PRIVATE MORTGAGE FUND

Increasing access to homeownership through small dollar mortgage loans.

UC Berkeley Haas: Hannah Gable, Danny Gorczyca, Maelym Medina, Julian Ramirez.

Meet Casey, a qualified mortgage applicant

NAME: **Casey**

AGE: **42 years old**

ANNUAL INCOME: **$75,000**

CREDIT SCORE: **692**

SECURED DOWN PAYMENT? **Yes**

Casey just found the house of their dreams: a 2-bedroom, 2-bath home for $110,000. Casey applies for a mortgage loan through their local bank, but gets denied because their home is too inexpensive.*

*< $100k is currently considered the “small dollar” mortgage threshold. This will shift moving forward as inflation changes.

Why is Casey's mortgage application denied?

Small dollar mortgages (< $100k) are 4x[1] more likely to be denied than larger mortgages. This is the product of structural factors in the mortgage industry – namely, high origination costs and commission paid to brokers. From the lender's perspective, these costs are not justified given the mortgage size.

1

Commission-based compensation structure.

Operating under a commission-based payment structure, lenders make more from larger loans, incentivizing them to lend higher value loans vs. small.

2

Higher fixed costs for mortgages following Dodd-Frank[2].

Dodd-Frank regulations increased the fixed origination costs for loans, regardless of the loan size so banks started originating larger vs. smaller loans.

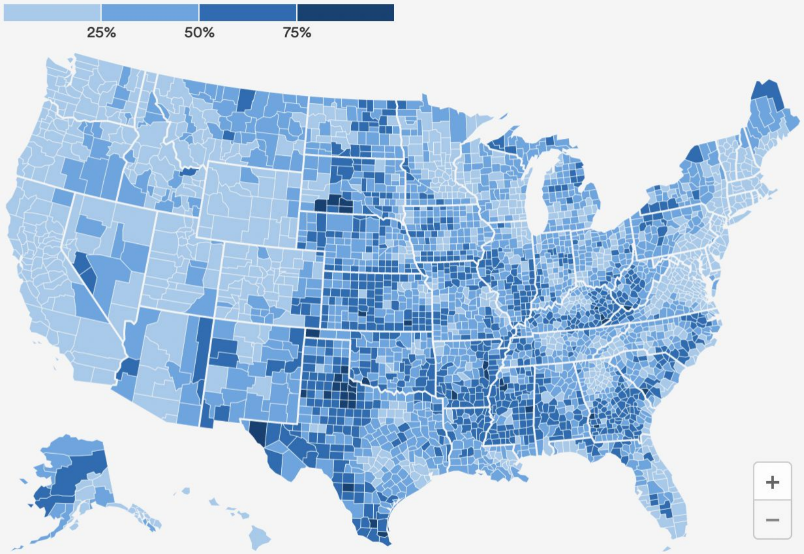
3

Qualified Mortgage[2] rule caps fees lenders can charge, based on loan size.

The way the fees are set up through the QM rule, the smaller the loan, the less profit a bank can make from it.

National Scale

Percent of owner-occupied housing units valued below $100,000, by county, in the U.S., 2019



Map: Center for the Study of Economic Mobility (CSEM) and New America-Future of Land & Housing • Source: American Community Survey, 2015-2019 5-Year Estimates • Get the data • Download image

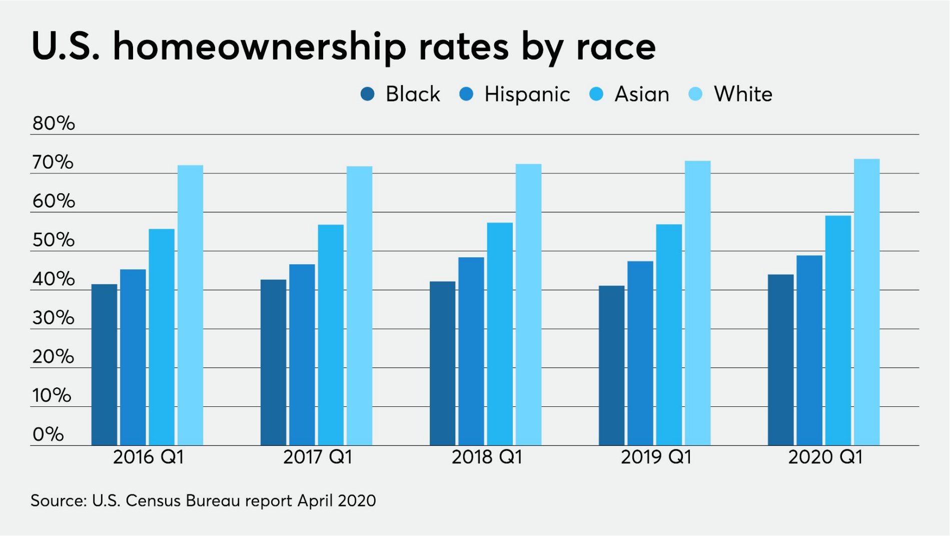
Approximately 20%[2] of owner-occupied homes in the US are valued at under $100K.

These homes are prevalent across the country, with high concentrations in the Midwest and South.

Between 2009 and 2018, the number of mortgages of $10,000 to $69,999 declined by 38%. Mortgages > $150k increased by 65%[3].

Disproportionately impacts families of color

The gap between Black and White home ownership rate is at the highest it's been in 50 years. The **decline in black homeownership threatens to exacerbate existing wealth inequalities** for decades to come as owning a home is a critical lever in creating wealth for families.



Opportunity Size

16M[4]

Small-dollar mortgage-eligible homes in U.S.

2M[5]

SDM homes on the market.

30M

Potential total SDM loans in 15-year cycle.

4.8M[1]

SDMs our fund can originate.

80M owner-occupied homes in the U.S. 20% of those are < $100k. 20% x 80M = 16M.

Typical home seller has been in their home for 8 years. 16M / 8 yrs = 2M home sales per year.

Life of our private mortgage is 15 years. 2M loans x 15 yrs = 30M loans.

~16% = difference in denial rates for traditional loans vs. SDMs. 16% x 30M = 4.8M.

The Opportunity

Lender Profits* for small dollar vs. large loan (*high-level*):

	Small Dollar Loan $90,000	**Large Loan $400,000**
Applicable Fee (QM limits)	$3,308	$12,000
Minus Fixed Costs	($2,500)	($2,500)
Lender Profit	**$808**	**$9,500**

How can we adjust the cost structure for small dollar mortgages to make it financially viable to originate and service small dollar loans?

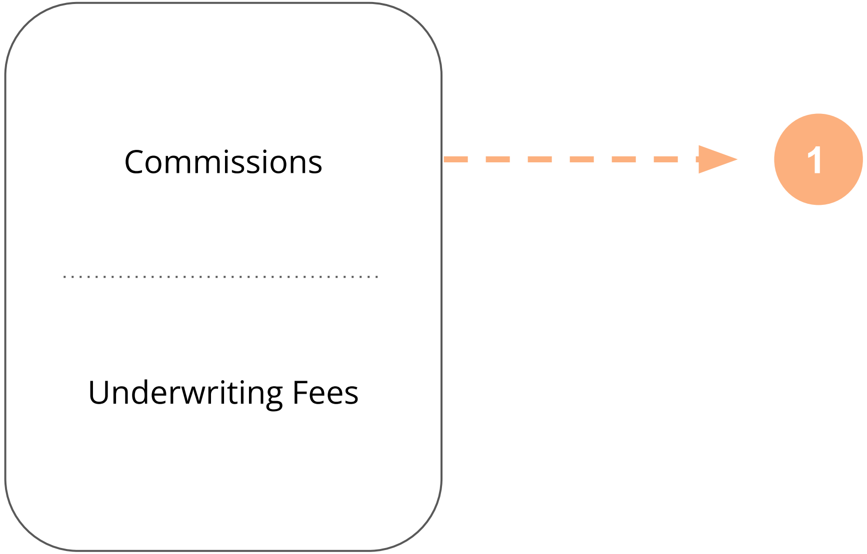
*Table and data from Center for the Study of Economic Mobility and New America--Future of Land & Housing.

OUR SOLUTION:
PRIVATE MORTGAGE FUND

Solution Overview

By eliminating the commission structure and reducing underwriting costs we create a new, low cost option for originating small dollar mortgages.

TRADITIONAL MORTGAGES

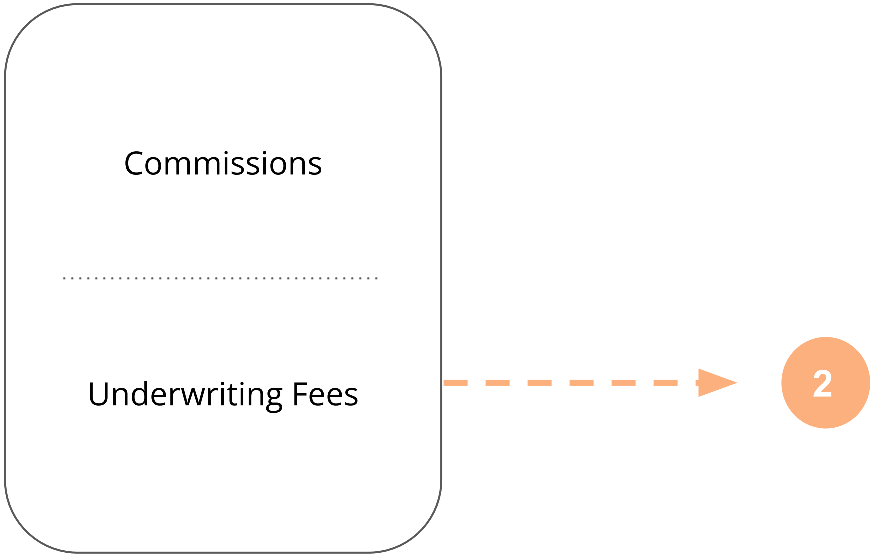


People seeking SDMs go to traditional banks and get referred to us, **eliminating commissions** from the process. We then sell fixed-yield securities to CRA-compliant banks (to fulfill their CRA requirements) and variable-yield securities to institutional investors.

Solution Overview

By eliminating the commission structure and reducing underwriting costs we create a new, low cost option for originating small dollar mortgages.

TRADITIONAL MORTGAGES



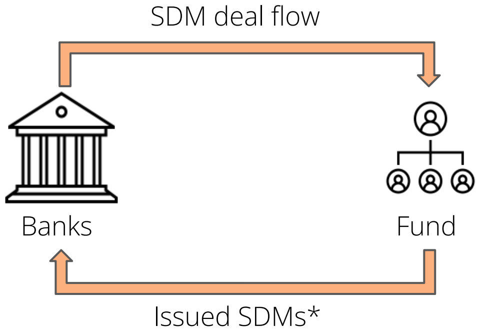
We outsource the underwriting process to fintech partnerships, **eliminating overhead from our fund operations** and minimizing the traditional fees associated with underwriting a mortgage.

Solution Overview

By cutting out commission fees and reducing the underwriting costs, we create a new, low cost option for originating small dollar mortgages.

1

Traditional banks refer customers to us, we underwrite the loans, and sell back to the banks to help fulfill their CRA credits.



2

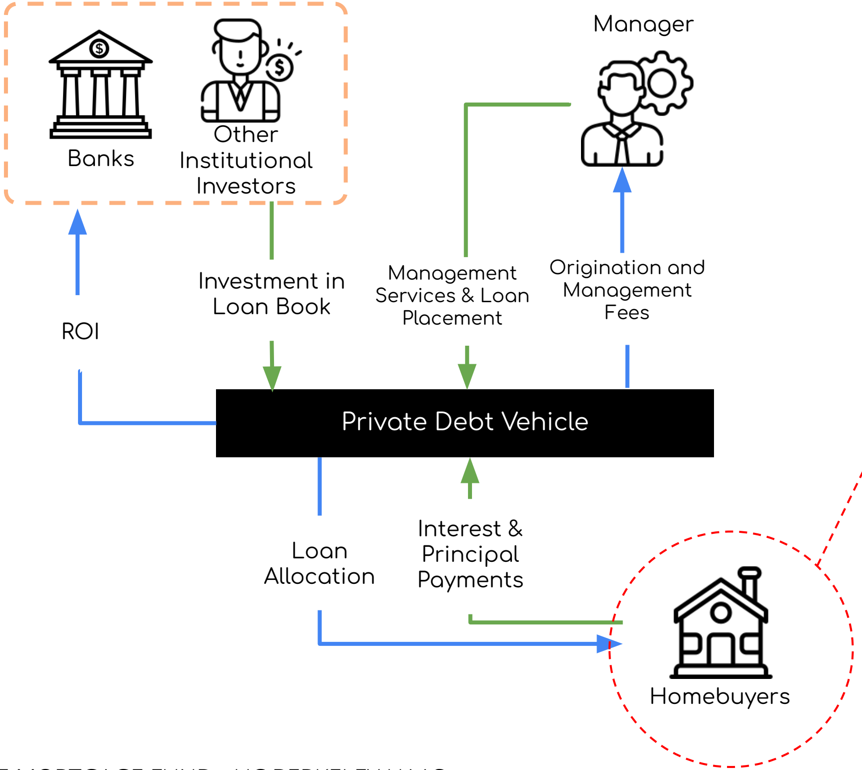
Spruce and Blend provide income verification and title search. Esusu and Tala offer credit assessment alternatives.

SPRUCE blend

ESUSU TALA

*Some loans are sold to banks and the remaining are sold to more risk-tolerant institutional investors.

Fund Structure



Loan Terms	
Size (ave)	**$80,000**
Term	**15 years**
Interest Rate	**6.0%**

Funding and Expected Returns

TRANCHE A - Senior GUARANTEED FIXED RETURN

- **Size:** 75% of fund ($75 M)
- **Return:** Fixed 3.5%
- **Target investors:** Banks looking to fulfill their **Community Reinvestment Act (CRA)** requirements

TRANCHE B - Subordinated VARIABLE RETURN

- **Size:** 25% of fund ($25 M)
- **Return:** Variable (~8.6%)
- **Target investors:** University endowments, Insurance companies, Pension funds, Family offices, Wealth management companies

Risks & Mitigation

In addition to the identified risk mitigation strategies below, we plan on building financial literacy in all borrowers through workshops and mentoring.

Interest Rate Risk / Application Volume

Loans issued by the Fund are subject to prevailing interest rates, and those interest rates will impact the flow of new mortgage applicants/issuances; i.e. during periods of high interest rates we expect the volume of mortgage applications to decrease. This risk is mitigated by setting an achievable (low) target for SDM issuance and ensuring that the safest tranche is paid even if we are unable to disperse the entire fund.

Loss of Capital

Loans issued by the Fund are subject to repayment by individual borrowers, who may default on their obligation. We seek to mitigate repayment risk by (1) creating two tranches (safe/fixed yield and high/variable yield) and (2) recording a Deed of Trust on the underlying properties until the loans are repaid in full.

Assessing Credit Worthiness

Individuals seeking loans will have varying credit scores or in some cases, insufficient credit history. Through partnerships with Fintech platforms such as Esusu and Tala, we will assess credit worthiness of borrowers by building a more holistic credit profile that includes rent payments, mobile phone payments, cable tv payments, and bank account information.

Impact

Building Access

Increase **access to homeownership for low-income individuals**.

Increasing Revenues

Increase **property tax revenue** in communities from homeowners.

Supporting First-Time Buyers

Provide a **critical source of housing for low- and moderate-income families**.

Bridging Racial Inequality

Bridge the **racial wealth gap** between Black and White homeownership rates.

Our Team

HANNAH GABLE

FTMBA '23, Deloitte Consulting, UC Berkeley Housing Lab Fellow

DANNY GORCZYCA

FTMBA '23
Attorney

MAELYM MEDINA

FTMBA '23, Former Investment Banker

JULIAN RAMIREZ

FTMBA '23,
Teach For America Educator and School Leader

THANK YOU!

Q&A

APPENDIX

Partnerships manage underwriting process

INCOME VERIFICATION & TITLE SEARCH

SPRUCE

Offers a high-speed, low-cost closing, and manages the underwriting process for customers.

blend

Automatically initiates income and employment verification to deliver underwriting-ready files.

CREDIT PROXIES FOR CREDIT ASSESSMENT

ESUSU

On-time rent payment data fed directly to credit bureaus to help consumers improve their credit score.

TALA

Analyzes non-traditional user data to underwrite and disburse loans to people with no formal credit history.

Financial Assumptions

Size of the fund	$100 M
Funding Mechanism	Two collateralized debt instruments: ● Tranche A (Senior) - 75% of fund ● Tranche B (Subordinated) - 25% of fund
Fund term	15 years
Loan Terms	Average among of $80,000 with a fixed rate of 6.0% for 15 years
Deployment of loans	2 years
Default payments	2% of annual payments
Costs of the fund	● Underwriting costs (outsourced) = $1,000 per loan ● Management fee = $1 M during deployment of loans (Y1-2) and $200 K afterwards ● Other costs (office, legal, etc.) = $250 K per year

Sources

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2. https://www.newamerica.org/future-land-housing/reports/the-lending-hole-at-the-bottom-of-the-homeownership-market/its-expensive-to-be-poor-small-dollar-homes-are-inaccessible-to-low-and-moderate-income-families
3. https://www.pewtrusts.org/en/research-and-analysis/articles/2020/09/11/small-mortgages-are-hard-to-get-even-where-home-prices-are-low
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