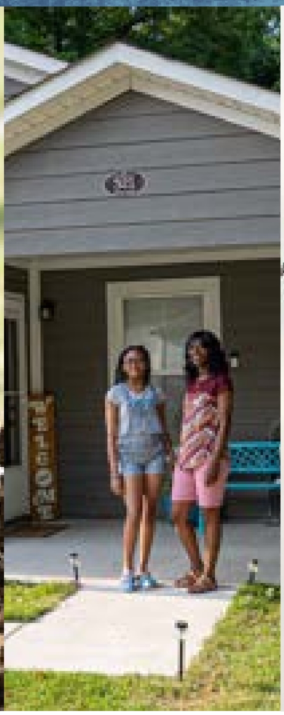
Tennessee Housing
Development Agency

50 YEARS

PEOPLE • PLACES • PROGRESS

50 YEARS OF THDA'S SINGLE FAMILY HOMEOWNERSHIP PROGRAM



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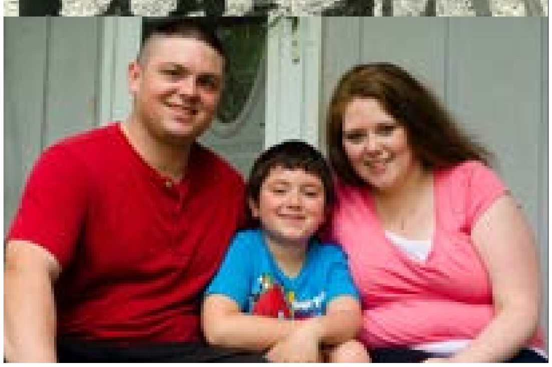

50 YEARS
PEOPLE • PLACES • PROGRESS

ACKNOWLEDGEMENTS

We would like to thank Lindsay Hall and Rhonda Ronnow for their thoughtful and candid contributions to this report.

Tennessee Housing Development Agency

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RALPH M. PERREY
THDA EXECUTIVE DIR.

Ralph Perrey is the Executive Director of the Tennessee Housing Development Agency. Appointed in November 2012 following nine years' service on THDA's Board of Directors, he now the longest serving executive director in the agency's history.

His tenure as THDA's Executive Director has seen the agency revamp its mortgage products and down payment assistance program; establish its own loan servicing division; and base THDA staff regionally to better interact with partners across the state.

Perrey serves as Chairman of the Board of Directors of the National Council of State Housing Agencies. He also serves on the Executive Committee of the Board of Governors of the National Housing Conference, the nation's oldest housing advocacy organization.

NOTE FROM OUR EXECUTIVE DIRECTOR

Financing mortgages for first-time homebuyers of moderate/middle incomes, primarily, was the founding purpose of the Tennessee Housing Development Agency and it remains our principal business. Since we financed the first THDA mortgage loan in 1974, we have financed over $10 billion in mortgages and helped over 134,000 Tennessee households acquire their piece of the American Dream.

Much about the housing market has changed during that time span, but THDA's ability to support first time homebuyers has remained a constant, and the changes we have instituted more recently position THDA to continue serving Tennesseans for many years to come. As we enter 2024, THDA is providing more mortgage finance for Tennesseans than ever before.

Having brought loan servicing in-house in 2016, THDA has the ability to offer a broader range of mortgage options. In addition to the FHA-backed mortgages we have always offered, we are also able to now offer conventional loans. We have the ability to sell or securitize mortgages in the secondary market, lessening our reliance on debt issuance and giving us the ability to remain in the market through changing economic conditions. Importantly, because loan servicing provides us with direct connection to our borrowers, we have a greater opportunity to help them stay on track and navigate life's financial setbacks. As 2023 came to a close, THDA's loan delinquency rate was the lowest it has ever been, with the exception of that first year when no one had had a THDA loan long enough to have missed a payment. That is important for us because as much as we take pride in helping Tennesseans buy a home, we take greater satisfaction in helping them succeed as homeowners.

Fifty years after our founding, Tennessee Housing has never been stronger or more impactful. This is a credit to the many who have worked for THDA and to the Board members and public officials who have supported our mission over these fifty years. Together, we have positioned THDA to remain a reliable source of mortgage finance for Tennessee homebuyers well into the future, with all the good things homeownership entails for families, communities, and our state as a whole.

50 YEARS POSITIVELY IMPACTING THE LIVES OF TENNESSEANS

The Tennessee Housing Development Agency (THDA) was established in 1973 to provide safe, sound, affordable housing opportunities for Tennesseans by offering single family home purchase loan programs to low- and moderate-income families. Between 1973 and 2022, more than 134,000[i] Tennesseans became homeowners using THDA mortgage loan products. The total value of those funded loans was approximately $17 billion, in 2022[ii] dollars ($10 billion, in nominal dollars). THDA has evolved to offer a variety of federal and state programs aimed at both homeownership and rental opportunities over the last 50 years. However, in this report, we reflect solely on the various homeownership loan programs THDA has administered over this period.

THDA has offered various homeownership choices over the years to assist low- and moderate-income Tennesseans. Some programs have been or were offered for many years, while others were designed as short-term responses to a natural or financial event that adversely affected the housing market. For example, THDA offered a Disaster Relief program in 2003 and 2006, a Stimulus Second Mortgage program in 2009, and the Hardest Hit Fund downpayment assistance (HHF-DPA) program that was available between 2017 and 2019.

Since 2013, THDA has offered one standard loan program, which is the Great Choice Home Loan program. Homebuyers who are eligible for Great Choice Home Loans can also apply for down payment and closing costs assistance (DPA) in the form of a Great Choice Plus second loan.

The New Start program, which offers a no-interest loan for low- and very low-income Tennesseans to promote new construction, started in July 2001. Non-profit organizations with established programs capable of constructing single-family housing originate the loans by selecting eligible homebuyers, constructing the homes, and providing homebuyer education. Effective January 2006, the New Start Program became a two-tiered program. Tier I offers a zero percent loan for borrowers who earn 60 percent or less of the state median income. Tier II allows for borrowers with a slightly higher income (70 percent of the state median income) and requires them to pay a rate of one-half of the interest rate on the Great Choice program. Since its inception in 2001, more than 1,500 low- and very-low-income households became homeowners with the New Start program. The peak of the program's activity was between 2007 and 2014, during which the greatest number of partners participated in the program.

In April 2011, THDA approved a special interest rate discount for active duty service members and National Guard members, veterans discharged under conditions other than dishonorable, reservists with at least 180 days of active duty service, spouses of service members, and qualified veterans as well as surviving spouses of service members and qualified veterans.[iii] The program, which became permanent in March 2013, offers a 50 basis point interest rate reduction on the Great Choice loan, based on the current rate at the time of loan rate lock. From the start of this special discount until the end of 2022, 1,042 veterans took advantage of the Homeownership for the Brave Program.

In March 2020, THDA began offering a conventional loan product with Freddie Mac HFA Advantage loans, financed with mortgage-backed securities (MBS). The program does not have a first-time homebuyer requirement and income limits are determined based on the income of the qualifying borrower(s) rather than the household income. If a homebuyer qualifies for the Freddie Mac HFA Advantage® Program, they can also apply for down payment and closing cost assistance in the form of an HFA Advantage Plus second loan. There are two options for down payment assistance similar to the standard Great Choice product, which utilizes mortgage revenue bonds (MRBs).

In this 50th Anniversary report, we consider the people we have served, the types of loans that have been serviced, and the types of properties THDA loans have helped borrowers acquire. We also consider the overall economic impact of THDA's homeownership program during 50 years of operations.

TABLE 1: THDA HOMEOWNERSHIP PROGRAMS, 1973-2022

Housing Program	Description	Dates of Operation
Homeownership loans through Reservation of Funds Agreements	THDA's standard and only mortgage program during this time, serving Tennesseans with low/moderate incomes	1973 - 1985
The Homeownership Program	THDA's standard mortgage program during this time, serving Tennesseans with low/ moderate incomes	1985 - 1998
Rural and Inner-City Loan Program	Loan program to serve homebuyers in rural, urban, and economically distressed areas	1987 - 1991
Revolving Loan Program	$2.5 million in seed money from THDA with additional contributions from Shelby County for zero percent loans	1987 - 1993
Low Income Family of Tennessee (LIFT) Program	Lower interest loans targeted to lower income households with a disabled family member, a large family, a single parent or an elderly member	1988 - 1992
START (Special Targeted Affordable Rate for Tennesseans) Program	Program to serve lower income families (50% of Area Median Income) with a lower interest rate	1993 - 1998
START Plus	THDA's first downpayment and closing cost assistance program that offered a second mortgage with the same interest rate as the first	1993 - 1998
Great Rate Program	Standard THDA program during this time that served Tennesseans with low and moderate income	1998 - 2011
Great Start	A Down Payment Assistance Programs that offered a four percent down payment and closing cost assistance with a slightly higher interest rate	1998 - 2011
Disaster Relief and Economic Recovery Mortgage Program	30-year fixed rate loans to help with those in areas with federally declared disasters. Loans were at below market interest rates, all the way down to zero	2003, 2006
Great Advantage	A Down Payment Assistance Program that offered two percent down payment and closing cost assistance with a slightly higher interest rate	2006 - 2011
Great Save	A refinance program for non-THDA adjustable-rate mortgage loans closed between 2002 and 2007	2008 - 2012
Stimulus Second Mortgage Program	Second mortgage program that monetized the federal homebuyer tax credit so it could be used on the front end to purchase a home rather than waiting to be reimbursed	2009 - 2010
Homeownership for the Brave	Mortgage product to help veterans become homeowners, offering a discounted interest rate	2011 - Present
Great Choice	The primary current mortgage program at THDA, which includes the Great Choice Plus second loan to help with down payment and/or closing costs	2013 - Present
Freddie Mac HFA Advantage ® Mortgage Loan Program	A current program for low- and moderate-income borrowers, offering an insured conventional mortgage loan secured by a first mortgage with the option of down payment and closing cost assistance	2020 - Present

TABLE 2: NUMBER OF LOANS FUNDED AND TOTAL LOAN AMOUNTS IN ALL THDA LOAN PROGRAMS, 1973-2022

THDA Loan Programs (Start Date)	Number of Loans	$ Value of Loans (2022$)	$ Value of Loans (Nominal$)
Current Loan Programs			
Great Choice (2013)	24,305	$4,124,647,701	$3,602,382,987
HFA Advantage (2020)	316	$62,498,808	$58,154,334
New Start (2001)	1,523	$161,001,394	$123,969,381
All Other Loans (1973-2013)	108,408	$12,773,110,215	$6,688,422,403
TOTAL FUNDED LOANS	**134,552**	**$17,121,258,117**	**$10,472,929,106**

MyTNHome *Housing Stories from Across Our State*

FOR STACY WOODS, ORIGINATING HOME LOANS IS MORE THAN JUST A JOB.

"It really makes an impact on me... when they're the first in their family to be a homeowner, it makes it all worth it. It's humbling to me to be a part of their journey."

READ MORE #MYTNHOME STORIES

ECONOMIC IMPACT

Over the last 50 years, in addition to helping over 134,000 Tennesseans become first-time homeowners, THDA's homeownership programs contributed to the Tennessee economy by generating additional business revenue, jobs, personal income and tax revenue.

In 1973, THDA's loan programs helped generate three million dollars in area business revenue, nearly one million dollars in personal income and an additional 17 jobs.[iv] Every dollar of THDA homeownership program spending in 1973 generated an additional $0.98 in business revenue compared to an additional $0.96 in business revenue in 2022. In 2022, THDA's homeownership programs generated an additional $150 million in business revenue, $60 million additional income and 898 more jobs.

Over 50 years, THDA's mortgage programs have yielded $8.14 billion in business revenue, $3.2 billion in personal income and, on average, and approximately 970 jobs each year.[v] Across the last half-century, every dollar of THDA homeownership program spending generated an additional $0.96 in business revenue. THDA's homeownership programs also generated sizable tax revenues for the state and the local governments. The model-estimated total tax revenues in 50 years were $232 million. Figure 1 below demonstrates the cumulative business revenue impact of THDA's homeownership programs from 1973 to 2022.

FIGURE 1: CUMULATIVE IMPACT OF THDA'S HOMEOWNERSHIP PROGRAMS, BUSINESS REVENUE, 1973-2022

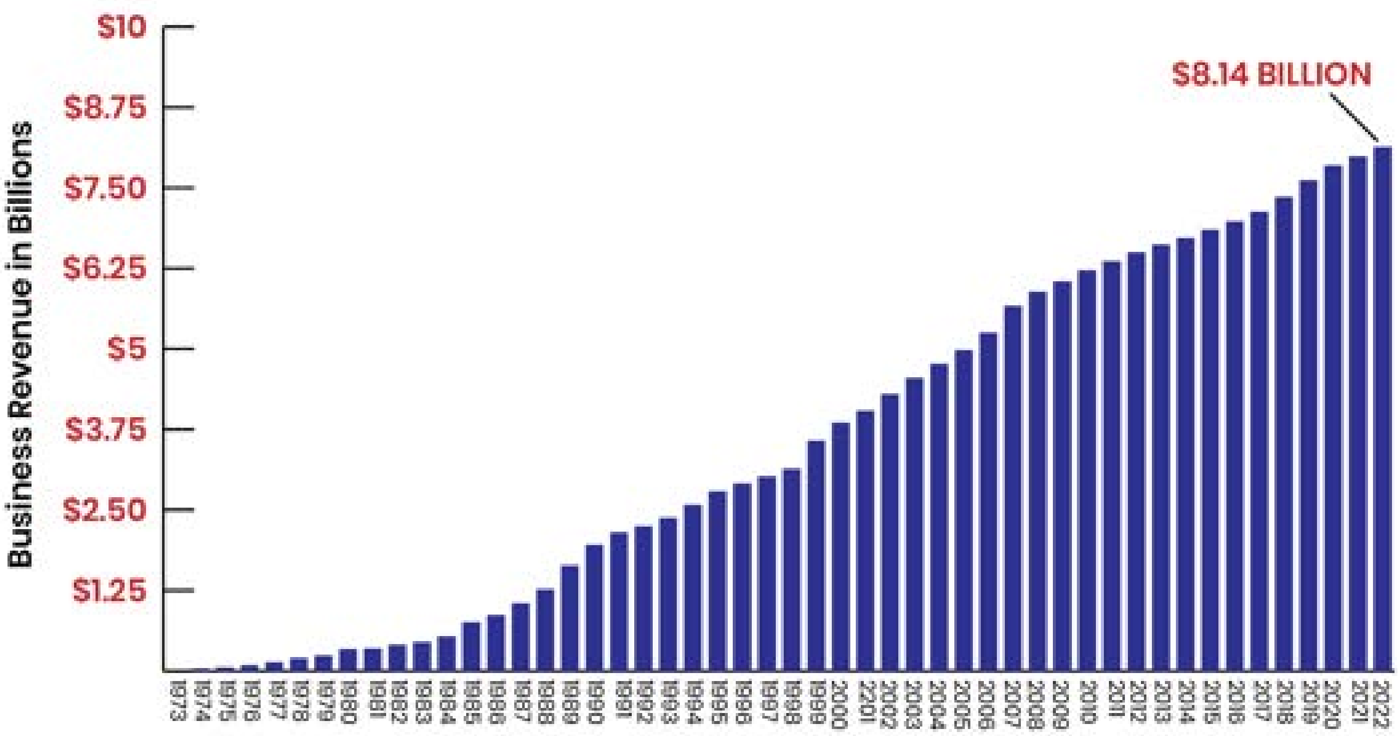
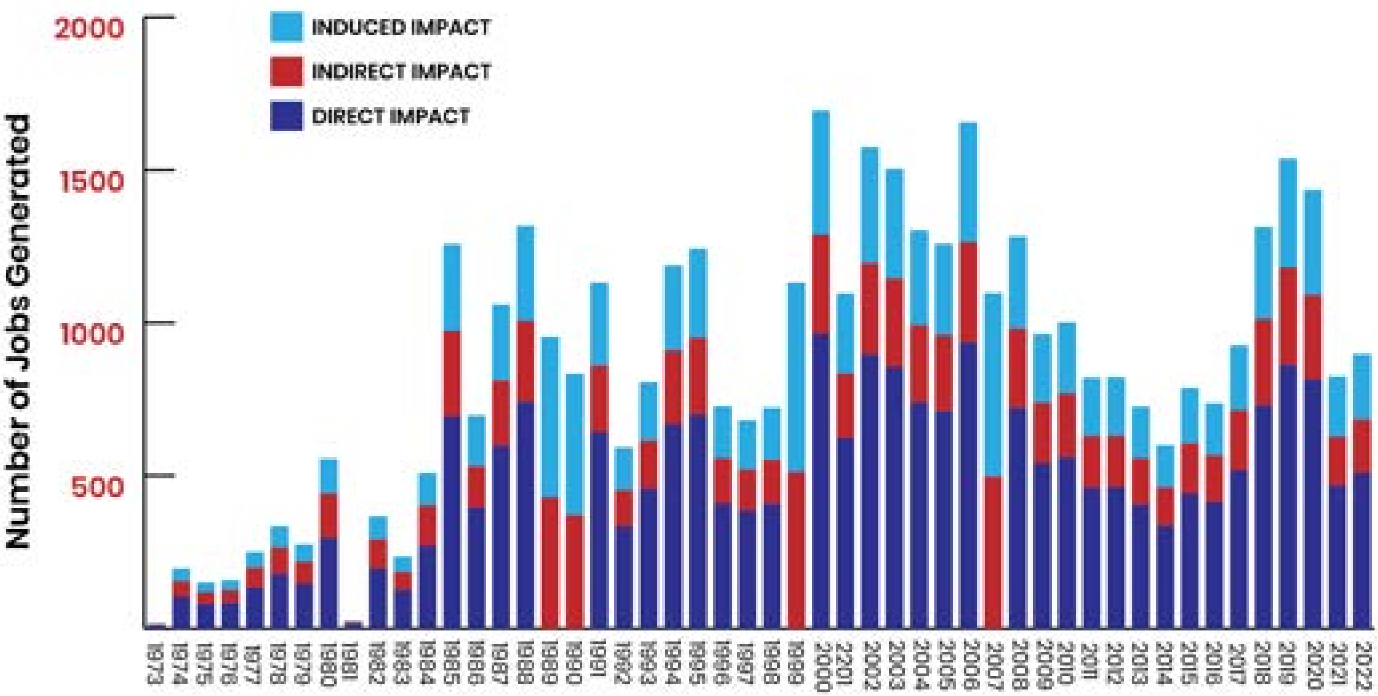


Figure 2 illustrates the direct, indirect, and induced impacts of THDA's homeownership programs on employment each year. This impact is dependent on the infusion of spending into the economy through THDA's homeownership programs. The impact is higher in years in which loan production increases or when more new homes were purchased. New home purchases lead to construction, which stimulates economic activity.[vi]

FIGURE 2: EMPLOYMENT IMPACT OF THDA'S HOMEOWNERSHIP PROGRAMS, 1973-2022



KEEPING UP WITH CHANGING TIMES

The last two decades have ushered in an era of change for the homeownership programs of THDA. We reflect on some of the most impactful initiatives that THDA has undertaken over this period.

BRINGING THE CUSTOMER HOME: THE FOUNDING OF THE VOLUNTEER MORTGAGE LOAN SERVICING (VMLS)

THDA started servicing its own loans in 2016 to become an approved Fannie Mae or Freddie Mac seller/servicer and to better serve THDA borrowers who are almost always first-time homebuyers. THDA's servicing division, known as Volunteer Mortgage Loan Servicing (VMLS), expanded from 16 employees to 35 employees since 2016. On August 1, 2018, approximately 23,000 loans were transferred from THDA's master servicer, US Bank, to VMLS. VMLS worked to lower delinquency rates after transferring the loan portfolio from US Bank. At the time of the transfer, 11 percent of loans were delinquent by 60 days or more; most recently, only four percent of loans were delinquent by 60 days or more.

The VMLS Division excelled in its ability to quickly implement COVID-19-related options for borrowers in March 2020. THDA took swift action offering a forbearance period and issuing a foreclosure moratorium to allow time for Tennesseans to remain safely in their homes prior to the release of the CARES Act. VMLS approved over 6,500 COVID-19 forbearances. In the meantime, THDA's delinquency rate rose to a peak of 11.45 percent in 2021. Using COVID-19 cure options including partial claims and loan modifications, over 3,000 THDA homeowners were successfully brought current to retain their home while many others chose to take part in the HAF Program. The recovery actions that were implemented for COVID-19 have dropped THDA's delinquency rate to an all-time low of 3.83 percent.

As foreclosures resumed following the moratorium set during the COVID-19 pandemic, properties that were once owned by a first-time homeowners started to be purchased by investors or LLCs. To help place these properties back into the hands of first-time homeowners, VMLS launched a new real estate owned (REO) rehabilitation program in 2022. All foreclosure properties that revert to THDA at their foreclosure sale now undergo a full renovation to ensure the property is safe, clean, has a reliable roof, foundation, HVAC, and appliances, and ready for a family to move in. THDA lists the properties for sale with a local realtor and requires an attestation of owner occupancy and first-time homeownership.

PARTNERING FOR THE FUTURE: THDA BECOMES A FREDDIE MAC SELLER/SERVICER AND A GINNIE MAE ISSUER

Following the financial crisis of 2008, THDA was unable to offer a conventional loan product because the bond rating of private mortgage insurance (PMI) companies had to be equal to THDA's own bond rating in order for THDA to purchase originated loans with mortgage revenue bonds (MRBs). Additionally, THDA was concerned about the state's debt limit, which determines the volume cap[vii] and the availability of funds through the sale of tax-exempt bonds. THDA's administration intended to redirect some of the volume cap to its Multifamily Division in 2024 and 2025. Therefore, the Single Family Division would no longer be the sole recipient of the state's volume cap (The volume cap provides the limit on MRB bond issuance and the loans THDA can purchase with them).

If the available volume cap for mortgages were ever restricted, THDA would have to find other ways to fund loans in lieu of whole loan tax-free bonds. Therefore, THDA decided to become a Freddie Mac seller, and later, a Ginnie Mae issuer following other states who had been issuing mortgage loans with mortgage-backed securities (MBSs) for many years already. After the approval of THDA's Freddie Mac application in Fall 2019, the agency ran a pilot mortgage program and went live in March 2020. Ginnie Mae applications started in November 2020. The program's approval was received in January 2022 and the first pool started in February 2023. THDA is currently working on its seventh pool.

Using MBSs to fund mortgages gives THDA flexibility to develop and add new products without relying on permission from the state legislature as is the case for the funds obtained through tax-free bonds. Similar to MRB loans, MBS program loans also have income limits. Freddie Mac allowed THDA to set its own income limits for the MBS program as long as they are within reason. MBS borrowers do not have to be first-time homebuyers, and can have conventional mortgages, rather than FHA-insured loans, since THDA can work with PMI companies.

EDUCATING TENNESSEANS: THDA BECOMES A HUD APPROVED COUNSELING AGENCY

THDA became a HUD approved counseling agency to allow for the use of a variety of grants for counseling homebuyers. THDA brought in HUD approved counselors for each grand division to support the servicing division, allowing borrowers to be able to have a face-to-face meeting with a HUD approved counselor across the state. Operating as an intermediary allowed THDA's sub-grantees to also gain their designation as HUD counseling agencies.[viii] Through the implementation of "boot camps," THDA's HUD approved counselors provided direct training to counseling agency partners. Ultimately, Tennessee ranked among the top three agencies in the nation for having the most counselors in the nation pass the HUD counseling exam.

Furthermore, this initiative was invaluable to ensuring the successful implementation of the Homeowner Assistance Fund (HAF) program following the COVID19 pandemic because recipients were required to undergo housing counseling by HUD approved counseling agencies. Currently, THDA has three HUD approved in-house counselors and three more THDA employees have attained HUD certification. THDA's own HUD counselors do not work with THDA borrowers for homebuyer education.

THDA ON THE NATIONAL STAGE: PARTNERSHIP WITH THE MBA ON CONVERGENCE MEMPHIS

CONVERGENCE Memphis is driving collective action with lenders, other industry participants and government partners to facilitate new solutions to our nation's rental and housing affordability challenges. CONVERGENCE promotes more sustainable and affordable homes for purchase and rental for underserved people and communities, especially minorities and low-to-moderate-income Americans. Memphis was chosen as the first location for this innovative new community initiative by the Mortgage Bankers Association (MBA) because of THDA's considerable history in the area. In its initial stages, THDA met with some local and national banks interested in exploring the barriers for minority homeownership. One particular barrier that was of interest to THDA was financial literacy. As such, THDA partnered with housing nonprofit partners in West Tennessee on financial literacy education initiatives. Now a model for cohesive approaches to addressing rental and housing affordability challenges, the CONVERGENCE initiative has expanded to Columbus, Ohio and Philadelphia, Pennsylvania.

BEING BETTER PARTNERS: THE CREATION OF THE BUSINESS DEVELOPMENT TEAM AND ADVISORY BOARDS

Other outreach initiatives that THDA has been involved in include the creation of the Business Development Team (BDT) beginning in 2015. Prior to the creation of the BDT, one person was responsible for building relationships with lenders, real estate agents and counselors, and educating them about THDA products. In contrast, members of the BDT are responsible for managing relationships with lenders and real estate advisors who already have existing relationships with their communities. Rather than forming independent relationships, BDT members then operate through people who are already embedded in communities across the state. BDT members also conduct licensed continuing education classes with partners. They also meet with banks, credit unions and other lenders who currently do not work with THDA to generate new business.

To strengthen its partnership with key stakeholders, THDA created three advisory boards related to single family programs: realtors, lenders and housing education partners. Ultimately, they were combined into one - the Housing Industry Advisory Board. Over time, the Board expanded to ensure underserved markets were represented, specifically, rural markets, markets with people of color, and markets with high rates of veterans. Advisory Board members offer insight into industry topics and provide regional updates, in addition to helpful guidance regarding their internal processes and procedures and how they impact THDA. Advisory Board members have aided in various program changes and implementations of several programs, conventional lending options, technology, housing education symposium sessions, Tennessee Housing Conference (TNHC) sessions, and HUD housing counseling guidelines.

TOOLS OF THE TRADE: RATE LOCKS KEEP THDA AT THE TOP OF ITS GAME

In 2019, THDA began allowing lenders to reserve and lock interest rates in advance of submitting the complete package as was required at the time. Implementing the rate lock gave THDA more insight into the financial management of the entire loan portfolio. Having an advance notice of the types of loans in the pipeline contributed to better bond pricing and success as a Ginnie Mae Issuer.

HELPING HOMEOWNERS: THE HARDEST HIT FUND (HHF) AND HOMEOWNER ASSISTANCE FUND (HAF)

In response to the housing market crash of 2008, the federal government provided mortgage relief via the Hardest Hit Fund (HHF). Later, as a response to the COVID-19 pandemic, the Homeowner Assistance Fund (HAF) was created.

HHF was designed to help the housing market recover by assisting struggling homeowners, while HAF was designed to prevent mortgage foreclosures. With HHF, THDA received almost $272 million in program funds, and helped nearly 13,000 households with five different programs. The Keep my Tennessee Home (KMTH) program assisted 7,355 homeowners with $183 million while THDA's Downpayment Assistance (DPA) program helped 5,448 Tennesseans become homeowners with $81 million. With HAF, THDA received $168 million under the American Rescue Plan Act of 2021. Beginning first as a pilot program in August 2021 open only to borrowers with THDA loans, THDA quickly expanded it in January 2022 to all Tennessee homeowners who had experienced a COVID-19 related hardship. As of December 31, 2022, the HAF program has assisted 1,087 homeowners with their mortgage payments totaling $15.5 million.

BY THE NUMBERS: LOAN AND PROGRAM CHARACTERISTICS

The number of loans that THDA has funded over the last 50 years has fluctuated by year. THDA's single family loan production responds to the same factors that affect the overall mortgage markets, which include home prices and interest rates. Additionally, a combination of factors specific to programs and borrowers play a significant role in the annual THDA loan volume. For example, an unusually favorable bond market might lead to a low rate on the newly issued bonds, which would cause a drop in the interest rate[ix] for the loans and stimulate loan production, especially if that happens when the market interest rates were increasing. Similarly, a change in the availability and type of downpayment assistance offered might create an incentive for more homebuyers to utilize THDA mortgage products. THDA's outreach efforts also influence loan production.[x]

MyTNHome *Housing Stories from Across Our State*

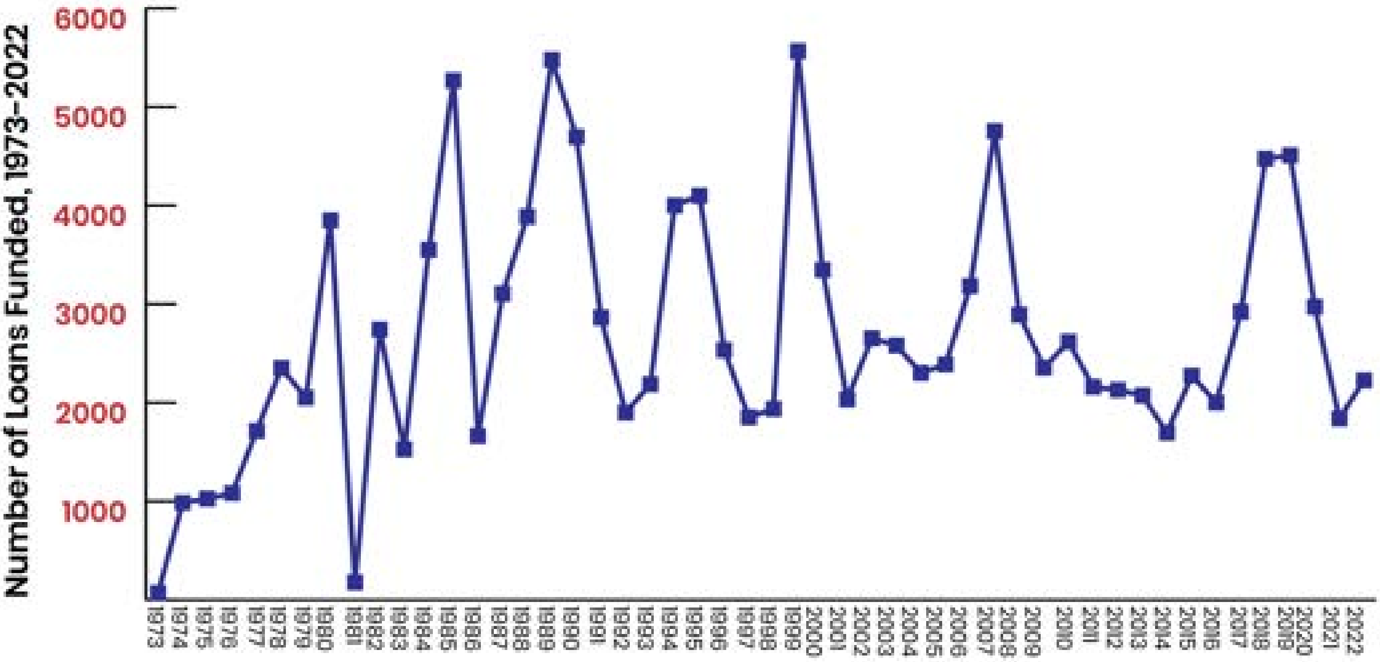
CHERRI BARRON FOUND A NEW HOME IN AN OLD, FAMILIAR PLACE

Cherri Barron was overcome with emotions as she stood on the front porch of her newly built home in a quiet neighborhood in Lenoir City.

"I'm just so happy," Barron said.

READ MORE #MYTNHOME STORIES

FIGURE 3: TOTAL NUMBER OF THDA LOANS FUNDED, 1973-2022[xi]



After the START program offered between 1993 and 1998, THDA introduced Great Rate and Great Start programs, and later added Great Advantage and New Start programs.[xii] In 1999, the introduction of the Great Start program with DPA contributed to a significant rise in THDA loan production. The next peak in loan production in 2007 correlated with the housing boom before the Great Recession. THDA also offered conventional mortgage loans at the time.

After the housing market crash in 2008, THDA mortgage production declined each year until 2015. Although the introduction of stimulus second mortgage loans[xiii] for downpayment assistance (DPA) helped loan production remain stable between April 2009 and September 2010, THDA mortgage products were not able to compete with conventional market products, whose interest rates were declining and lower than THDA interest rates at the time. Consequently, loan production continuously declined until reaching its lowest level in three decades in 2014. After that dip and the low levels following it, THDA loan production started rising with the availability of $15,000 forgivable DPA in conjunction with the Hardest Hit Fund Downpayment Assistance (HHF DPA) program that started in March 2017. Subsequently, THDA loan production reached another peak in 2019, close to the level when the housing markets were booming in 2007. The end of this DPA program coincided with the start of the pandemic, causing another declining trend in THDA loan production. The downward trend in THDA's loan production reversed course in 2022 as response to changes in interest rates and DPA structure.

Since 1995, a majority of the THDA borrowers have preferred loan products that offered assistance for downpayment and closing costs. Over the years, THDA's DPA changed in size and structure. For example, before 2013, THDA's Great Advantage and Great Start loans provided DPA in the form of a grant rather than a second mortgage loan. The Great Start and Great Advantage loans had slightly higher interest rates than the Great Rate program that did not offer DPA. When the Great Choice program started in 2013, borrowers who needed assistance for downpayment and closing costs were able to receive Great Choice Plus, which was a second loan with zero interest in the amount equal to four percent of the sales price of the home, and was paid in full over the first 10 years of the loan or upon sale of the home. Shortly after that first introduction, Great Choice Plus became a second mortgage loan that was deferred for 15 years and forgiven after that.

After several iterations and changes over the years, in September 2021, THDA changed the DPA structure again. Homebuyers who are eligible for the Great Choice Home Loans can also apply for down payment and closing costs assistance in the form of a Great Choice Plus second loan. There are two options for down payment assistance:

- The Deferred Option offers $6,000 in the form of a forgivable second mortgage loan. The loan has a zero percent interest rate, and the payments are deferred (no monthly second mortgage payments) until the end of the 30-year term, at that time the loan is forgiven. The loan will be due in full at the time the home is refinanced or sold.

- The Amortizing Option is a second mortgage in the amount of six percent of the sales price, which is paid monthly over 30 years at an interest rate that is the same as the first mortgage rate. The loan may also be used to pay closing costs.

Either deferred or amortized, even with a higher interest rate loan, DPA continues to be a critical factor in attracting homebuyers to THDA loan products. It serves as an instrument to assist many THDA borrowers who do not have sufficient cash reserves for downpayment and closing costs when purchasing their homes. In 2022, for example, 96 percent of all THDA borrowers used a THDA loan product that offered DPA.

Since 2016, servicing its own loans has contributed to THDA's loan productions and loan operations. Approved lenders know that THDA is more stable than other housing finance agencies (HFAs) that do not service their own loans. For example, during the pandemic, the servicing division began putting in place plans for loss mitigation well before the CARES Act was introduced. THDA's preparation allowed the loan operations team to have conversations with larger national lenders and multi-state lenders that were shutting down their MRB programs in other states whose HFAs were refusing to purchase loans from lenders if borrowers lost their jobs. In contrast to other states, with the help of the servicing division, THDA was able to purchase the loans from lenders and work with borrowers as long as lenders had done everything right while originating the loan and borrowers simply lost their job because of the pandemic. This assurance was a key factor that allowed a few large lenders to continue working with THDA during that difficult period.

MyTNHome *Housing Stories from Across Our State*

AMERICAN DREAMERS

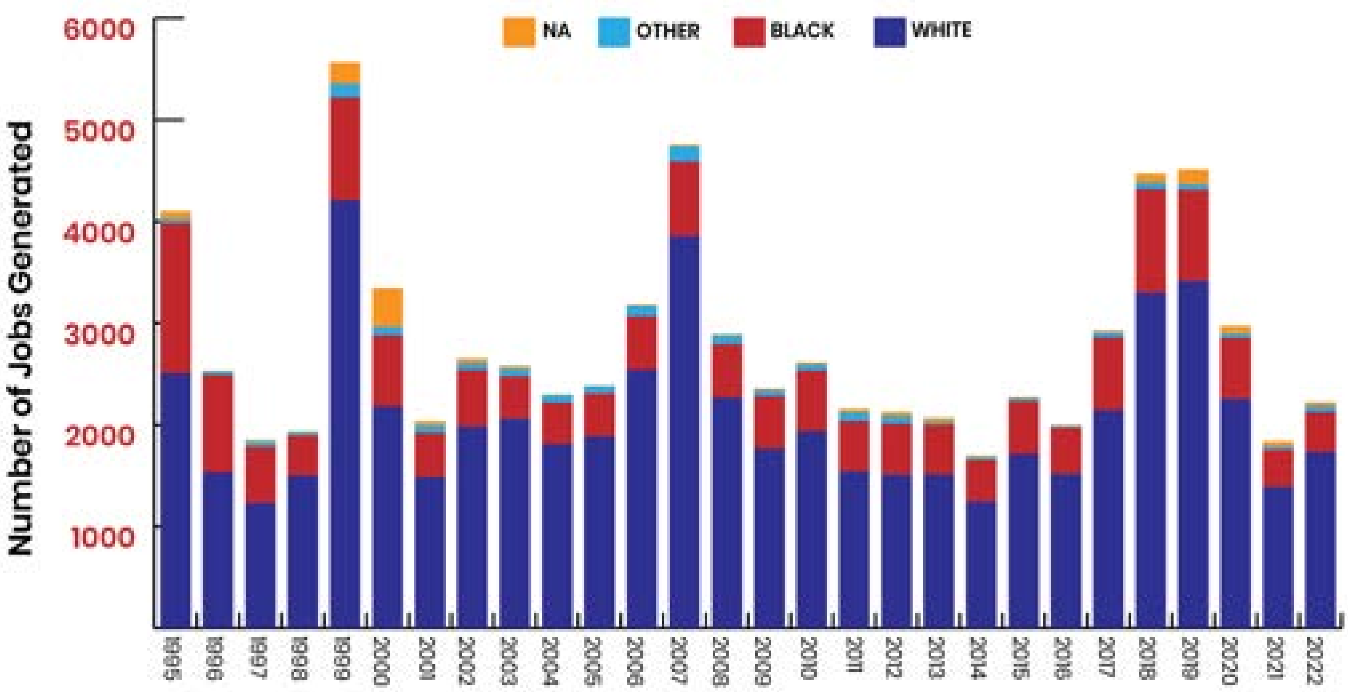
The path to homeownership for Minani and Manirakiza Michel has been anything but typical. The couple and their seven children recently left their cramped apartment and moved into a five-bedroom home built by Knoxville Habitat for Humanity with the help of funding from THDA's Housing Trust Fund.

READ MORE #MYTNHOME STORIES

BORROWER CHARACTERISTICS

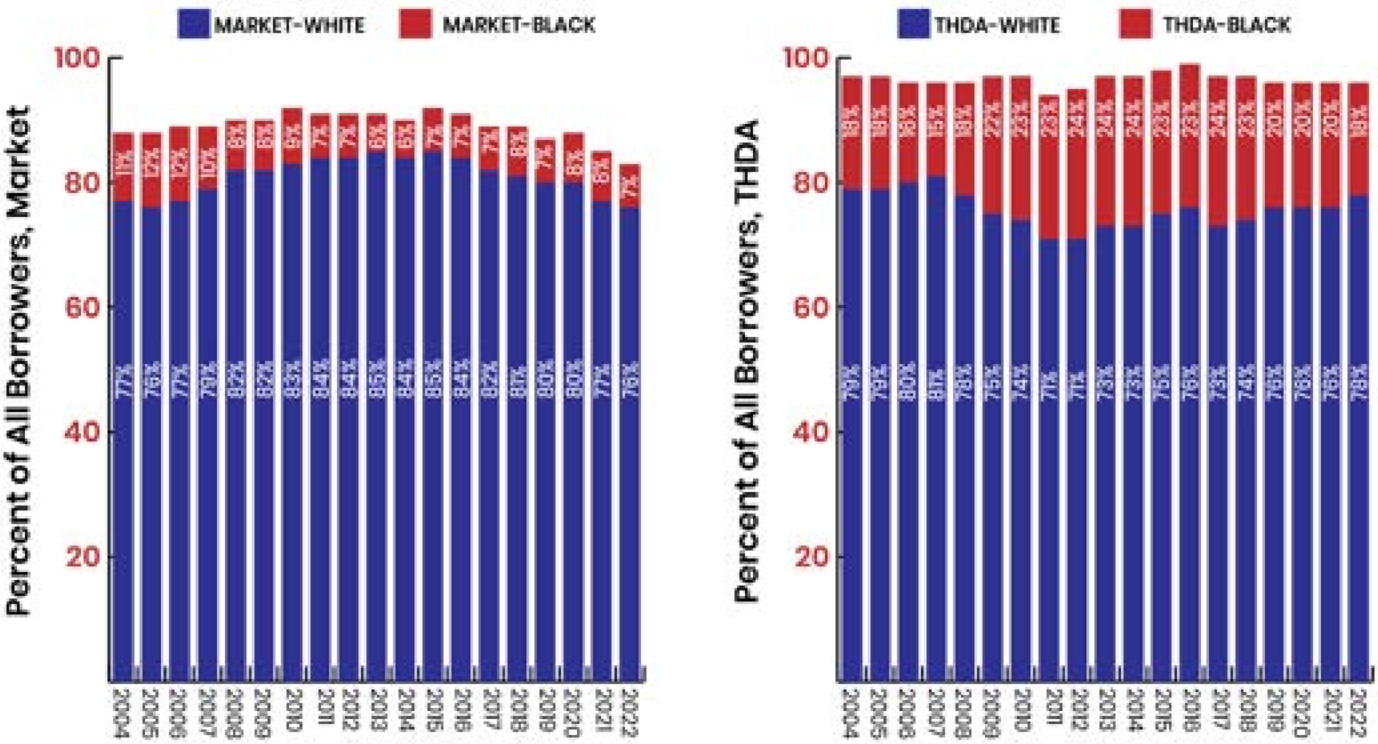
From 1995 until the end of 2022, THDA funded approximately 80,000 loans. The majority of all THDA borrowers since 1995 have been male (54 percent). Among the New Start and START Program loans, however, female borrowers represented a greater share of borrowers. Seventy-four percent of all the THDA borrowers with loans funded between 1995 and 2022 were White, and 22 percent were Black. Over the years, the percentage of Black THDA borrowers has fluctuated, from 30 percent or higher in the period between 1995 and 1998 to less than 20 percent in the housing boom period between 2003 and 2008. Starting in 2009, the share of Black THDA borrowers remained steady between 22 and 24 percent until 2019, when it began to decline to its 2022 share of 18 percent. The following figure displays the distribution of the THDA borrowers by their race as they reported in their loan applications. Borrowers who identified as another race outside of White or Black were categorized as "Other" due to their small share among all borrowers. Borrowers who did not provide a race were reported as "NA."

FIGURE 4: BORROWERS BY RACE, 1995-2022



In comparison to the overall mortgage market, a greater share of THDA borrowers are Black. In 2022,[xiv] for example, 7.3 percent of all single-family mortgages originated in Tennessee were for Black borrowers, while 76 percent were for White borrowers. Among THDA borrowers, 18 percent of all borrowers are Black, and 78 percent are White, in 2022. While THDA's share of White borrowers is comparable to the market, its share of Black borrowers exceeds that of the market. A higher share of loans originated for applicants in other race categories in the overall mortgage market is part of the reason for discrepancy between THDA and market racial distribution. For example, in 2022, while only one percent of THDA borrowers were Asian, 3.2 percent of all mortgage borrowers in the broader market were Asian. Furthermore, significant missing demographic information about borrowers from data contribute to this discrepancy. Figure 6 displays the percent of Black and White borrowers in the market (based on data from the Home Mortgage Disclosure Act [HMDA]) and THDA for years from 2004 (the earliest year we have HMDA data) to 2022.[xv]

FIGURE 5: WHITE AND BLACK BORROWERS, THDA COMPARED TO MARKET, 2004-2022



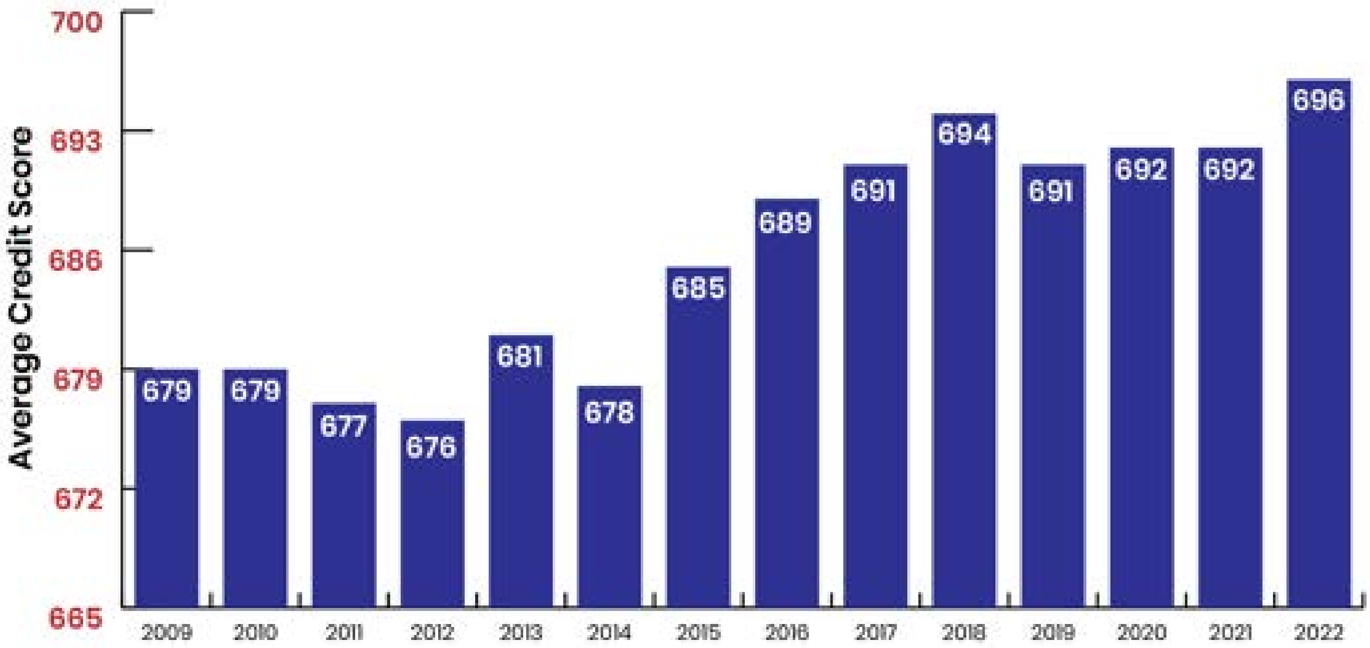
In 2022, seven percent of THDA borrowers identified as Hispanic. In the last 10 years, there has been an increase in the share of Hispanic homebuyers who are using THDA loan programs. The percent of Hispanic THDA borrowers in recent years resembles the overall market where 6.9 percent of all home purchase mortgage borrowers in 2022 were Hispanic. In 2012, only three percent of THDA borrowers were Hispanic.

All THDA loans have income limit requirements. These limits depend on the household size and the county in which borrowers are purchasing their home. In 2022, when income limits ranged from $77,800 to $132,020 across programs, the average THDA borrower's household income was $62,253. In comparison, in 2001, when income limits ranged from $40,000 to $57,500 across programs, the average THDA borrower's income was $32,271.

THDA loans are for first-time homebuyers who do not have an ownership interest in a principal residence in the three-year period immediately before the date of obtaining the loan with the bond proceeds. Although this requirement is waived for borrowers purchasing a home in targeted areas and for veterans, and it is not required for Freddie Mac HFA Advantage loans, a majority of THDA borrowers are first-time homebuyers. For example, in 2022, only 73 borrowers, representing three percent of all funded loans, reported having recent ownership, which could also include investment property ownership.

THDA added a minimum credit score requirement in April 2009, and started requiring a credit score of at least 640 from applicants after June 2015. Consequently, the average and median credit scores of THDA borrowers have been trending upward in recent years. For example, excluding any borrower without a credit score and any score less than 300, the average THDA borrower had a credit score of 696 in 2022 across all programs compared to 685 in 2015.

FIGURE 6: AVERAGE CREDIT SCORE, ALL PROGRAMS, 2009-2022



MyTNHome *Housing Stories from Across Our State*

NEW HOME HELPS MEMPHIS NATIVE FIND PEACE OF MIND

Memphis resident Shirley Nelson has battled mental illness for years.

"My doctor told me I needed to get somewhere and be still and that moving around so much wasn't good for my health," Nelson said.

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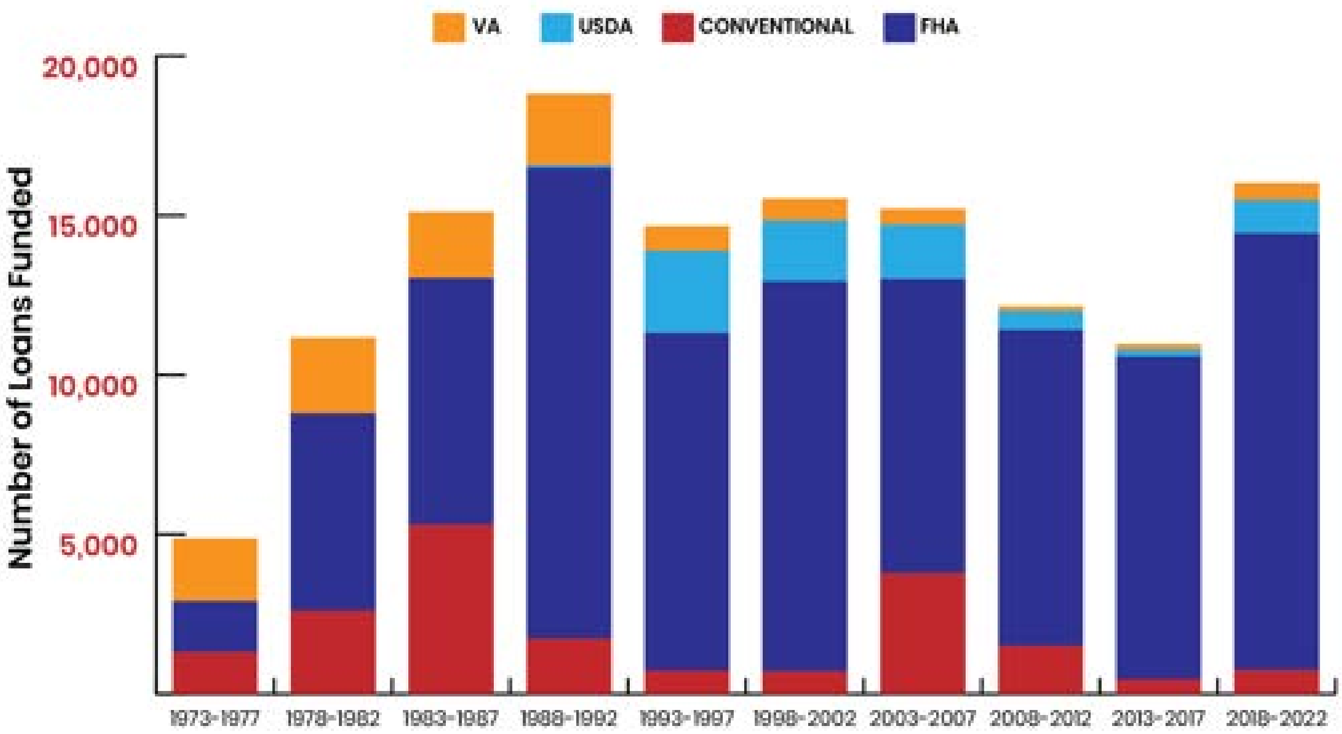
LOANS BY INSURER

FHA-insured loans represented 71 percent of all THDA loans from 1973 to the end of 2022. Conventional loans represented 14 percent of the THDA portfolio and VA-insured loans represented 10 percent of the THDA portfolio. The majority of THDA's loans each year have been FHA-insured loans. When the housing market was expanding before the 2008 crash, THDA also experienced an increase in the share of conventional loans. This was closely related to the loans insured by private mortgage insurers[xvi] and underwritten by the Fannie Mae through the Fannie Mae "My Community Mortgage" program or by Freddie Mac through the Freddie Mac "Home Possible" program. Consequently, in 2007, the share of conventional THDA loans reached the highest level in the recorded history of THDA loan production. After the housing market crash, conventional lenders, Government Sponsored Enterprises (GSEs) and private mortgage insurers pulled back from mortgage markets and became more conservative. During the years following the crash, FHA loans were the only option for many people who wanted to become homeowners and played an important role as the last resort for many homebuyers. In the years following 2008, more than 90 percent of THDA loans funded were FHA-insured. After 2019, coinciding with THDA's introduction of conventional Freddie Mac HFA Advantage loan product and increases in USDA- and VA-insured loan production, the share of FHA-insured loans started to decline, reaching 75 percent in 2022, the lowest share since 2009.

FIGURE 7: THDA LOANS FUNDED BY INSURER, 1973-2022



PURCHASE PRICES

Because THDA mortgages are intended for purchasing moderately priced homes, they need to comply with purchase price limit requirements, which vary by county. The "acquisition cost" of a residence must not exceed 90 percent of the "average area purchase price." For a residence purchased in a targeted area, the acquisition cost limit is 110 percent of the average area purchase price. Over the years, the acquisition cost limits are adjusted less regularly compared to the income limits, which THDA changed every year.

The average and median prices THDA borrowers paid when purchasing their homes were significantly lower than the maximum they could pay. In 2012, when THDA purchase price limits varied from $240,000 in most counties to $275,000 in targeted counties and the counties in the Nashville MSA, an average THDA borrower paid around $115,000 to purchase their home. In 2022, the price paid by an average THDA borrower increased to $215,000 while the THDA's purchase price limit varied from $300,000 to $375,000. In every year between 1995 and 2022, an average THDA borrower purchasing a home in one of the Nashville MSA counties paid a higher price than the borrowers in other counties.

HOMEBUYER EDUCATION

THDA believes in the importance of financial literacy as a key for sustainable homeownership. Therefore, completing a homebuyer education course is required for all homebuyers. When first introduced in 2003, homebuyer education was "required" only for the borrowers who were seeking assistance for downpayment and closing costs. Other borrowers were encouraged to receive homebuyer education but were not required to do so. In October 2018, homebuyer education became a requirement for the borrowers of all THDA loans. For the Hardest Hit Fund Downpayment Assistance (HHF-DPA) program, administered between 2017 and 2019, post-purchase counseling and pre-purchase counseling was required for 5,430 borrowers.

Starting in August 2015, THDA launched online homebuyer education classes partnering with eHome America to better serve millennials, residents in rural areas, and borrowers new to the state. THDA supplies approved providers with materials to teach homebuyer education classes and hosts annual trainings, which allow providers to obtain and keep their certification. The Homebuyer Education program pays the costs for certified counseling agencies to provide homebuyer education for those whose mortgages are funded by THDA's homeownership loan programs.

To generate awareness about homebuyer education, its benefits and value in creating sustainable homeownership, THDA launched the STEP IN program in 2017, offering State of Tennessee employees homebuyer education at a discounted price.[xvii] As of 2022, the STEP IN program provided pre-purchase education opportunities at a discounted rate to 754 state employees.

MyTNHome *Housing Stories from Across Our State*

COVINGTON SINGLE MOM ENJOYING BEING HOMEOWNER

After having her first son a year later, Brent said she was able to move to a safer neighborhood in 2012 with assistance from THDA's Family Self-Sufficiency (FSS) Program, a state-level Section 8 program.

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Partnering with the existing network of counseling agencies was also highly effective during the administration of mortgage assistance program through Treasury's Hardest Hit Fund Keep My Tennessee Home program. Applicants had to receive one-to-one counseling prior to become eligible for consideration.[xviii]

Approximately 140 counseling agencies actively provided pre-purchase education for THDA borrowers since 2003. The Combined UT Extension Service served the most THDA borrowers by educating more than 7,000 THDA borrowers about the home purchase process The You Can Make It Homeownership Center and Dominion Financial Management, Inc. Ten followed closely behind, providing homebuyer education for more than half of the THDA borrowers who required pre-purchase counseling to become homeowners.

LENDERS OR ORIGINATING AGENTS

THDA mortgages are originated by approved lenders, otherwise referred to as originating agents (OAs). Then, they are purchased by THDA with proceeds from the sales of mortgage revenue bonds (MRBs) or mortgage-backed securities (MBSs). Including the Habitat for Humanity partners that originate New Start program loans, 100 lenders actively originated a total of 2,225 THDA loans in 2022. With approximately 590 loans, representing 26 percent of all THDA loans funded in 2022, Mortgage Investor Group (MIG) was the leader among all lenders, followed by CMG Mortgage with 133 loans and First Community Mortgage with 116 loans. More than 50 percent of all THDA loans funded in 2022 were originated by ten approved lenders.

For a variety of reasons including name changes and bank mergers, it is difficult accurately discuss the evolution of lenders and the nature of their work with THDA. However, approximately 400 lenders originated at least one THDA loan between 1995 and 2022. More than 100 of those lenders funded 10 or fewer loans. Since its approval as a THDA lender in 1990, MIG has been the most active lender in THDA's portfolio with more than 11,000 originated loans, representing 15 percent of all THDA loans funded between 1995 and 2022. The Community Mortgage Company followed with nearly 4,000 loans and First TN Bank with approximately 3,000 loans. Although they originated at least one loan in each of 94 counties between 1995 and 2022, MIG was more active in East Tennessee, especially in Knox County. Community Mortgage Company was active in 47 counties, and originated majority of its loans in West Tennessee, especially in Shelby County.

MyTNHome *Housing Stories from Across Our State*

ANDERSON COUNTY FAMILY LEARNS THAT NEW-BUILT HOMEOWNERSHIP FOR FIRST TIME BUYERS IS POSSIBLE (WITH A LITTLE HELP FROM ADFAC AND THDA)

For the majority of first-time homebuyers, buying a brand-new home is just not possible. That wasn't the case, however, for Tyson Irons.

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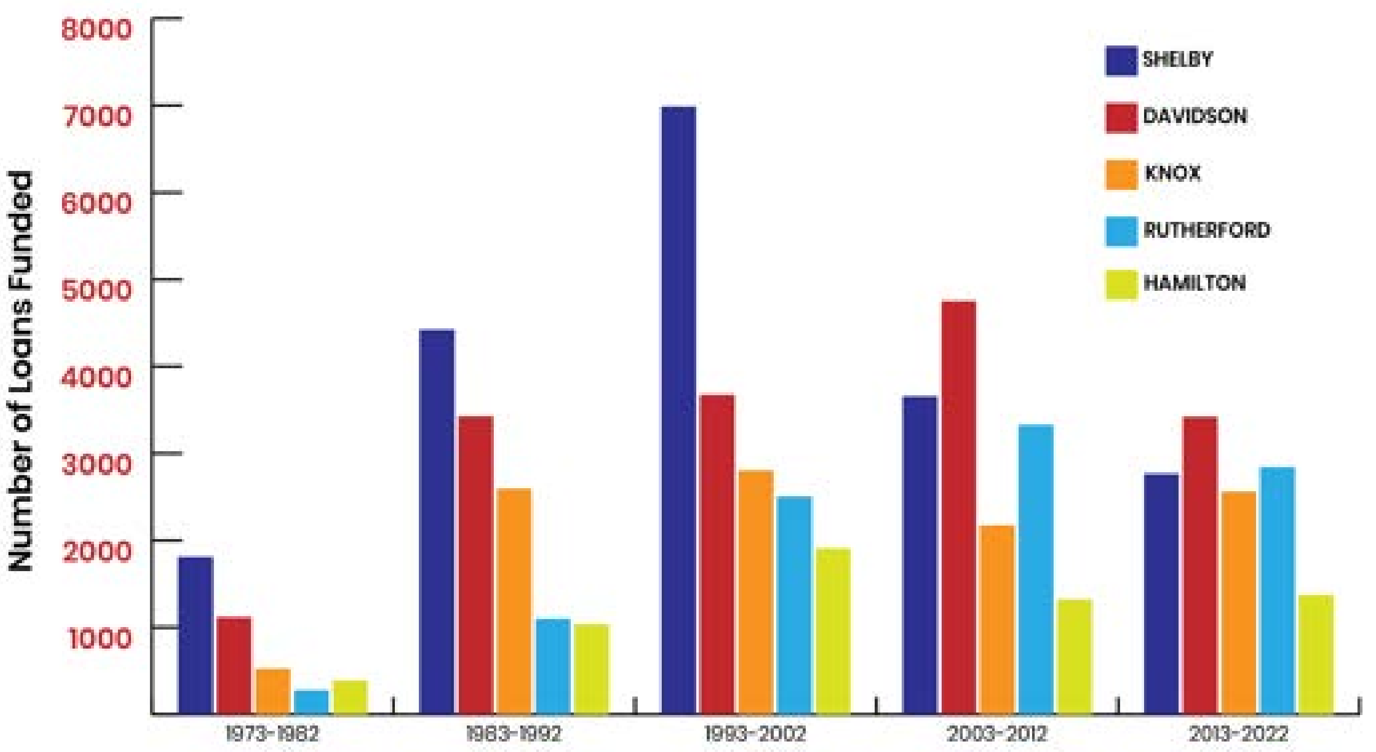
GEOGRAPHIC DISTRIBUTION

From its inception in 1973 to the end of 2022, THDA has funded at least one loan in each of the 95 Tennessee counties. For more than 15,000 loans or 12 percent of all THDA loans we do not have county information. Of the loans for which we have county information, nearly 20,000 loans or 17 percent of all THDA loans were originated for borrowers who purchased a home in Shelby County. In close pursuit were Davidson County with more than 15,000 THDA borrowers and Knox County with 10,662 borrowers.

The following figure shows the total number of loans funded in each of the past decades for the five counties with the highest number of funded loans in total THDA portfolio. County distribution in the first two decades should be interpreted cautiously as 58 percent of all loans in the period between 1973 and 1982 and 21 percent in the next decade did not include county information in THDA's database. The ranking of the counties in this figure is based on total loans funded from 1973 to 2022. With these data limitations in mind, counties' rankings for total funded loans changed over decades. While THDA's loan origination in other high-volume counties fluctuated, the number of THDA loans originated in Rutherford County only steadily increased. In the first three decades, Shelby County received a considerably higher number of THDA loans than other counties, but this situation has changed in recent years. For example, in the period between 1993 and 2002, the number of THDA loans originated in Shelby County was almost twice the number of loans in the next high production county, Davidson. However, in the following decades, this loan production declined steadily.

FIGURE 8: COUNTIES WITH THE HIGHEST NUMBER OF THDA FUNDED LOANS, 1973-2022



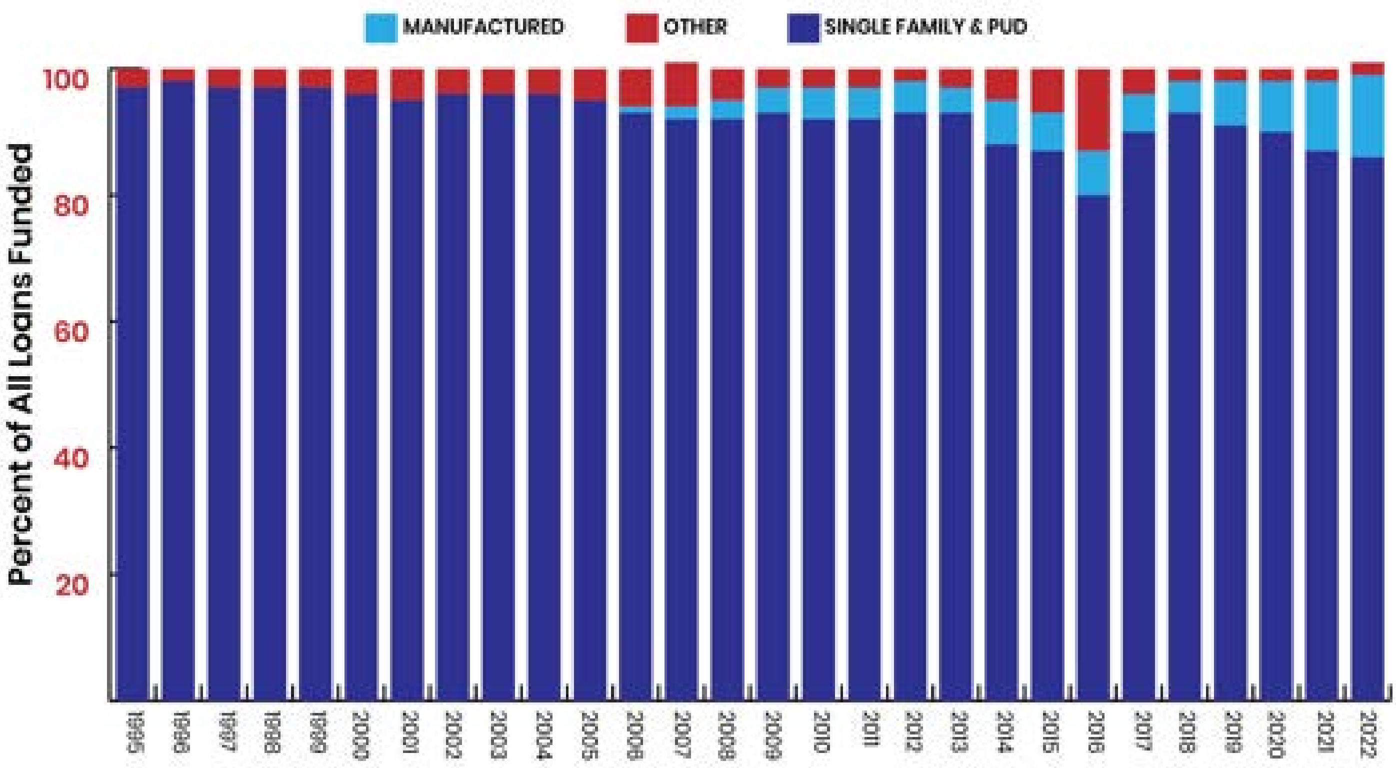
Throughout the years, with the help of account managers and increased marketing efforts, THDA expanded its reach to more households across all geographies. For example, in its first decade (1973 to 1982), THDA did not issue any loans in 10 counties. In the last 20 years, however, all but one county (Van Buren) received at least one THDA loan. Between 1973 and 2022, 32 percent of borrowers purchased a home in East Tennessee and 43 percent in Middle Tennessee.

PROPERTY CHARACTERISTICS

Most THDA borrowers purchased existing homes rather than new ones. Since 1995, only 16 percent of the borrowers purchased a new home. A majority of all the borrowers who purchased a new home since 1995 purchased one in a county within the Nashville MSA. Between 1999 and 2007, a relatively higher proportion of home purchases were new, ranging from 20 to 28 percent in 2002. However, between 2017 and 2019, the proportion of new homes declined to seven to eight percent of total loans, which is the lowest level in THDA history. In this period, THDA administered the Hardest Hit Fund Downpayment Assistance (HHF-DPA) program, which was available only for purchase of existing homes. For example, 57 percent of all funded loans in 2018 were HHF-DPA loans and in that year only seven percent of borrowers purchased a new home. Excluding the outliers, each year, the average size of a home purchased with a THDA mortgage ranged from 1,100 square feet to 1,510 square feet.

Of all the loans funded between 1995 and 2022, more than 90 percent of borrowers purchased single family homes or homes in a planned unit development (PUD)[xix] community. In recent years, there has been an increase in the share of manufactured homes purchased by THDA borrowers. The share of manufactured homes increased from eight percent in 2020 to 13 percent in 2022, the highest since 1995.

FIGURE 9[xx]: PROPERTY TYPE OF HOMES PURCHASED WITH THDA MORTGAGES, 1995-2022



The first-time homebuyer requirement is waived for THDA borrowers purchasing homes in targeted areas. Additionally, income limits are higher in targeted areas. On average, 17 percent of all THDA borrowers who became a homeowner between 1995 and 2022 purchased a home in a targeted area. In 2022, 27 percent of all THDA loans were funded for borrowers in targeted areas, the highest percent in this period.

END NOTES

i In 1993, THDA purchased MITAS, a loan servicing software. The loans originated by THDA before 1993 were entered into MITAS if the loans were still active as of 1993. Loans which were made before 1993 and were paid off or foreclosed before 1993 were not recorded in MITAS but kept in a different database that did not contain detailed information. Moreover, for some loans originated before 1993 and later entered to MITAS, not all the demographic data or property characteristics were recorded (it is possible that the borrowers did not have to supply those data, or federal reporting requirements changed over the years). The effects of the variation in both data collection and data warehousing over the last 50 years contribute to significant data limitations that are discussed throughout this report.

ii At the time it was established in 1973, THDA purchased loans that had already been closed between 1970 and 1973 to create its portfolio. Nine of these loans have been recorded. In this report's analysis, if there are available data for those loans purchased before THDA's start in 1973, they are included.

iii Starting March 1, 2023, THDA rebranded the Homeownership for the Brave program to the Homeownership for Heroes program. In collaboration with the Governor's office, THDA also began offering a 50-basis points discount in interest rate in the Great Choice Mortgage Loan program for firefighters, state and local law enforcement officers, EMT and paramedics, veterans, active-duty military, reservists, and members of the National Guard.

iv Business revenue is the total economic activity generated by the spending of THDA's homeownership programs in the economy. Personal income is the income that people in the economy receive because of the spending associated with homeownership programs. Employment is the number of jobs generated in the economy. Estimated state and local taxes are derived from the IMPLAN model.

v Unlike business revenue and personal income impacts, the additional jobs created because of THDA's programs cannot be added over 50 years, as they may not be cumulative in nature.

vi We use IMPLAN to generate these impact estimates which is a static model in which multipliers are based on the industry linkages in the local economy at a given time. The model does not account for price elasticities, changes in consumer behavior, or changes in industry behavior based on a direct effect.

vii Housing is not the sole purpose of the volume cap. For many years, THDA received a sizable portion of the volume cap. However, there were concerns that it could be threatened by other entities that were newly eligible for the volume cap.

viii This was also consistent with the Governor's initiative to help ex-offenders transition to society. THDA's HUD approved counselors worked with "day reporting" centers and the Department of Corrections, which developed or implemented programs in multiple counties to help ex-offenders.

ix THDA interest rates are based on the interest rate received on the Mortgage Revenue Bonds (MRBs) that are sold, except for zero interest New Start program loans and the loans with rate discounts through Homeownership for the Heroes.

x Until the early 1990s, THDA did not have a loan operation software and relied solely on paper-based systems. Thus, the bulk of the following analysis will focus on borrower and loan characteristics of loans funded since 1995.

xi The dip in 1981 is due to missing information in THDA's loan database.

END NOTES

xii The Great Rate Program was a below market rate mortgage program aimed at low- to moderate-income families, while the Great Advantage and Great Start programs provided downpayment and closing costs assistance (DPA) in exchange fo slightly higher interest rates. The Great Rate, Great Start and Great Advantage programs were active between 1998 and 2012, until they were replaced by Great Choice program. The New Start loans, delivered through non-profits for very low-income families, were designed to promote the construction of new houses, and they have a zero percent interest rate. Effective January 23, 2006, the New Start program became a two-tiered program. Tier I is still 0% loan program for very low income (60% or less of the state median income) people. Tier II allows the borrower to have a slightly higher income (70% of the state median income) than Tier I, and in exchange the borrower pays a low fixed interest rate (half of the interest rate on the Great Rate program).

xiii The Housing and Economic Recovery Act (HERA) of 2008 established a federal tax credit for first-time homebuyers up to $7,500. The American Recovery and Reinvestment Act (ARRA) of 2009 expanded the first-time homebuyer tax credit by increasing the credit amount to 10 percent of the home purchase price, up to $8,000 for purchases made before December 1, 2009. In April 2009, THDA implemented the Stimulus Second Mortgage program to monetize the federal ARRA home buyer tax credit. THDA borrowers could receive the federal ARRA homebuyer tax credit through traditional ways of filing with the IRS regardless of participation in the THDA Stimulus Second Mortgage program. However, the Stimulus Second Mortgage program provided the potential home buyers with upfront cash for down payment and closing costs.

xiv Based on HMDA data.

xv HMDA data has significant missing demographic information about borrowers, particularly as it relates to race and ethnicity. For example, in 2022, only two percent of THDA borrowers did not have their race recorded, while over 11 percent of all home purchase mortgage borrowers in the market did not have their race reported.

xvi Private insurers are accepted if they are authorized by the Tennessee Commissioner of Commerce and Insurance to do business in Tennessee. They are rated at least AA by Standard & Poor's Rating Group. And they provide protection against involuntary job loss at no extra cost to the borrower.

xvii This benefit later was extended to the employees in several private corporations.

xviii Anyone who is having mortgage hardship was able to apply on the application portal, but only those who worked with a counselor and completed required documentation were submitted to THDA as "applicant."

xix A planned unit development, or PUD, is a community of single-family homes, and sometimes condos or townhomes, where every homeowner belongs to a homeowner's association (HOA).

xx Other includes two to four family homes, condominiums, townhomes and loans, which property type is not provided.