation of such loans could undermine its 25 years' work in developing affordable housing and preparing low- and moderate-income people for home ownership. It developed NORMAL as a tool to maintain the viability of Chicago's neighborhoods.

NHSC, Chicago-area lenders, and the city of Chicago worked together to develop a NORMAL pilot program, which was launched in June 2000. Sixteen financial institutions committed \$2.2 million to a NORMAL loan pool, while the city of Chicago committed \$1.2 million for operational expenses and a loan-loss reserve equal to 6 percent of loan originations.

NORMAL's purpose is to provide counseling and intervention to preserve home ownership and access to more affordable loans. NORMAL focuses on owner-occupants of one- to four-unit residential buildings in Chicago who meet one of three criteria: (1) They have purchased or refinanced a house in the past three years with financing terms that appear overpriced for the customer's credit history; (2) they've negotiated refinancings that involve such characteristics as "flipping" (repeated refinancings in a short time), equity-stripping, or excessive and unreasonable fees; or (3) they've contracted for home improvements that were not completed or were substandard.

NHSC's assistance consists of three main elements: analyzing owners' loans, counseling owners, and negotiating with existing lenders. NHSC staff members and assisting attorneys attempt to negotiate a payment plan or a reduced payoff amount with lenders or servicers and help owners obtain conventional refinance loans. NHSC staff members sometimes refer an owner to NORMAL's loan committee. NORMAL loan applications are not taken on request. NORMAL has become the centerpiece of an NHSC home-ownership preservation initiative that also includes foreclosure-intervention counseling and strategies, financial education, pre-purchase and refinance counseling, and ongoing individual and group education about credit.

During the past five years, NHSC has counseled more than 3000 home owners, of whom about 50 percent have been able to keep their homes with NHSC's assistance, with approximately 30 percent receiving renegotiated-payment plans with their existing lenders or loans from NHSC to reinstate their mortgages. Twenty of NHSC's 120 staff members are engaged full time or part time in some part of the initiative. NHSC staff spends up to 55 hours per case working with owners and attorneys, negotiating with loan servicers and lenders, and providing post-NORMAL loan credit counseling.

To learn more about how to develop a program such as NORMAL, please contact:  
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See program specifications on next page.

Use of Proceeds	Refinance sub-prime loans that have characteristics such as repeated refinancings within a 3-year period or excessive fees.
Loan Size	The average loan amount has been about \$70,000. There is no loan minimum or maximum.
Product Type	First-mortgage refinance. Thirty-year fixed-rate loans are made by NHSC's nonprofit residential-mortgage licensee, Neighborhood Lending Services, Inc. (NLS), with an interest rate of 50 basis points over Fannie Mae's 60-day rate. NHSC charges the borrower a \$15 application fee; a 1 percent loan origination fee or \$500 (whichever is greater); and customary title and recording fees at closing.
Risk Sharing and Collateral	NHSC obtains a first-mortgage lien on the borrower's residence. Occasionally, NHSC also makes a subordinate loan for house repairs and receives a second lien.
Underwriting	NHSC conducts a credit and title investigation, appraisal, property inspection, and income verification, according to standard lending practice. In addition, it compiles a case study for the NORMAL loan committee that describes the sequence of events resulting in the borrower's present situation. LTV is flexible but generally is 100 percent or less of appraised value. The maximum debt-to-income ratio is 45 percent.
Documentation	Standard documentation, including a title-insurance policy and property insurance, is required.
Applicant Requirements	Must be owner-occupant of a one- to four-unit residence in the city of Chicago. Borrower's household income must be less than 120 percent of area median income.
CRA Test	Financial institution participation has contributed to banks' meeting their CRA lending, investment, and/or service tests. Institutions should ask their examiner for further information.
Program Performance	From inception in June 2000 to August 2001, NHSC closed 18 NORMAL loans totaling \$1.1 million. There have been no defaults and no delinquencies as of August 2001. NHSC's negotiations with lenders have reduced loan-payoff amounts by a range of \$5000 to \$60,000.
Lenders	In May and June 2000, the 16 financial institutions participating in the NORMAL loan pool signed a participation agreement with NHSC. Participants also include the city of Chicago and the Neighborhood Reinvestment Corporation. The participants made commitments totaling \$2.2 million, in the form of 22 shares in the NORMAL loan pool, at \$100,000 per share. NHSC makes a monthly capital call to the participants, which then fund NORMAL loans on the basis of each participant's number of shares.
Loan Pool	Each NORMAL loan is fully participated to the investing lenders, on the basis of the number of shares to which each committed, at the time of the capital calls. NHSC originates and closes NORMAL loans through NLS, using two lines of credit made available by lenders for NHSC's various lending programs, and then permanently funds each loan through the monthly capital calls to NORMAL participants. The NORMAL loan committee, which meets monthly, consists of representatives of five institutions and the city's department of housing.
Marketing	Residents become aware of availability of NHSC assistance through a public-awareness campaign conducted by the city of Chicago, referrals from attorneys, and a network of block clubs, community organizations, and church groups.
Program Information	James Wheaton, associate director, NHSC, (312) 491-5101; fax: (312) 738-2491; e-mail: <a href="mailto:jwheaton@nhschicago.org">jwheaton@nhschicago.org</a> ; <a href="http://www.nhschicago.org">www.nhschicago.org</a> ; or Rochelle Nawrocki, program development and government relations director, NHSC, (312) 491-5138; e-mail: <a href="mailto:rnawrocki@nhschicago.org">rnawrocki@nhschicago.org</a> .

