Boston's Soft Second Program: Reaching Low-Income and Minority Home Buyers in a Changing Financial-Services Environment

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Although Boston's Soft Second Mortgage Program (SSP) was viewed with skepticism when it emerged in 1990 after a tumultuous year of struggles over community reinvestment issues, it has become Boston's largest and most successful homeownership program. The paper begins by summarizing the history and major features of the SSP, explaining how the program's structure, below-market interest rate, and public subsidies combine to produce monthly mortgage payments for qualifying home buyers that are up to 33 percent below those of a conventional, market-rate mortgage. Our claim that the program is a remarkably successful one is justified by an examination of the SSP's performance with respect to five criteria: affordability, sustainable homeownership, reaching minority homebuyers, serving traditionally underserved neighborhoods, and reproducibility. To show how the evolution of the SSP has reflected several of the most important developments in the changing financial system, we review the program's relationship to: banking-industry consolidation, secondary-market expansion, the need to extend CRA-type obligations beyond banking, the growth of public-private partnerships, and the expansion of predatory and subprime lending.

On January 29, 1991, Florence Hagins, an African-American single mother with a moderate income who had been denied a mortgage once before, became the first person to purchase a home with the assistance of Boston's new Soft Second Mortgage Program. Almost exactly 10 years later, in early February 2001, she stood before 350 people as co-chair of a black-tie "gala" held at the John F. Kennedy Library to celebrate the Soft Second Program's tenth anniversary.

Between those two dates, Hagins, still the proud owner of the same two-family house in Boston's Dorchester neighborhood, had been followed by more than 2,100 other lower-income, first-time homebuyers. She had become the Director of Housing Education for the Massachusetts Affordable Housing Alliance (MAHA), the community-based organization that was primarily responsible for the Soft Second Program's creation and growth. And the Soft Second Program (SSP) had become the city's largest and most successful homeownership program.

What follows is a detailed case study of this program, a program that some bankers dismissed as a "one-shot deal" when it originally emerged from almost two years of confrontation and finger-pointing, but that is regarded in Boston today as both unusually comprehensive and remarkably successful. We make no attempt to compare the Boston SSP's design or outcomes with those of the many other innovative and important targeted mortgage programs that exist throughout the country.[1] Nor do we offer a survey of the entire spectrum of CRA-related programs and activities in Boston that provided the local context for the history and operation of the SSP.[2]

The paper begins with an account of the program's background, a description of its design and operation, and an overview of its growth. It then turns to an examination of several dimensions of the Boston SSP's performance that we think justifies our belief that it has been a particularly successful program.[3] Its third section discusses the evolution of the SSP in the context of the last decade's installment of what former Fed Chairman Arthur Burns called "the ongoing revolution in American banking" (Burns, 1988). The paper concludes with some brief observations on lessons learned and challenges ahead.

The Soft Second Program: Description and History

Boston's Soft Second Mortgage Program emerged at the end of a tumultuous year of struggle over community-reinvestment issues that began on January 11, 1989. The lead story in that day's *Boston Globe* reported that a draft study by researchers at the Federal Reserve Bank of Boston had found that there was a pattern of "racial bias" in Boston's mortgage lending, that the number of mortgage loans in the predominantly black neighborhoods of Roxbury and Mattapan would have been more than twice as great "if race was not a factor," and that "this racial bias is both statistically and economically significant." [4]

A year before the leak of the Boston Fed's draft study, the Massachusetts Affordable Housing Alliance had organized a new community group in Boston: the MAHA Homebuyers Union. Most of its members were women of color with incomes between $15,000 and $30,000 who felt both priced and redlined out of buying a home in Boston. They wanted to own their own homes in a city where home prices had been rising rapidly and banks had a reputation for avoiding minority neighborhoods. The group had been asking the city, the state, and the banks for programs that would make homeownership possible for people at their level of income.

In the aftermath of the *Boston Globe's* story, MAHA joined with other community-based groups to form the Community Investment Coalition. While supporting the broad range of demands made by the coalition, MAHA maintained its focus on the need for affordable mortgages. When Bank of Boston jumped out in front of other banks in mid-1989 with the launching of its own "First Step" mortgage program, MAHA and other community groups identified it as limited to borrowers with incomes above $40,000, and they continued to press for substantially greater affordability.

As the year progressed, banks announced a series of plans to open more branches and ATMs, finance the construction of affordable rental housing, and increase lending to minority-owned businesses. By year-end, affordable mortgage lending was the only issue on which community groups and banks had not crafted an agreement. MAHA's members wouldn't drop the issue and continued to insist on a mortgage program with below-market interest rates; the banks continued to insist that such a program would not be sustainable. Finally, a full year after the *Globe's* story, Mayor Ray Flynn facilitated an end to the impasse — an agreement to make $30 million of below-market mortgage loans to low- and moderate-income Boston home buyers.

It took six additional months before MAHA, together with city and state officials, had hammered out the details of agreements with three banks — Bank of Boston, BayBanks, and Shawmut Bank — that called for $12 million of loans and launched Boston's Soft Second Mortgage Program. The negotiations also resulted in commitments from the city of Boston and the Massachusetts Housing Partnership (a quasi-public agency that had proposed using the soft second structure and that was subsequently selected to administer the program) to provide subsidy dollars to further reduce interest rates, establish a loan loss reserve, and fund down-payment and closing-cost assistance. The program was — and remains — strictly limited to low- and moderate-income buyers (those with incomes less than 80 percent of the median family income of the Boston metropolitan statistical area (MSA), as determined annually by HUD).

Boston's "Soft Second" program gets its name from the fact that participating homebuyers receive two mortgages rather than one: a first mortgage for 75 percent of the purchase price and a second mortgage for 20 percent (the program requires a 5 percent down payment). The interest rate on both mortgages is 50 basis points below the bank's two-point rate. The second mortgage is "soft" for the first ten years in two ways: payments are interest-only, i.e., there is no repayment of principal during this period and payments may be further reduced for qualifying home buyers by public subsidies. The city and state also fund loan loss reserves for each bank equal to 10 percent of the total value of the second mortgages that the bank has originated. The existence of the reserve fund makes it possible for borrowers to avoid the costs of private mortgage insurance while banks are still protected from credit losses. Affordability is further increased by no payment of points (even though, as noted above, borrowers receive their loans at 50 basis points below the *two*-point interest rate) and the provision of down-payment and closing-cost assistance.

The way that these features each contribute to greatly reduced monthly payments is illustrated in Table 1. In this table, the monthly payments of a buyer of a $150,000 house[5] who receives a Soft Second mortgage loan from Citizens Bank are compared to the monthly payments of a buyer of the same-priced house who receives a conventional loan from the same bank. The payments are calculated assuming that the zero-point interest rate is 7.375 percent, the rate offered by Citizens Bank in late February 2001. Any Soft Second borrower would save $93 per month by avoiding the cost of private mortgage insurance, $118 per month because of her reduced interest rate, and $29 per month during the first 10 years by paying only interest on the second mortgage. These savings combine to reduce the monthly payment from $1,077 to $837 — a total reduction of $240, or 22 percent.

Many, but not all, Soft Second program borrowers will experience additional savings from public subsidies. In our example, a qualifying home buyer could receive an interest-rate subsidy up to $115 per month for the first five years, with the subsidy then phased out in equal steps during the second five years.[6] (In 2000, interest rates subsidies were received by 42 percent of Boston SSPhomebuyers; the average subsidy for these borrowers was approximately $93 per month.) A borrower receiving the maximum subsidy would pay $722 monthly for the first five years, 33 percent less than the monthly payment of $1,077 for the conventional loan.

Furthermore, public assistance can reduce the amount needed up-front for down payment and closing costs, by up to $4,000 in our example. Regardless of the price of the home they are buying, all SSP borrowers receive a grant toward closing costs from the city of Boston — $500 for a single-family home, $750 for a two-family, and $1,000 for a three-family home. In addition, the majority of buyers will qualify for a down-payment grant of up to two percent of the price of their home ($3,000 in the case of a $150,000 house).[7]

Members of the MAHA Homebuyers Union have now negotiated Community Reinvestment Act agreements with 14 banks for over $500 million in below-market Soft Second loans in Boston, including two banks that had not yet made their first loan by year-end 2000. Between the first SSP loan closing in January 1991 and year-end 2000, there were 2,112 SSP loans in the city. (Table 2.) This record calls for an examination of how the SSP evolved from being a one-shot deal, regarded as incapable of being sustained, to being the largest targeted program in the city.

Throughout the SSP's history, MAHA has asked banks to renew and expand their lending commitments at well-attended community meetings. MAHA members believed that in order for the program to survive and grow, it was necessary to continue the grassroots pressure that led to its creation. A key early sign of grassroots support for increased bank involvement in the city's low-income and minority neighborhoods was a meeting at the Trotter elementary school in Roxbury (Boston's lowest-income and most heavily minority neighborhood) in September 1989. At this meeting, hosted by the Community Investment Coalition at a time when it was uncertain whether there would be any agreement on affordable mortgage lending, the 300 people in attendance enthusiastically supported the speakers' requests that the banks, all of which had representatives in the room, come to the negotiating table.

An important principle was established within a year of the program's launch when Fleet Bank entered the Boston market for the first time by acquiring the failed Bank of New England in late 1991. MAHA members decided that new banks entering their neighborhoods should participate in SSP along with those banks that had previously signed agreements. Fleet made an initial $8 million commitment to the program before the end of that year and originated its first loan in 1992. This principle would come into play again in 1994 when MAHAnegotiated an agreement for the SSP participation by Citizens Bank following the acquisition of the Boston Five Cents Savings Bank by that Rhode Island-based institution.

Another principle established in those early years was that banks that publicly received poor evaluations for their performance in meeting the needs of Boston's neighborhoods would become the subjects of MAHA campaigns. The Boston Company (the parent of Boston Safe Deposit and Trust), under fire from city officials for receiving a failing grade in the initial report of the city's Linked Deposit Program, took advantage of the opportunity to improve its record by negotiating an SSPagreement with MAHAin 1992. The next year, USTrust joined the program in the wake of federal regulators awarding the bank a "Needs to Improve" Community Reinvestment Act (CRA) performance rating and MAHA's filing of a CRA challenge to a proposed branch acquisition.

In 1994, seven banks were invited to make long-term commitments to the program at a MAHA-sponsored community meeting in Roxbury. At this meeting of over 300 people, senior bank officials from all seven banks announced agreements to originate a total of $93 million in SSP loans during the next five years. These were the first multi-year commitments to the program, and it marked the first time that the banks were asked to make their commitments at a large public meeting. The Memorandums of Understanding that MAHA and the banks subsequently signed added a purchase and rehabilitation option to SSP and included, for the first time, a requirement for homebuyer counseling.

In 1996, Bank of Boston and BayBanks increased their commitment from $25 million to $40 million at a 200-person community meeting that followed their merger announcement. The next year, executives from eight banks announced SSP commitments totaling another $70 million at a 500-person meeting at Roxbury Community College. At that same meeting, Savings Bank Life Insurance became the first insurance company to invest in the program by committing itself to purchase $20 million in below-market securities backed by SSP loans.

The largest and most recent community meeting was held in May 1999 at the Reggie Lewis Athletic Center, where a crowd of 1,200 listened to Boston Mayor Thomas Menino tell them: "What you have in this room tonight, that's power." They then cheered as top executives from eight banks confirmed the Mayor's observation by declaring their commitments to make a total of 2,171 loans during the 2000-2004 period — almost 200 more loans than they had agreed to before the beginning of the meeting.[8]

This meeting marked a shift in MAHA's strategy of negotiating dollar commitments to the program. Rising home prices had meant fewer loans under the dollar-based commitments, so MAHA members decided to negotiate instead for specific numbers of loans. The goal of this shift was to slow or reverse a downward trend in the number of SSP loans, but it has yet to have the desired impact. In spite of the banks' increased commitments, the number of new SSP loans has fallen each year since reaching a peak of 409 loans in 1996. Bankers, public officials, and MAHA agree that the primary cause of the decline has been Boston's rapidly escalating home prices.

The Soft Second Program: Dimensions of Its Success

Boston's Soft Second Mortgage Program has not only survived and grown. It has done so in a way that has exceeded the goals of its founders. In this section, we review the performance of the SSP with respect to five criteria: affordability, reaching minority borrowers, serving traditionally underserved neighborhoods, sustainable homeownership, and reproducibility. The quantitative analysis makes extensive use of two databases with data on SSP loans. One was provided to the authors by the Massachusetts Housing Partnership (MHP) and is referred to in this paper as the MHP database; the other was constructed by one of the authors from Home Mortgage Disclosure Act (HMDA) data and is referred to as the HMDA-SSP database.[9]

Affordability

As emphasized above, affordability was the primary goal of MAHA members from the beginning. They sought a mortgage-lending program that would make homeownership possible for those with incomes as low as $15,000. the SSP's remarkable success in achieving this goal can be viewed from four perspectives.

First, an examination of the income levels of all SSP borrowers during the ten-year history of the program, grouped in intervals of $5,000, shows that 32.0 percent of all SSP homebuyers had incomes of $25,000 or less, 60.2 percent had incomes of $30,000 or less, and 94.2 percent had incomes of no more than $40,000 (Table 3). The dollar levels of affordability targets were initially set at the end of the 1980s, but even after a decade of modest general inflation and substantial increases in Boston housing prices, the portion of loans going to people at these income levels has remained high. During the last three years, 20.5 percent of SSP homebuyers had incomes of $25,000 or less, almost one-half (46.7 percent) had incomes of $30,000 or less, and 86.1 percent had incomes of no more than $40,000. Even the ambitious stated goal of making homeownership possible with an income of $15,000 was met; 24 SSP homebuyers, four of these in the last three years, had incomes between $10,000 and $15,000.

Second, over half of all Boston SSP loans during the ten-year period — 1,098 loans, or 52.4 percent of the total — have gone to *low-income* homebuyers (Table 4). (Low-income borrowers are those with incomes at or below 50 percent of the median family income (MFI) of the Boston MSA, as determined annually by HUD; the low-income ceiling has risen from $25,100 in 1991 to $32,750 in 2000.) The percentage of loans going to low-income borrowers has been dramatically higher for SSP than for the other two targeted mortgage programs in Boston that were negotiated by community groups early in the 1990s. During the last five years, low-income borrowers received 58 percent of SSP loans, compared to 28 percent of Association of Community Organizations for Reform Now (ACORN) mortgage-program loans and just 18 percent of the loans from the mortgage program of the Neighborhood Assistance Corporation of America (NACA). The percentage of loans going to low- and moderate-income borrowers — that is, to borrowers with incomes at or below 80 percent of the MFI of the Boston MSA — was 100 percent for the SSP, 79 percent for ACORN, and 61 percent for NACA.

A third perspective on the extent of housing affordability made possible by the Boston SSP is provided by examining the maximum priced homes that could be purchased by borrowers at specific income levels (Table 5). For example, given the conservative assumptions specified in that table, an SSP borrower with an annual income of $15,000 could afford a single-family house or condominium costing up to $64,700. An income of $35,000 is sufficient to purchase a three-family house priced as high as $245,700. (The calculation of these maximum prices depends on applying the SSP's complicated rules concerning maximum interest-rate subsidy, treatment of rental income, and other factors.)

A fourth and final perspective on the remarkable affordability provided by the SSP comes from comparing the monthly payments required to buy a $150,000 single-family house under each of the four major targeted mortgage programs operating in Boston. Three of the four programs have features that result in different monthly payments for different borrowers, depending on income levels and other circumstances. Therefore, Table 6 reports both the basic monthly payment that would be paid by a borrower taking advantage of none of these special features and the “minimum monthly payment” required from a homebuyer receiving the maximum possible benefits from them. The SSP is by far the most affordable mortgage program in the city, with even its basic monthly payment from $92 to $196 lower than the “minimum” monthly payments required by the other targeted mortgage programs. The SSP’s minimum payment is from $207 to $311 lower than those required by the other programs.

Sustainable Homeownership

Although affordability was their primary goal, MAHA’s Homebuyers Union members have always recognized that there are no real benefits to home*buyers*, and their neighborhoods, unless they are able to remain home*owners*. The priority that the group has attached to sustaining homeownership is evidenced by its early decision (reaffirmed on several occasions) that homebuyers must make a significant down payment. MAHA’s low-income members believe strongly that potential buyers must demonstrate some ability to save money to adequately prepare themselves for the expense of owning and maintaining a home, especially an older home in an urban neighborhood. Consequently, the SSPrequires that at least 3 percent of the total 5 percent down payment come from the buyer’s own funds. In addition, MAHA members have resisted proposals to increase affordability at the expense of sustainability by increasing maximum debt-to-income ratios.

In 1996, MAHA established its HomeSafe Resource Center (HomeSafe) to help low- and moderate-income families succeed as home owners. MHP and participating banks have provided funding for HomeSafe by using a portion of the loan loss reserves for the second mortgages. When SSP homebuyers become homeowners, they are automatically enrolled as members of HomeSafe and encouraged to participate in free homeowner-education classes. Since 1996, more than 2,100 homeowners have graduated from the three-session “Homeowner 201” course, co-sponsored by the city of Boston, thereby becoming eligible for discounts from property-insurance companies, oil suppliers, home-supply centers, and alarm companies. All HomeSafe members are encouraged to take advantage of assistance with rehab, repair, and maintenance matters and consultation on landlord/tenant issues. SSP homeowners are especially encouraged to make use of MAHA’s comprehensive foreclosure-prevention program if and when they experience, or even anticipate, difficulties in making their monthly mortgage payments.[10]

The effectiveness of these measures to sustain homeownership for SSP borrowers is reflected in the program's low delinquency rates. Since 1996, the Massachusetts Community & Banking Council (MCBC), MHP, and MAHAhave carefully monitored these rates, using data collected from participating banks by MHP. (MCBC is a collaborative effort between community and bank representatives to encourage investment in lower-income and minority neighborhoods.) Delinquency rates for SSP loans have generally been somewhat lower than the rates for all Massachusetts mortgages. For example, at year-end 2000, the SSP delinquency rate was 2.5 percent in Boston and 2.9 percent statewide, compared with a delinquency rate of 4 percent for all mortgages in the state (Table 7). The only other targeted mortgage program in Massachusetts with available delinquency data is that of the Massachusetts Housing Finance Agency (MHFA), which sets its income limit at 120 percent of the MSA's median income rather than the limit of 80 percent adopted by SSP. The MHFA statewide delinquency rate of 5.4 percent at year-end 2000 was well above that of SSP. Furthermore, foreclosures on SSP loans have been rare. By the end of 2000, only five of the 2,112 loans originated by the Boston SSP had ended in foreclosure, a rate of 1 in 422, or 0.24 percent.

Reaching Minority Homebuyers

In addition to its record in reaching low-income borrowers, SSP has also been successful in providing homeownership opportunities for the other major category of traditionally underserved borrowers — minorities. Both banks and community groups have targeted their marketing and outreach efforts in neighborhoods of color. These efforts may have contributed to that fact that minority homebuyers, who constituted just one-third of Boston's households according to the 1990 census, received three-quarters (74.3 percent) of all the SSP loans in the city during the program's first nine years[11] (Table 8). When the period is divided into three sub-periods of equal length, it can be seen that the percentage of the SSP loans going to minority borrowers has risen steadily, from 70.6 percent in 1991-93 to 78.0 percent in 1997 to 99.

Since the SSP's inception, the percentages of Black and Latino households who received SSP loans have been more than twice their respective percentages of Boston households. Blacks received 44.5 percent of the city's loans while accounting for 20.6 percent of Boston households, while Latinos, who made up 8.1 percent of the city's households, obtained 21.0 percent of all loans. These overall percentages resulted from very different patterns over time: while the Black loan share was falling from 57.1 percent in 1991-93 to 41.2 percent in 1997-99, the loan share of Latinos was rising from 11.1 percent in the earlier period to 26.3 percent in the latter.

Serving Minority and Lower-Income Neighborhoods

An examination of the geographical distribution of Boston's SSP loans shows that the program has been successful in financing affordable homeownership in the city's traditionally most underserved neighborhoods. Low- and moderate-income census tracts with more than 50 percent Black and Latino residents, which contained just 15.6 percent of the city's mortgageable housing units in 1990, have received a much higher share of Boston's SSP loans. This share rose from 27.7 percent of all loans in 1991-93 to 45.9 percent of loans in 1997-99; for the entire nine-year period, the loan share of these neighborhoods was 37.1 percent (Table 9).

At the same time, however, many minority buyers have been provided with the opportunity of moving out of predominantly minority neighborhoods into primarily White moderate-income neighborhoods such as Hyde Park and Roslindale. These two neighborhoods had 28.8 percent and 21.0 percent minority residents, respectively, and had the fifth and sixth highest income levels among Boston's sixteen major neighborhoods. Although they were home to only 11.0 percent of Boston's population in 1990, 20.3 percent of the city's SSP loans were for homes located within their borders. Of these loans, 74.4 percent went to Black or Latino borrowers.[12]

Reproducibility

Regardless of how successful a program is in one locality, its value is limited unless it can be replicated elsewhere, with appropriate modifications in response to variation in local circumstances. The success of the Boston Soft Second Program in serving as a model for Soft Second Programs in many other cities and towns across Massachusetts suggests that it may be reproducible on a broader scale as well.

By year-end 2000, a total of 2,812 loans had been made through Soft Second programs operating in 116 of the 350 Massachusetts cities and towns outside of Boston. These loans were originated by a total of 40 banks, 25 of which were active lenders during 2000. The other

SSPs, also administered by the MHP, have almost all features of the Boston SSP, although in some communities loans are made at the market interest rate rather than below. MAHA has worked with nonprofit organizations on Cape Cod and in the cities of Brockton, Lynn, and Springfield to expand the program to those areas. MHP has played a leading role in expanding the program by educating city and town officials, bankers, and community groups in every region of the state.

In addition, statewide Soft Second lending commitments have been a key subject of a series of negotiations between the state's largest banks and representatives from MAHA and the Massachusetts Association of Community Development Corporations. Starting with the Fleet/Shawmut merger in 1995 and continuing with the BankBoston/BayBanks, Fleet/BankBoston, and Citizens/USTrust mergers, each statewide agreement has included significant commitments to Soft Second programs outside of Boston. Fueled by these agreements and by the generally lower home prices outside of the Boston area, communities other than Boston have accounted for almost three-quarters (73.2 percent) of all Massachusetts SSP loans during the last three years. This is a major change from the program's first five years, when only one-third (32.6 percent) of all SSP loans in the state were made outside of Boston (calculated from data in Table 10).

Two areas of the state, Hampden and Hampshire counties in western Massachusetts and Cape Cod in the east, have been particularly active. In both areas, the SSP benefits from the same type of nonprofit sponsorship that it enjoys in Boston. In the Springfield area, effective advocacy by the Hampden-Hampshire Housing Partnership (HHHP) resulted in its SSP program originating more loans than the Boston SSP during the year 2000. On the Cape, the Cape Cod Commission (CCC) and the Hyannis-based Housing Assistance Corporation (HAC) have embraced the program since 1992. CCC has achieved notable success in getting local Cape Cod banks to participate in SSP. In 1998, HHHP and HAC, which had long provided homebuyer education classes and post-purchase counseling, received training from MHP and MAHA that enabled them to open HomeSafe centers that now serve SSP homeowners in western Massachusetts and on Cape Cod.

The Soft Second Program: Its Evolution Within a Changing Financial System

Although the basic outline of the SSP has remained the same throughout its ten-year history, the program has also responded to and reflected several of the ongoing changes in the nation's financial system. In this section we review the relationships between the evolution of the SSP and five major changes in its financial and institutional environment: the consolidation of the banking industry, the extension of CRA-type obligations beyond banking, the continuing extension and refinement of secondary mortgage markets, the growth of public-private partnerships, and the increase in predatory lending. Table 11 offers a chronological summary of important events and initiatives in the Boston SSP's ten-year history.

Banking Industry Consolidation

Only one of the Boston SSP agreements reached between MAHA and the banks was directly tied to a bank merger (the Bank of Boston/BayBank merger of 1996). Nevertheless, all bank commitments were made in the context of a set of mergers that combined Boston's four biggest retail banks into a single institution during a decade when bank regulators were, for the first time, taking their responsibilities under CRAseriously. Of the 12 banks that have participated in the SSP, four (BankBoston, BayBanks, Shawmut, and USTrust) have been absorbed in mergers with other participating banks. Another bank, Hibernia Savings, was acquired by Eastern Bank after it had joined the program but before making any loans. Eastern, a much larger institution, first entered the program by assuming Hibernia's commitment. Finally, Sovereign Bank signed an SSP agreement with MAHA when it entered the state by acquiring most of the Massachusetts branches of Fleet that were divested during the Fleet/BankBoston merger.

While these mergers among the biggest local banks were taking place, MAHA sought to maintain options for homebuyers by expanding the number of smaller banks participating in the Boston SSP. Although agreements were successfully negotiated with a number of smaller banks, most of these new program participants have so far originated only a handful of loans. However, there is one significant exception to the generally modest performance of smaller institutions. Boston Private Bank and Trust Company, whose assets of $726 million as of June 2000 were dwarfed by those of Citizens, Fleet, and Sovereign Banks, has originated 181 SSP loans in Boston since joining the program in 1996. In 2000, it was the program's largest single lender, accounting for over one-third of all SSP loans in the city.

Secondary Market Expansion

The first banks to commit to the Soft Second program sent MAHA the message that if it wanted banks'participation over the long-term, it had to get Fannie Mae involved. MAHA began to negotiate with Fannie Mae officials in 1991, seeking revised underwriting criteria for two- and three-family properties. They were unfamiliar with the role that the area's huge stock of two- and three-family housing had played in providing starter homes to generations of Bostonians. They had recently *tightened* credit standards on two-, three-, and four-family properties nationally and were nervous about doing anything different in Boston. After extensive negotiations, Fannie Mae and MAHAreached an agreement in 1992. Homebuyers would be able to include 75 percent of their rental income when calculating the maximum monthly payments that they could afford, subject to one constraint. The monthly payment on a two-family house could not exceed 50 percent of the buyer's monthly income, excluding rental income, and the monthly payment on a three-family house could not exceed 50 percent of monthly income, including rent from one of the two rental units. Fannie Mae's stamp of approval gave banks the security of knowing that SSP first-mortgage loans would be eligible for sale in the secondary market.

Another major problem remained, however. Although the revised underwriting standards made SSP loans eligible for purchase by Fannie Mae, that agency insisted on a discounted price that was unacceptable to the banks that originated the loans. No matter how creditworthy these loans were now judged to be, the fact that they had been made at below-market interest rates made Fannie Mae unwilling to pay full price for them. On the other hand, the banks' accounting methods meant that sales at less than full price would have unacceptable impacts on their financial statements. As a result, the loans remained stuck in the originating banks' portfolios.

Confronted with this impasse between the banks and Fannie Mae, MAHA responded by working to create a local secondary market for SSP first-mortgage loans. This effort bore fruit in 1997 when the first securities backed by SSP first mortgages were sold. Packaged by Fannie Mae, the securities offered a rate of return of 50 basis points below the market level. Savings Bank Life Insurance (SBLI) committed itself to buying $20 million of these securities over the next ten years and had already fulfilled 40 percent of that commitment by the end of 2000 by purchasing $8 million of securities backed by SSP first mortgages originated by Citizens Bank. CEO Robert Sheridan equates

SBLI's investment in "affordable housing" with the company's own mission, established by its founder Louis Brandeis, of providing "affordable insurance." Subsequently, The Life Initiative, an investment entity established by Massachusetts life insurance companies, became the second buyer of SSP mortgage-backed securities with a $6 million investment.

Extension of CRA-Type Obligations Beyond Banking

It was no accident that these initial investments came from the insurance industry. Massachusetts has played a leading role in efforts to engage non-bank financial companies in CRA-like activity. For years, MAHAand other community-based organizations had been engaged in a campaign to require insurance companies to do a better job of meeting the needs of lower-income and minority communities in Massachusetts. Their efforts to establish insurance counterparts of HMDA and the CRA at the state level fell short of accomplishing this ambitious goal. Nevertheless, the campaign did result in the enactment of two more limited laws as well as increased public and industry awareness of poor insurance company performance in meeting local needs.

Both the origins and the outcomes of this initiative are closely related to Boston's Soft Second Program. MAHA's studies of property-insurance redlining and its community organizing, motivated in part by difficulties that SSP home buyers had in obtaining homeowners'insurance, set the stage for the 1996 passage of the country's most comprehensive property-insurer disclosure law.[13] In the aftermath of this legislation, property/casualty insurance companies provided start-up financial support for MAHA's HomeSafe program. In addition, MAHA has negotiated agreements with ten of the state's top property-insurance companies to offer graduates of these classes discounts of 5 percent to 15 percent on homeowner insurance premiums.

MAHAwas also heavily involved in the campaign that called attention to the Massachusetts life insurance industry's extremely limited investments in affordable housing, small businesses, and community development — either directly or through financial intermediaries that had been established for that very purpose. Although this campaign did not bring about a full insurance CRA for Massachusetts insurance companies, it did result in significant legislation. A 1998 law required, as a condition of receiving long-sought tax relief, that the state's life-insurance industry and property/casualty-insurance industry each establish an investment fund, capitalized at $100 million, to make CRA-type investments throughout the state.[14] It was one of these funds, the Life Insurance Community Investment Initiative (The Life Initiative), that made the purchase of $6 million of SSP mortgage-backed securities that was noted earlier — the fund's largest single investment to date. Since the passage of the 1998 law, life insurers have become more engaged in promoting affordable homeownership. John Hancock Financial Services became the first sponsor of MAHA's homebuyer classes that was not a mortgage lender. Savings Bank Life Insurance has supplemented its purchases of SSPmortgage-backed securities with financial support for MAHA's efforts to reach out to more low- and moderate-income homebuyers.

Growth of Public-Private Partnerships

Recent efforts to promote affordable housing or community development have almost always involved partnerships between a variety of public, nonprofit, and private entities. The SSP is no exception to this generalization and is, in fact, embedded in a particularly dense web of partnering relationships. The nature and scope of these partnerships may perhaps be best illustrated by following the path of a typical SSP homebuyer.

She would start by enrolling in a certified homebuyer counseling class. MAHA provides pre-purchase counseling to many Soft Second participants, but potential buyers can also take any one of a dozen other homebuyer classes sponsored by nonprofit organizations or by the city of Boston. The only restriction is that the class be certified by the Massachusetts Homeownership Collaborative, a statewide partnership of nonprofits, lenders, and government agencies that acts to set and maintain standards for the proliferating number of homebuyer education programs. If our homebuyer attended a MAHA class, it would be co-sponsored by Mellon New England, Fleet Bank, or John Hancock Financial Services.

Once the homebuyer selects a potential new home and chooses to work with one of the eleven banks currently offering SSP loans in Boston, the detailed paperwork necessary to prepare for closing is coordinated by the Massachusetts Housing Partnership (MHP), the quasi-public agency charged with administering SSP. On closing day, the homebuyer's down payment and closing costs are reduced by financial assistance from the city of Boston. She agrees to a schedule of monthly payments that are substantially reduced by the below-market interest rate charged by the lender and by contributions from the Massachusetts Department of Housing and Community Development, the city of Boston, and the Federal Home Loan Bank of Boston that, since she qualifies, reduce second-mortgage interest payments for the first ten years. State and city dollars also fund a loan loss reserve for her second mortgage.

The new homeowner becomes a member of MAHA's HomeSafe Resource Center (established with financial support from the property insurance industry and MHP) and then attends the center's Homeowner 201 class, co-sponsored by the city of Boston. Her incentive to attend is strengthened by the fact that course graduates are eligible for discounts offered by property-insurance companies and by her local hardware store. As a result of this class, continued contacts with the HomeSafe Resource Center, and the awareness generated by Boston's "Don't Borrow Trouble" campaign (a joint venture of the Massachusetts Community & Banking Council [MCBC], the city of Boston, Fannie Mae, and Freddie Mac that is described below), the homeowner is able to avoid falling prey to home-repair or predatory-lending scams. Meanwhile, her monthly payments join all the others that are carefully monitored for delinquency levels by MHP and MCBC. Any emerging concerns about the operation of the SSPare discussed by the representatives of the banks, community-based organizations, nonprofits, and government agencies that attend the regular meetings of MCBC's Mortgage Lending Committee.

As long as the homeowner is making regular monthly payments, her first mortgage may become part of a package of loans securitized by Fannie Mae and purchased by The Life Initiative, the fund capitalized and operated by the state's life-insurance industry. The original lender retains servicing, which facilitates continued tracking of SSP loans.

Expansion of Subprime and Predatory Lending

MAHA's continuing contacts with SSP homeowners through the HomeSafe Resource Center help the program to learn about and respond to emerging problems, such as the recent increase in subprime and predatory lending. SSP homeowners are warned about predatory lenders and unscrupulous contractors in homeowner education classes, through featured articles in *HomeSafe News* (a newsletter mailed to all SSP homeowners), and, in some cases, through early delinquency counseling. MAHA's counselors are in a position to dissuade homeowners from doing business with lenders seeking to strip the equity from their homes.[15]

MAHA collaborated with the Massachusetts Community & Banking Council and the city of Boston in developing, with the pro-bono assistance of a local advertising agency, an innovative homeowner education campaign entitled "Don't Borrow Trouble." The campaign warns homeowners about lending scams and easy, but dangerous, credit through posters, subway advertising, public-service announcements on radio and TV, brochures mailed by the city to every Boston homeowner, and a city-sponsored "hot-line" phone number for consultation and referrals. The Massachusetts Bankers Association and the state's Division of Banks have cooperated in making the program available statewide. Boston's "Don't Borrow Trouble" program has become a national model; with support from Freddie Mac, it is being replicated in numerous cities around the U.S.

Concluding Comments

For the last ten years, the Boston SSP has been a laboratory, of sorts, for community groups, banks, insurance companies, and government agencies. The experience gained suggests several important lessons. One such lesson is that success is a moving target. Accordingly, after summarizing some of the lessons learned, the paper ends by identifying challenges that are likely to confront SSP in the near future.

Lessons Learned

Grassroots involvement is crucial. From day one, the Soft Second program has benefited greatly from an extraordinary degree of involvement from low- and moderate-income members of MAHA. Members of MAHA's Homebuyers Union were intimately involved in negotiating the details of the program, and they were the guiding force in challenging bankers and government officials to increase the affordability of these loans. Since that time, large community meetings have convinced banks that there remains a large, grassroots constituency for genuinely affordable home mortgages.

You can't stand still. As the financial system has changed around the program, the SSP has changed and evolved as well. It has grown from three participating banks in 1991 to nine in 2001. A homebuyer can now get a loan from Fleet, the seventh largest bank in the country, or from Hyde Park Cooperative, an $82-million two-branch bank. The program started with banks needing to retain both first and second mortgages in their portfolios. Today, Fannie Mae and insurance companies provide an outlet for the first mortgages. The growth of predatory lending has required creative responses.

Get it in writing. Written agreements for SSP evolved from a one-page letter from the bank to a ten-page Memorandum of Understanding (MOU) that spells out many significant details. These MOUs have been useful for resolving questions that arise with the passage of time and changing bank personnel. The more formal documents have been particularly valuable in merger-related negotiations conducted by MAHA and other organizations.

When the agreement is signed, the work has just begun. That sage advice was offered to MAHAin 1990, and the last ten years have borne it out. There have been countless hours of meetings to implement, monitor, and renegotiate the agreements. MAHA has added three new programs (homebuyer counseling, HomeSafe, and foreclosure prevention) to help support SSP. It organized large community meetings focused on the program in 1994, 1996, 1997, and 1999.

Partners are essential. Bankers have spent numerous hours in boardrooms and community rooms discussing details of implementing the SSP. The Massachusetts Housing Partnership, Boston's Department of Neighborhood Development, and other government agencies have expended enormous time and energy to make the program a success. Other neighborhood-based nonprofits have promoted the program through outreach and workshops. The Massachusetts Community & Banking Council has been instrumental in monitoring delinquencies. Public officials and private companies have provided financial support. The list could go on. The program has been inclusive and a wide variety of public and private organizations should share in the credit for the SSP's achievements.

Challenges Ahead

Between 1990 and 1999, the share of Boston home-purchase loans made by mortgage companies and other lenders not subject to CRA for their Boston lending has tripled, from 21.9 percent of all loans at the beginning of the decade to 61.9 percent at the end (Campen, 2000, Table 7). During this time, however, no mortgage company has seriously explored the option of joining the Boston SSP. As barriers between different financial industries continue to crumble, consumers may soon be able to get mortgages from their insurance agents. Public comments by top officers of Boston's biggest banks have raised the possibility that some institutions might decide to get out of the highly competitive, low-margin business of making mortgage loans. Increasing, or even maintaining, lender commitments to the SSP in this changing institutional environment could be difficult.

The declining number of Boston SSP loans in the last three years reflects the impact of the sustained escalation of housing prices in the city. On the one hand, potential homebuyers find it increasingly difficult to find a house that they can afford. On the other hand, the ceilings on the prices of houses that can be purchased with SSP loans have resulted in some buyers locating houses that they could afford with the assistance of the SSP but that they cannot buy because their prices exceed SSP maximums. Early March 2001 increases in the price ceilings, the second set of increases within a year, will provide some relief from the latter problem but do nothing to address the underlying problem of the erosion of affordability by continually rising house prices.

However, under the most likely scenario leading to lower housing prices — an economic downturn — the ability of potential homebuyers to purchase new homes could be reduced more by falling incomes than it is increased by declining house prices. Furthermore, the ability of SSP homeowners to continue to make their monthly payments in a timely fashion could be seriously threatened by rising unemployment and falling household incomes. The Boston SSP's low delinquency and foreclosure rates have been achieved during the longest uninterrupted economic expansion in U.S. history. The coming of a recession would bring about the first real test of the sustainability of SSP homeownership during hard times.

While these challenges are serious, the achievements and the adaptability of the Boston Soft Second Loan Program during its first ten years provide grounds for optimism about its ability to meet these and other challenges bound to arise in its second decade.

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Thomas M. Callahan has worked at the Massachusetts Affordable Housing Alliance (MAHA) for 14 years and has been its Executive Director since 1991. During that time MAHA has established itself as the Commonwealth's lead organization in issues of private sector involvement in affordable housing; its efforts have resulted in more than $2.2 billion in public and private sector investment since 1985. Callahan is the vice chair of the Massachusetts Community & Banking Council and co-chair of its Mortgage Lending Committee. He was a Fannie Mae Fellow in the Program for Senior Executives in State and Local Government at Harvard's Kennedy School of Government in June 1998. During 1996 and 1997, he served on the Steering Committee of the Federal Reserve Bank of Boston's Greater Boston Home Purchase Process Initiative. Callahan earned his B.A. in politics from Fairfield University.

Table 1
Accounting for the Low Monthly Payments of the Boston Soft Second Mortgage Program (Example based on purchase of $150,000 house)

	Monthly Payment	Savings	Cumulative Savings
Comparison is to: Citizens Bank loan with 5% down, private mort. insurance, and 0-point rate of 7.375%	$1,077	---	---
No private mortage insurance necessary	$984	$93	$93
2-point rate (although no points paid): 6.625%	$912	$72	$165
0.5% below this market rate: 6.125%	$866	$46	$211
Years 1-10: Second mortgage interest-only	$837	$29	$240
The above savings are received by all SSP borrowers. In addition, some qualify for subsidy of second mortgage interest payments during years 1-10. Maximum subsidy is 75% of interest payment during years 1-5, phasing out in 5 equal steps in years 6-10. In this example, the monthly payments would be:			
Years 1-5: 75% subsidy	$ 722	$ 115	$ 355
Year 6: 60% subsidy	$ 745	$ (23)	$ 332
Year 7: 45% subsidy	$ 768	$ (23)	$ 309
Year 8: 30% subsidy	$ 791	$ (23)	$ 286
Year 9: 15% subsidy	$ 814	$ (23)	$ 263
Year 10: no subsidy	$ 837	$ (23)	$ 240
Years 11-30: Second mortgage amortizes over 20 yrs.	$901	($64)	$176

Citizens Bank interest rates and PMI costs as of 2/28/01; all monthly payments calculated by authors.
See text for fuller explanation of elements of Soft Second Mortgage Program loans.

Table 2
Numbers of Loans and of Participating Banks
Boston Soft Second Mortgage Program, 1991 - 2000

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	Total
Loans	32	83	167	221	279	409	315	242	229	135	2,112
Banks Lending											
During Year	3	5	5	6	8	9	7	7	7	9	n.a.
For First Time	3	2	0	1	2	1	1	0	0	2	12
Ever	3	5	5	6	8	9	10	10	10	12	12

Table 3
Income Levels of Borrower
Boston Soft Second Mortgage Program, 1991 - 2000

Income Level	All 10 Years: 1991-2000			Last 3 Years: 1998-2000		
	Number of Loans*	% of all Loans	Cumula-tive %	Number of Loans*	% of all Loans	Cumula-tive %
$10,001-$15,000	24	1.1%	1.1%	4	0.7%	0.7%
$15,001-$20,000	193	9.2%	10.3%	32	5.3%	6.0%
$20,001-$25,000	453	21.6%	32.0%	88	14.6%	20.5%
$25,001-$30,000	593	28.3%	60.2%	158	26.2%	46.7%
$30,001-$35,000	483	23.0%	83.3%	156	25.8%	72.5%
$35,001-$40,000	230	11.0%	94.2%	82	13.6%	86.1%
$40,001-$45,000	83	4.0%	98.2%	55	9.1%	95.2%
$45,001-$50,000	31	1.5%	99.7%	24	4.0%	99.2%
above $50,000	7	0.3%	100.0%	5	0.8%	100.0%
Total	2,097	100.0%		604	100.0%	

Note: Median borrower income was $28,143 for entire period and $30,562 for 1998-2000.

* This table excludes 9 loans (1 during last 3 years) for which no income was reported and 6 loans (1 during last 3 years) for which income of less than $10,000 was reported.

Table 4
Loans to Low-Income Borrowers
Boston Soft Second Mortgage Program, 1991 - 2000

Year	Maximum for Low-Income*	Total Loans#	Loans to Low-Income Borrowers	
			Number#	% of Total
1991	$25,100	29	4	13.8%
1992	$25,550	81	42	51.9%
1993	$25,600	167	68	40.7%
1994	$25,650	221	93	42.1%
1995	$26,550	275	145	52.7%
1996	$28,250	405	220	54.3%
1997	$29,800	315	201	63.8%
1998	$30,000	242	147	60.7%
1999	$31,350	228	132	57.9%
2000	$32,750	134	46	34.3%
Total		2,097	1,098	52.4%

* Low-Income borrowers are those with incomes no greater than 50% of the Median Family Income for the Boston MSA as determined annually by HUD.

\# Includes only loans to borrowers with reported incomes of $10,000 or more.

Table 5
Boston Soft Second Mortgage Program
Maximum House Price Affordable+ at Selected Income Levels
(Based on Assumptions Listed Below, rounded to nearest $100)

	Borrower Income			
	$15,000	$25,000	$35,000	$45,000
Single-Family House	$64,700	$99,100	$138,500	$175,400
Two-Family House	$91,300	$149,900	$188,200	$216,900
Three-Family House	$140,300	$194,400	$245,700	$281,600

Maximum house prices were calculated on the basis of the following *assumptions* :

- two-point market interest rate equals 7.5%
- annual property taxes are 1.4% of house price; annual property insurance cost is 0.6% of house price.
- in the two- and three-family houses, apartments are rented at $700 per month

+ Because the SSP sets ceilings on purchase prices, potential home-buyers sometimes are not *allowed* to buy houses that they could *afford* . For example, the maximum purchase price for a 3-family house was $200,000 through 1999, was raised to $230,000 in 2000, and raised again in March 2001, to $270,000.

Table 6
Monthly Mortgage Payments for $150,000 Single-Family House, Years 1-5^
Boston Soft Second Mortgage Program and Selected Other Programs
(Using the interest rates in effect on March 1, 2001)

	Soft Second Mortgage Program	ACORN* Mortgage Program	NACA* Mortgage Program	MHFA* Mortgage Program
Basic monthly payment#	$837	$1,004	$1,086	$1,033
Minimum monthly payment#	$722	$929	$998	$1,033
Required downpayment from borrowers own funds	$4,500	$1,000	$0	$4,500

* *ACORN* is the Association of Community Organizations for Reform Now. The first ACORN mortgage loan was in 1994. Through 1999, four banks made a total of 1,163 ACORN loans in Boston. Three banks are currently active.
NACA is the Neighborhood Assistance Corporation of America. The first NACA loan was in 1993. Through 1999, three banks made a total of 923 NACA loans. One bank in currently active. (NACA is a successor to UNAC.)
MHFA is the Massachusetts Housing Finance Agency. The first MHFA loan in Boston was in 1979. Between 1991 and 1999, many banks made a total of 1,292 MHFA loans in Boston. Many lenders are currently active in this program.

\# The first three of these four mortgage programs have features that result in lower monthly payments for borrowers who meet specified criteria — such as incomes below a certain level. The *basic monthly payment* is that of a borrower who meets none of the specified criteria. The *minimum monthly payment* is that of a borrower who meets all of the criteria.
SSP: the minimum payment is based on the maximum interest rate subsidy; basic has no interest rate subsidy.
ACORN: the interest rate is reduced by 75 basis points for a borrower with income less than 80% of the MSA median.
NACA: borrowers who receive grants to do so can use these grants at closing to buy down the interest rate.

^ For SSP loans, monthly payments lower than "basic" rise to the basic level in five equal steps during years 6-10; in year 11 and after the monthly payment for all SSP borrowers would be $901. For NACA loans, all monthly payments are $50 lower from year 6 on, when contributions to the Neighborhood Stabilization Fund are no longer required.

Table 7
Soft Second Mortgage Program
Delinquency Rates, 1996-2000, Boston and Massachusetts
(Percent of Mortgages Delinquent 30 Days or More, including Loans in Process of Foreclosure)

Date	Soft Second Program Loans		Mass. Housing Fin. Agency	All Mass. Loans
	Boston	Massachusetts		
Dec. 31, 1996	2.9%	2.4%	7.4%	4.9%
Dec. 31, 1997	4.2%	3.9%	6.7%	4.3%
Dec. 31, 1998	3.0%	3.1%	6.4%	4.0%
Dec. 31, 1999	2.3%	2.5%	5.6%	3.3%
Dec. 31, 2000	2.5%	2.9%	5.4%	4.0%

Sources: SSP -- MHP; MHFA -- MHFA; All Mass. Loans -- Mortgage Bankers Association of America

Table 8
Race/Ethnicity of Borrowers
Boston Soft Second Mortgage Program, 1991-1999

Period*	% Minority	% Black	% Latino	% Asian
1991-99	74.3%	44.5%	21.0%	4.9%
1991-93	70.6%	57.1%	11.1%	1.6%
1994-96	72.6%	44.3%	19.3%	4.8%
1997-99	78.0%	41.2%	26.3%	5.9%
For comparison:				
% of HHs#	33.6%	20.6%	8.1%	4.1%

* This table is based on HMDA data rather than MHP data. As a result, the periods end with 1999, the most recent year for which HMDA data are available.

\# Percentage of total Boston households, according to 1990 census.

Table 9
Distribution of Boston Soft Second Mortgage Program Loans by Income Level and Racial/Ethnic Composition of Neighborhoods, 1991-1999

	Total	Low- and Moderate-Income Census Tracts*				All Middle & Upper-Income Cen Tracts*
		>75% Black + Latino	50%-75% Black + Latino	All Other	>75% White	
MHUs, 1990#	97,782	11.6%	4.0%	17.1%	20.1%	47.2%
Loans, 1991-99^	1,240	25.2%	11.9%	17.6%	17.3%	28.1%
Loans, 1991-93	126	20.6%	7.1%	10.3%	19.8%	42.1%
Loans, 1994-96	669	20.2%	12.9%	17.0%	20.2%	29.7%
Loans, 1997-99^	445	34.2%	11.7%	20.4%	12.1%	21.6%

* Low- and moderate-income census tracts are those with median family incomes (MFIs) less than 80% of the MFI of the Boston Metropolitan Statistical Area (MSA). Middle- and upper-income census tracts are those with MFIs greater than 80% of the MFI of the MSA. Population and income data from 1990 census, the most recent source of consistent and reliable information.

\# "**MHUs**" are "**mortgageable housing units**" a measure of the number of real estate units that are eligible for separate mortgages; i.e., a single family house is one MHU, a building with four apartments is one MHU, and a building with 12 condos is 12 MHUs. Data source: Boston Redevelopment Authority.

^ This table is based on HMDA data rather than MHP data. Thus, periods end with 1999, the most recent year for which HMDA data are available.

Table 10
Expansion to Additional Cities & Towns and to Additional Banks
Soft Second Mortgage Program in Massachusetts, 1991-2000

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
A. Number of Loans										
Boston	32	83	167	221	279	409	315	242	229	135
Other Massachusetts	3	18	35	129	194	362	415	493	596	567
Total	35	101	202	350	473	771	730	735	825	702
B. Number of Cities & Towns Outside of Boston										
Received Loans During Year	1	6	15	29	41	58	60	62	76	75
First Year of Receiving Loans	1	5	12	17	18	18	10	10	11	14
Ever Received Loans	1	6	18	35	53	71	81	91	102	116
C. Number of Banks										
Made Loans During Year	3	6	7	10	17	22	25	23	20	25
First Year of Making Loans	3	3	2	4	7	6	8	2	2	3
Ever Made Loans	3	6	8	12	19	25	33	35	37	40

Total loans over 10-year period: 2,112 in Boston; 2,812 elsewhere in Massachusetts; 4,924 statewide.

Table 11
Timeline for Boston Soft Second Mortgage Program (SSP)

1990	SSP opens for business in November.
1991	Closing on first SSP-financed home-purchase in Boston in January.
1991	Closing on first SSP-financed home-purchase outside of Boston (in Quincy).
1991	MAHA's first homebuyer education class begins.
1992	Fannie Mae and MAHA adopt underwriting guidelines for 2- and 3-family homes.
1992	MAHA begins full-time homebuyer counseling project, supported by The Boston Co.
1994	Banks make initial multi-year commitments to SSP, at May public meeting attended by 300. (Larger meetings and bigger commitments follow in 1997 and 2000.)
1994	Purchase and rehab option added to SSP.
1994	Completion of homebuyer counseling course becomes a requirement for SSP borrowers.
1994	Federal Home Loan Bank of Boston makes first award/grant to SSP.
1994	Hyde Park Co-op Bank (1994 assets: $53 million) is first small bank to join SSP
1995	Fleet-Shawmut merger is first of four major Boston bank mergers in 1990's; SSP is subject of negotions and agreement between banks and MAHA.
1996	HomeSafe program begins, supported by property insurance companies. (It later obtains support from City of Boston, banks, and MHP.)
1996	Boston SSP loans pass the 1,000 mark.
1997	SBLI becomes first investor in SSP-mortgage backed securities packaged by Fannie Mae. (The Life Initiative — funded by life insurance industry — follows in 1999.)
1999	HomeSafe program expands to western Massachusetts and Cape Cod.
2000	First MAHA homebuyer class to be sponsored by non-mortgage lender (John Hancock Financial Services).
2000	MHP increases purchase price ceilings for first time.
2000	"Don't Borrow Trouble" homeowner education campaign begins.
2000	Boston SSP loans pass the 2,000 mark.
2001	Gala at John F. Kennedy Library celebrates 10th anniversary of SSP.
2001	Massachusetts SSP loans pass the 5,000 mark

Acronymns: MAHA is Massachusetts Affordable Housing Alliance; MHP is Massachusetts Housing Partnership (a quasi-public agency); SBLI is Savings Bank Life Insurance (a mutual insurance company).

Notes

[1] Listoken and Wyly (2000a, 2000b) provide an ambitious and informative survey of key features of many of these programs. Avery, Bostic, and Canner (2000a, 2000b) describe what a detailed Federal Reserve survey of major banks revealed about the characteristics, performance, and profitability of "CRA Special Mortgage Programs." (In each case, the second reference is to a substantially shorter and less technical summary of the primary article.)

[2] Campen (1992) describes in considerable detail the actors, events, and issues involved in "The Struggle for Community Investment in Boston, 1989-1991" that resulted in the creation of the Boston SSP and many other initiatives. Miara (2000) provides an overview of the whole range of CRA-related programs and activities in Boston during the decade that followed those initial struggles.

[3] We cannot claim to be impartial observers. One of us, as MAHA's executive director, has been intimately involved in guiding the program's development from the beginning. The other, although employed by the University of Massachusetts, has been a member of MAHA's board of directors for several years. Although we have not attempted to disguise our highly favorable view of the program, we have tried to be objective in our analysis and to present enough information so that each reader will have a solid basis for reaching his or her own conclusions. More than that, we believe honest and critical reviews are essential to inform changes that will be necessary to ensure the SSP's continued success.

[4] This draft study, leaked to reporters, was abandoned by the Boston Fed and has never been publicly released. It should not be confused with two later Boston Fed studies that also found evidence of racial discrimination in mortgage lending in Boston — the first in lending to predominantly black neighborhoods (Bradbury, Case, and Dunham 1989) and the second in higher denial rates experienced by black and Latino individuals (Munnell et al. 1992).

[5] The average price of the homes purchased in Boston during the year 2000 with SSP loans was $137,500. Condos were purchased for an average price of $111,200, single-family homes for $126,600, two-family homes for $167,700, and three-family homes for $177,500.

[6] The rules for determining the amount of interest rate subsidy, if any, are complicated. If total monthly payments (principal, interest, taxes, insurance, and condo fees) are more than 28% of the borrower's monthly income, the borrower is eligible for an interest rate subsidy to bring his or her payment down to that level, subject to two limits. The first limit is that the subsidy cannot exceed 75% of the interest on the second mortgage. The second limit is that the total present value of the payment to the loan loss reserve plus all payments for interest rate subsidies cannot exceed $12,500. The complete rules governing this and other aspects of the Soft Second Program can be found at the Massachusetts Housing Partnership's website: www.mhpfund.com. The authors are grateful for the patience and insight with which the MHP's Heather Hennessey has answered our many queries about SSP's rules and operations. Her answers have been valuable in helping us calculate the numbers that are presented in Tables 1 and 5. We are also grateful to Reay Pannesi,

from the city of Boston's Department of Neighborhood Development, and Kevin Mello, from the Massachusetts Housing Finance Agency, for providing data used in this case study.

7 Homebuyers whose liquid assets at the time of closing, after paying three percent of the purchase price as a partial down payment and all other closing costs, are equal to less than two monthly payments are eligible for the full grant of two percent of the purchase price. Homebuyers with liquid assets equal to more than two monthly payments qualify for down-payment assistance after their own contributions to the down payment reduce their liquid assets to that level. Technically, the assistance is not a grant; the money is provided as a zero-percent deferred loan that is forgiven after the borrower has lived in the property for five years. Otherwise, it must be repaid.

8 As this brief historical review has indicated, all of Boston's largest retail banks have made commitments to the Boston SSP. In particular, the seven top-ranking mortgage lenders among Boston banks, according to 1999 HMDAdata, have all signed agreements with MAHA (one of these banks, Boston Federal Savings, has yet to make its first SSP loan). The statement in the Treasury Department's recent Final Report on CRAthat "In Boston, the top ten mortgage lenders forego the city's soft-second program…" (Litan *et al* 2001: 60) is not correct.

9 The authors have observed the skill and persistence with which Heather Hennessey has not only managed the expanding MHPdatabase in recent years but has also dramatically improved its quality and usefulness; this paper has benefited greatly from her making available to us some of the fruits of her labor. The portion of the MHP database provided to the authors contains the following information for each of the 4,924 SSP loans made in Massachusetts through year-end 2000: closing date, lender, borrower income and (sometimes) race/ethnicity, and property location by city/town and ZIPcode. The coverage of the database should be complete, because the agency's central role in administering the program — for example, it authorizes and disburses the payments that fund the loan loss reserves and provide interest rate subsidies — means that no SSP loan is made without MHPinvolvement. The HMDA-SSP data was created by Campen in the process of removing the "double-counting" of SSP loans in order to provide more meaningful analysis of mortgage lending patterns in Boston (see, most recently, Campen 2000). The double-counting in HMDAdata arises because two mortgage loans are originated when a home is purchased through the SSP program — a first mortgage and the "soft" second mortgage. Some, but not all, lenders, include both of these loans in their HMDA Loan Application Registers. While there is no explicit indication that a loan is an SSP loan, these were located on the assumption that a pair of loans by the same lender, with consecutive sequence numbers, to borrowers having the same income, race, and gender, and for homes located in the same census tract, were in fact SSP loans. The HMDA-SSP database contains information on 1,240 first mortgages that were part of pairs of SSPloans located in this way, a number equal to 58.7 percent of the loans in the MHP database. The HMDA-SSP database was used for analysis of the race/ethnicity of borrowers (the MHP database lacks this information for most borrowers) and for analysis of the distribution of SSP loans among census tracts grouped by income level and racial composition (the smallest geographical units in the MHP-SSP database are ZIPcodes).

[10] Every SSP borrower is now required to authorize his or her mortgage lender to notify a local counseling agency — MAHA for those purchasing homes in Boston — in the event that loan payments become more than 30 days delinquent. Before this authorization was required, lenders were prevented by privacy considerations from giving the names of delinquent borrowers to counseling agencies that could contact them and offer assistance.

[11] The period is only nine years because this table is based on our HMDA-SSP database, and 1999 is the most recent year for which HMDA data are available. The MHP-SSP database contains very limited data on the race/ethnicity of borrowers. For the program's first four years, data are reported only on the minority or nonminority status of the borrower. For the last five years, data are reported for specific racial/ethnic categories, but only for 38 percent of borrowers. For the other 62 percent, no information on race/ethnicity is reported.

[12] The numbers in this paragraph were calculated primarily on the basis of data not shown in any of the tables in this paper and provide only a rough approximation to the "true" numbers. The income levels and minority population percentages of the two neighborhoods were calculated for sets of census tracts that approximate the neighborhoods as defined by the Boston Redevelopment Authority. The percentage of all loans in these two neighborhoods that went to Blacks and Latinos is based on the HMDA-SSP database, using the same sets of census tracts. The neighborhoods' percentage of total loans is based on ZIP code data from the MHP database. The resulting comparisons, although based on different data sets and varying definitions of neighborhood boundaries, contain no obvious upward or downward bias and correspond to qualitative observations by individuals involved in the operation of the SSP.

[13] "An Act Relative to Insurance Redlining," Massachusetts General Laws, Chap. 175, Sections 4A& 4B <www.state.ma.us/legis/laws/mgl/175-4A.htm>.

[14] "An Act Insuring Community Investment and the Equitable Taxation of Insurance Companies in Massachusetts," Massachusetts General Laws, Chap. 63, Sections 29C — 29E. (The act is available on the web now only as Chap. 259 of the Acts of 1998 <follow links beginning at www.state.ma.us/legis/legis.htm>.)

[15] Even though SSP homeowners have had time to repay only a small fraction of the principal value of their mortgages, the large increases in Boston's housing prices in the last few years have resulted in many of them acquiring substantial equity in their homes.

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