

MIT Project Initial Recommendations

Based on an analysis of the conclusions drawn during our time onsite, we have developed a series of initial recommendations for Fahe and their member organizations. The recommendations have been grouped in the same six categories as our conclusions and are as follows.

1. Fahe's work with USDA loan programs

Fahe should engage with the national and local offices of the USDA to allow members to submit loan packages that meet requirements of the local offices, even if they do not meet the national standards. This will require carefully managing relations with several large organizations but it should ultimately save time and paperwork for all stakeholders - clients, members, Fahe, and the USDA.

The processing and oversight of multiple standards will create extra complexity for Fahe. To handle this, Fahe should create checklists or other tools to help standardize the process for Fahe and for members. These checklists would ideally be developed in collaboration with the local USDA offices to ensure their approval.

Response from Fahe Staff:

The Goal of the packaging program was to create a public private partnership with USDA that would enable successful continuation of the 502 Direct funding and programming. County and state offices of USDA have undergone significant attrition of staffing, before and with much greater intentionality after the financial crisis.

The intention of the packaging program was to enable USDA to increase volume of 502 Direct loans closed, decrease the turn time to closing, and to create standardization for USDA. By allowing all offices/underwriters to function as their own entity, this goal becomes null.

The other difficult piece here is pertaining to Packager and USDA relationships. We see some of the real struggle here coming when the Packaging entity has their own relationship with USDA and has received special considerations in the past. This entitlement then bleeds over into their work within the Packaging program where Fahe is expected to intercept. We have had multiple USDA offices reach out to us to help "put a stop" to these requests as USDA doesn't want to be the "heavy" in the situation and hurt other relationships with these non-profits. Long story short, we understand and recognize this recommendation as being something that some of our Members would

find beneficial, but we have two USDA entities competing for process, federal and state. Fahe's MOU with the USDA federal office does not allow for the local office governance to take precedence.

We have actually worked this way in the past, and managing it is nearly impossible. Each state maintains multiple local offices. On top of that, there are multiple underwriters in each office, each of them with their own set of "wants." With a coverage area of 18 states, the multitude of ever changing requests made the real grit of the work slow and difficult for both Packagers and Fahe to keep up with. As an example, in one state alone, we were managing 4 different checklists.

Fahe staff would welcome a more extensive conversation about Member priorities and what our next steps should be together.

2. Fahe's work with conventional loans

Fahe should explore the creation of an "80-20" mortgage product that would allow borrowers to purchase a home with next to no down payment. Additionally, such a product should not count student loans in deferral towards a borrower's debt-to-income calculation. A mortgage with these characteristics would serve a sizeable segment of the population that currently does not have access to financing.

There is a risk that offering 100% financing will extend credit to individuals who are not truly ready to purchase a home - for any number of reasons - and put them in situations that will lead to default. Borrowers should still be required to put some money towards closing to ensure that they have "skin in the game" and a closer vetting of employment stability may be necessary.

Response from Fahe Staff:

Noted and we agree the potential of an enhanced product option could make a big difference for some of our Members! We are actually working with a Product Innovation Group comprised of Members and Partners around what opportunity here could look like as we speak. What we see as our pain point is finding capital to make this a continually viable product option with us.

We added My Place Mortgage - 101%, no mortgage insurance that is not geographically restricted (except for WV). It does have high credit quality requirements so it address 100% finance, but not credit quality.

***Update* New regulations put in place by FHFA for both GSE's have disallowed the operation of this program.**

Access to Secondary Market Product – Based on the type of loan product developed by the Product Innovation Group in fall of 2019, we are actively working on product development with an investor to gain access to a portfolio loan program offering no MI; 100%; not geographically restricted, allowance of IBR (income-based repayment); 680 credit or 660 @ 97% LTV. This work is continuing and we are currently engaging in income restriction discussions.

Update The investor we have been working with to gain access to a portfolio loan option is currently not accepting new applications for lenders due to COVID-19. I will continue to explore this option further in the fall. Traction was being gained that was moving us toward a product that would be very similar to the work completed by the Product Innovation Group.

We will launch in Spring 2020 – 80/20 product. We are actively working on a pilot loan option utilizing Fahe's Appalachian Home Fund to target conventional borrowers with an 80/20 product. This pilot will be AMI restricted, but we anticipate developing an understanding of demand for this type of program. We are also continuing to look for capital to develop this option further and without AMI restriction.

Update In July 2020, an 80/20 opportunity is coming available for our retail and Broker network. This program will feature a Fannie or Freddie conventional first and a Fahe second. We will be launching this program with a teaser pilot rate on the second mortgage. This program will allow for a lending option that includes no MI. Initially, we will be operating two pilots. One in Kentucky and Virginia that is AMI restricted based on funding which allows for very low second mortgage rates. The other is non-AMI restricted and will be open to the full Fahe licensed service area.

Fahe made CLIMB available to four members based on secondary market loan volume. CLIMB brings an experienced Mortgage Banking consultant via Homeownership Council of America to help work through process and business model concerns. HCA worked directly with Clinch Powell, Homeownership Center, Frontier, and Eastern Eight. If there is interest from the Members, Fahe would pursue additional sponsorship from Fannie Mae to provide CLIMB to more groups.

Update Fahe continues to work with HCA and will be utilizing them in greater capacity to help continue the work started here with these groups in development of training programs and opportunities. Fahe is working to develop a Broker designated site that includes all documents, online training and resources, as well as a portal for file submission. HCA is working with the Fahe staff in the development of these resources as well as additional creation of marketing materials to be accessed by the Brokers.

The JustChoice team is actively engaged in the development of a Broker option for conventional lending through both Fannie Mae and Freddie Mac. This would give

Fahe's Broker network the opportunity to increase their product offerings to include conventional programs.

***Update* Both Fannie and Freddie have approved the allowance of Brokered loans through Fahe. Fahe has opened up the Broker Lite channel for current access to both programs and is working toward the development of training to allow for Standard Broker access as well.**

3. Member compensation for mortgage products

To address the findings regarding member compensation, the team recommends that Fahe undertake the following changes:

Fahe Member Compensation Policy

Provide compensation where it is not currently offered (Conventional, FHA, VA, Others)

Currently, Members' target demographic is largely not well suited to conventional loan products. This challenge must be addressed prior to any other refinement of conventional loan products. However, even if this obstacle were to be addressed, Members have expressed that they would be unable to dedicate time to selling conventional products without compensation.

Fahe has identified this as an opportunity and plans to move forward. If Fahe wants to work with the Membership to be a substantial origination channel for conventional products, they will have to offer at least 1% of loan value as compensation to the originator. Until compensation is offered, Fahe should not expect conventional volume to come from Members. Although Members can currently collect a credit counseling fee, the Members tend to either be unaware that this is an option, find compensation levels insufficient, or do not offer proper credit counseling services through internal resources.

Response from Fahe Staff:

As stated previously, we are actively engaged with the development of a Broker option for conventional loan programs through both Fannie Mae and Freddie Mac. We intend to have this option available to our Network in Spring 2020.

In regards to FHA and VA, unfortunately Fahe does not carry its Eagle designation and therefore cannot offer a Broker option. With the limited volume of both of these programs that we do, we have not found it viable to dive into the stringent requirements of FHA in regards to test cases, as there is a volume of A paper loans that must be

reached within a strict time period. In the past, we have conducted surveys on anticipated FHA volumes from Members, however, we have not received enough good data to move forward with the work necessary for the designation. Because of this, we are continuing to look for options such as the 80/20 product or Product Innovation Portfolio Option to provide an alternative to FHA.

We understand that in some markets, banks who get referrals provide grants to the Member and that relationship is important. We understand that and support the Member in that relationship.

Standard brokers in some markets take less than 2.5% to be competitive with the market. We want to have open communication with Members on our (combined) market competition and how we both can meet pricing trends together so that it isn't one-sided. We are testing this now in TN/VA where pricing appears to be ¼ off. Housing market in Member service areas vary and Fahe depends on communication from the Members when this situation arises. We want to work with our Brokers and make sure they can be competitive in their communities.

Update We are continuing to review this concern and as always, welcome your feedback if pricing isn't working in your market. Due to the drastic fluctuation of abilities of our Brokers versus demand of the work that goes into the Standard Broker function, we are working on two areas. First, the consideration of allowing for more pricing options for our Standard Brokers that would allow incremental pricing versus the current half point shift structure. Second, could Fahe implement volume or quality restrictions that would allow high performing Brokers to earn at a higher rate and create incentive for growth.

A. *Create consistent quality criteria for 502 Direct Compensation*

Fahe currently adjusts 502 direct compensation based on the quality of the documents provided, but the requirements are opaque and decisions to reduce compensation are seen as punitive. Fahe should provide members with a transparent, structured compensation guide for these loans that show how much will be deducted for the most common mistakes. In addition to promoting fairness, this will provide Fahe with appropriate compensation for time spent amending member's loan documents and provide members with the information necessary to prioritize improvements to their own process.

Fahe could conduct a study to evaluate the time and effort put into the different components of the 502 direct application package. The results of this study and

an analysis of common errors could be used to determine how much compensation should be shifted to Fahe in the event that the application is incomplete or low quality. Not only will this properly compensate Fahe for time spent on client applications, it will provide members with clear line-of-sight into how much each part of the process is worth and ensure that compensation decisions are consistent between members. Itemizing charges will allow organizations to see exactly where they are making mistakes. Ideally, this will facilitate improvement by creating awareness of common issues and ensuring that the member has a financial stake in improving the quality of their process.

Response from Fahe Staff:

We do see a value proposition here. Fahe does not typically implement the fee reductions, but has with a couple of organizations in the past who consistently send in poor packages. Our definition of "poor" could be looked at to become more hard lined than it is now, and a study could show better what we are truly seeing on a daily basis.
***Update* This continues to be under review. The addition of another staff person will allow for a more detailed look into 502 Direct opportunities.**

B. Reevaluate standard broker compensation

While this did not come up frequently (as we only interviewed a few standard brokers), Clinch-Powell was outspoken about standard broker compensation. They found that, despite having standard broker status, they were often forced to accept basic broker compensation levels due to the tradeoff between borrower loan terms and broker compensation. This practice could be troubling for a number of reasons.

The standard broker rate sheet puts the interest of members in direct conflict with the interest of the borrowers that they're serving. To gain more compensation, the members must willfully direct their client into a loan with more unfavorable terms. Members may be unwilling to do this, their clients may be unable to afford the worse terms, or competitors' rates may make the more unfavorable Fahe product unattractive. While regulatory scrutiny is not likely, this could cause fair lending concerns if standard brokers unintentionally offer higher rates to protected classes. For example, it is possible that elderly clients are able to accept higher interest rates and, so, the member chooses to maximize their own compensation. While this may not currently be happening, the risk will increase as more members attain standard broker status and should be monitored.

Fahe should look to redesign standard broker compensation. Fahe could consider a number of new compensation schemes:

- Quality checklist: This would look similar to the quality criteria laid out above for 502 direct compensation. Fahe could indicate to Standard brokers what quality standards are for USDA guaranteed loans (or conventional loans in the future) and vary compensation based on how well criteria are met. This would differentiate standard brokers from basic brokers based on the amount of effort that needs to be put in to applications to meet increased compensation.
- Volume increases: This would offer members higher rates once they hit quarterly or annual volume goals. This would incentivize standard brokers to originate more loans through Fahe, which would be particularly useful if they become eligible to broker conventional products. This would provide differentiation from competitors and may lead members to advertise JustChoice products more enthusiastically.
- Flat increase: This would offer standard brokers a flat increase over the 1% basic broker compensation. This would remove the conflict with customer terms, but allow members to capture higher compensation if their application is approved to become a standard broker. This would require Fahe to take less compensation for loans brokered by a standard broker, but this could offset by strict standards on quality in order to become a standard broker.

Response from Fahe Staff:

We are working on developing Broker Score Cards to help bring to light some of the quality issues we are seeing. A quality checklist might fit that frame. The volume suggestion and the flat increase are intriguing suggestions that we are digging into.
***Update* Broker score cards are now implemented and sent out quarterly. Our next consideration is around pricing and the suggestion of volume and quality opportunities for high achieving Brokers that could potentially increase levels of pay.**

C. Clarify compensation policy to members

After Fahe has decided on a refined compensation policy, it must clearly communicate this policy to all members that originate or consider originating mortgage loans. Throughout our interviews, we were repeatedly given competing interpretations of Fahe's policies and cited different compensation amounts for the same service. In some cases, members did not know they were

eligible to be compensated for services they provide. This is listed as a final recommendation as Fahe should ensure compensation policy is fully formed before issuing a communication, but this is the most crucial recommendation regarding compensation.

If Fahe wants to grow membership as an origination channel for mortgages, members must be clear on how they will be compensated for their time. While more wealthy members such as CHP were unconcerned with compensation levels, the majority of members that we spoke to considered compensation a major concern due to resource constraints.

At a minimum, Fahe should design an easy to read guide for members to understand how they will be compensated for each product. This guide can be refined as changes are made, but will provide an objective reference to understand exactly what the policy is for each product.

Response from Fahe staff:

We understand these comments and think they are fair. Good information to have. We will work on improvements. It is clear we need to improve communication with the network. The JustChoice team has already implemented a very targeted communication development plan specific to our Brokers. The network now receives email blasts with updates, have updated forms and tools, and also receive Broker scorecards. We are also utilizing David Brock's time in a new way to make him more available as an account representative to assist in ensuring our Brokers feel we are meeting expectations and understand what our expectations are of them. We are also in development of a Fahe Broker website which will house all forms and updates for our network.

3. Building a member's income stream

Create pro forma analysis to demonstrate potential member income stream

Many members judge that current compensation levels would not allow them to support a full-time originator and, therefore, do not pursue broker status. This assessment is typically based on either intuition or a back-of-the-envelope analysis based on current origination volume. Creating a pro forma analysis based on unique member circumstances or providing anonymized data from successful brokers would allow members to see how they could make the decision to hire a full-time originator profitable. This could show how many JustChoice loans would have to be brokered to justify hiring an originator. Based

on how many loans the member brokers today and how many families they serve, Fahe could provide several scenario analyses that demonstrate what would need to be true for the member to be successful. Framing the analysis as future looking may make members more optimistic about what brokering JustChoice loans would mean for their income and would ensure the decision is grounded in data.

Response from Fahe staff:

This is a service that was offered through our CLIMB visits completed by four Member organizations. Each organization expressed their appreciation and excitement for this data, with some having already started implementation of the suggestions that came from having this information. Fahe could look at possibly reaching out for additional funding to offer the CLIMB services to additional network Brokers who would find this information beneficial.

***Update* Fahe and HCA are working together to continue to request opportunities for more Brokers to complete the CLIMB program through Fannie Mae support.**

A. Consider offering seed grants to high potential members to facilitate hiring full-time originator

In certain cases, members expressed optimism that mortgage origination could be a reliable income stream and make hiring a full-time originator feasible. However, staff had difficulty convincing the board of directors to make an investment based on current volumes. If Fahe was able to provide seed funding for an organization to hire a full-time originator for six months or one year, it would provide direct evidence that the organization should invest permanently in a position.

Response from Fahe staff:

This is interesting and we will look for funding opportunities to do so.

B. Evaluate feasibility of shared loan originators for members

Fahe may be hesitant to provide the degree of funding necessary to seed a loan originator at an individual organization. Additionally, some members may not produce enough volume to justify investing 100% in a full-time originator. Fahe could evaluate the operational and regulatory feasibility of having individuals serve as loan originators for multiple organizations. This position could split time between several organizations within the same region with employment cost shared based on usage. This would allow smaller organizations to capture

benefits from originating mortgages, provide their clients with regular in-person expertise, and take strain off of Fahe's on-staff originators.

Response from Fahe staff:

Unfortunately, this is not allowable per lending regulations. An originator must work for a single entity. However, Processors can serve multiple organizations. So, if they had someone who could originate, but didn't have time to deal with the paper pushing side of lending, having a shared contract Processor could be feasible.

Question For Members Would having back office support be something valuable? If so, what type? Processor? Underwriter? Closer? Would it be worth Fahe considering how our department could serve as a white label back office for operations who still want to consider Standard Brokering (Fahe plays this role as Broker Lite) Would be fee for service that could be recouped by the Member organization at closing.

4. While challenges within members housing markets are largely outside of Fahe's control, several strategies could help members address persistent issues:

Engage realtors with marketing materials and ensure they are considered in process evaluation

The MIT team found it striking that the role of realtors was not discussed during initial process conversations at Fahe, but was consistently cited by members as a major consideration. Realtors are particularly influential in cases where USDA loans would be a good fit. Many members mentioned cases where realtors directed clients away from 502 direct loans out of concern for the speed of the process. Some members, like Clinch Powell, have started engaging the realtors in their community to mitigate this issue.

Fahe could partner with members to provide realtor-specific marketing. This could provide clear expectations to realtors regarding the speed of the process. Materials could demonstrate buying power using USDA loan products versus conventional products with down payment to make a financial case to realtors. Fahe and its members could also position themselves as consistent sources of leads to area realtors. Fahe and members could offer to refer clients to preferred realtors in the area, reframing a potentially adversarial relationship into a mutually beneficial partnership.

Response from Fahe Staff:

In the past, the JustChoice team has engaged with Member organizations in regards to specific reach outs, such as employers. However, we have not offered up any consistent marketing material that could be edited and utilized to realtors. We are currently working on the development of this option with a marketing consultant through the Homeownership Council of America. We anticipate having these fliers available Spring of 2020.

In addition, with the adjustment of David Brock's availability to serve as an account representative for our Members, he will be offering his time to come to our Broker offices and would be able to conduct realtor marketing training, or even assist with hosting one with our Originators.

***Update* Actively engaged in completing this work and should be up and functioning in the following 60 days. COVID-19 played a slight impact in the speed of this work. In addition, Fahe is currently in the hiring stages for a replacement LO which will again allow David to function at a higher level offering his time to our Broker community.**

A. Connect members with contractors and maintain repository of construction knowledge

Members throughout Fahe's service area emphasized a shortage of good contractors in their region. Fahe could source and maintain a list of reliable contractors that are willing to work across a broad area. Sharing this with members who conduct new construction will serve as both a connection and an indication of quality, removing a major variable in the new construction market.

Members also indicated that they had once seen Fahe as an authority in new construction, but that the organization had shifted in focus over time. Fahe should continue to share knowledge regarding construction and facilitate the adoption of best practices throughout the member network.

Response from Fahe Staff:

We see the need for contractors from all of our Members. We believe there are other ways in which we could be helpful but that this recommendation isn't the best use of our expertise nor the Members. Fahe maintaining lists doesn't add value when the Members are more knowledgeable about their communities than we are. We would welcome a conversation about what could be helpful here?

Regarding Fahe historically being the construction authority, we want to provide ongoing support to the network. We have established a relationship with Rural Studios at Auburn University and will bring them to the Members at either a caucus meeting or spring/annual meeting. We are looking for opportunities to find grants to help the Members.

***Update* Rural Studios is providing webinar opportunities to Fahe staff and continues to make themselves available for continued work with Member organizations.**

5. Financing challenges for borrowers in Fahe's markets

As described, members consistently identified three specific financing challenges: (1) the need for construction to permanent financing, (2) the need for purchase plus improvement financing, and (3) the need for a better rehab or repair loan product. Based on our member visits, we believe significant demand exists for each of these financing types at many of Fahe's member organizations, however no suitable loan products exist to fill these gaps.

We believe that Fahe should explore the idea of providing each of these types of loans. This would likely begin with surveying a broader set of member organizations to ask (a) whether demand for such loan products exists, and (b) what characteristics a new loan product would need to be attractive. This will allow Fahe to gauge market demand and identify what any new loan product would need to look like. Following this, Fahe could characterize what each of the new loan products would need to look like, and then conduct an economic analysis to determine if it would be profitable and worthwhile to create any of the new products.

Purchase plus improvement financing and rehab and repair financing

Based on our own analysis and observations, we believe it is likely that it likely would not be profitable, or even economically feasible, to offer either purchase plus improvement financing or rehab and repair financing on a large scale.

- Purchase plus improvement: Due to the low appraisal values across the region, most existing homes likely wouldn't appraise for the full value of a purchase plus improvement mortgage, even after the improvement work is completed. Therefore, borrowers would start off underwater in their mortgages and be at high risk of default
- Rehab and repair: There are at least two key challenges that make rehab and repair financing difficult. First, most homeowners in the region are unwilling to put a new lien on their home, meaning that a rehab and repair loan would need to be unsecured for it to see large demand. Second, most of the existing housing stock requires significant work to be brought up to code, and most of the existing rehab and repair loan products require the homeowner to bring the whole house up to code

Therefore, we expect that making purchase plus improvement loans or rehab and repair loans on a large scale, without losing money, would require significant

grants and subsidies. However, given the large demand and unmet need, we believe it is worth continuing to explore whether there is a way to offer such products.

Construction to permanent financing

There is a large unmet need for construction to permanent financing throughout the region. We believe there is an opportunity for Fahe to create a construction to permanent financing loan product that provides the upfront capital for construction and converts to a conventional mortgage on the back-end, after construction is complete.

Fahe should work with its members, especially those that do development, to better gauge the characteristics that such a loan product would require. We believe that by introducing such a product, Fahe could help combat one of the key challenges limiting new construction in the region while also expanding its own conventional mortgage lending business.

Revolving line of credit for construction

A few of the members we visited also described their challenges securing financing for their own construction. For instance, Partnership Housing indicated that they would benefit significantly from even a \$100k revolving credit line from Fahe to finance their new construction work, as lack of funds is one of the limiting factors that prevents them from doing more development work. We understand that Fahe already does some of this lending. Fahe should reach out to Partnership Housing and other members to gauge additional demand for revolving credit lines for construction. This could be an easy way to help members expand their businesses, while also strengthening members' relationships with Fahe and increase Fahe's lending volume.

Response from Fahe staff:

We heard these suggestions and are excited to announce that in the Fall of 2019 we applied to be a host agency again for an MIT USA Lab for Spring of 2020 to explore these options further. Specifically we proposed a delivery system for acquisition/rehab financing. We will add to it to find more about what the Members are looking for in a construction line of credit as we offer them currently and they are being utilized by some Members. We would like to learn more about what doesn't and what does currently work to build a better solution.

The construction to permanent loan we had through the USDA single-close option, but found it to be very hard to utilize. Fahe tried to launch this program with three different Member organizations, each ultimately stating that the fees involved, as well as the depth of additional work to obtain non-profit and contractor approval, made the product unattractive. As of fall 2019 , Fahe's investor has discontinued offering the product and states that they will not consider re-opening until summer 2020, if then due to under-utilization as a whole.

***Update* Our USDA single close investor continues to leave this option closed through their portal. However, we are pursuing another route to review the ease of work through Fannie Mae single close. Fahe is currently working with a client engaged with HOMES in KY to determine the viability of this option.**

6. Fahe's other interactions with its member network

Fahe's members are generally very complimentary of Fahe and recognize the many benefits associated with being part of the member network. They also appreciate that Fahe is a national player at the forefront of advocacy and thought leadership but still also focuses on serving the (often much smaller) members.

That said, we believe there are a number of ways in which Fahe can strengthen the member network and expand the benefits the network provides to members.

A. *Affinity group caucuses*

First, many members expressed a desire for affinity group caucuses, to allow them to interact more closely with members outside their home state. We believe that Fahe should develop affinity group caucuses to bring together groups of members that have similar business models. This will benefit all members, allowing them to share best practices and strategies for addressing common challenges.

In addition, we believe there should be an affinity group caucus for Fahe's larger members. Community Housing Partners, in particular, described how they feel they have outgrown the member network and don't get much benefit from it. However, they stay in the network because they appreciate Fahe and like to give back. We believe that if CHP had the opportunity to interact more closely with some of the other larger members, they would likely find there is a lot they can still learn from other members.

Response from Fahe:

We agree and have launched affinity groups with Members including: Homeownership Innovations Group, Elderly Group, Health Group, Recovery Group to name a few.

B. Member forum

Fahe should develop a member forum on its website for members to quickly and easily interact with each other. This would allow for fast and easy knowledge sharing across members. For instance, nearly every member does some form of housing counseling. When a housing counselor comes across a unique and particularly challenging case, they could quickly reach out to the forum to see if anyone at another Fahe member group has encountered a similar case. This would facilitate knowledge sharing and greatly speed up the rate at which members, some of whom are working on their own within very small organizations, can identify solutions to challenges they face. A member forum could also help reduce some of the uncertainty about referral and origination fees that we saw at nearly every member we visited.

Response from Fahe Staff:

We have the www.fahemembers.com site for resource sharing. Fahe will consider a Member form as an update/improvement and how it could be managed. Would there be other improvements that would be useful?

VP: Utilizing TEAMS to launch a member forum for connecting with each other. How many folks current use Office 365?

C. Identify and scale successful initiatives

Fahe should seek to leverage its size and central positioning to identify and scale promising initiatives that members are undertaking. For instance, Housing Development Alliance is doing highly innovative work with Redbud Financial Alternatives and Hope Inc. In particular, Redbud has already seen great success in helping borrowers repair their credit and get ready for homeownership. While HDA does not have the resources to scale Redbud on their own, Fahe could help them to grow the business and offer it across Appalachia. This would likely result in positive externalities, as it would allow more potential homebuyers to get ready for homeownership and thus increase volume across the member network.

Similarly, Community Housing Partners has recently found a way to do modular home construction successfully, working with a company called Southern

Heritage. They believe that Southern Heritage's modular homes are both of very high quality and also highly affordable. While most members don't have the size to negotiate with Southern Heritage on their own, Fahe could help structure a deal with Southern Heritage that all of Fahe's members could take advantage of. Given the issues with finding contractors and doing stick-built developments that most of Fahe's members encounter, this could be another way for Fahe to help solve a common challenge--and increase development and lending--across the network.

Response from Fahe Staff:
Great suggestions!

D. Provide additional shared services

A few of the members identified Fahe's Virtual CFO service as a highly valuable benefit of the Fahe network. Through our conversations, we identified a number of other services that Fahe--with its size and expertise--should consider offering to the member network:

Marketing: Many members rely completely on word-of-mouth marketing and have trouble bringing in new customers (especially when trying to expand their customer base). Given often consistent marketing needs across members, Fahe may be able to provide support with marketing materials and marketing strategies

Contractor and appraiser lists: Contractors and appraisers are scarce in many of the regions that Fahe's member organizations serve. It may be possible for Fahe to help develop a centralized list of contractors and appraisers that member organizations can utilize

Procurement: Community Housing Partners described how they centralized their procurement function recently and saw significant cost reductions. By taking a similar approach and spreading it across Fahe's network, Fahe could potentially help reduce construction costs for smaller organizations

Succession planning: Given the small scale of many member organizations, there is little institutional memory outside the individuals and little time or emphasis on succession planning. Members are thus at significant risk in the case that one or two key members leave the organization. Fahe, with its large size and scale, may be able to focus on succession planning and developing institutional memory to support members. Additionally, Fahe could organize a system of segments, where employees go to work for other members for a short period of time (e.g., 6 months to 1 year), to help spur innovative thinking and knowledge sharing

Response from Fahe staff:

Good feedback.

We believe that Fahe is well positioned to provide these services to its members in a cost-efficient manner compared to having members take individual responsibility for each of these services on their own. Most members aren't even thinking about many of the above things currently, especially marketing and succession planning. This presents a large long-term risk to the members and the broader network. If Fahe were able to provide these shared services across the member network, it would not only help the members operate better, but it would help Fahe grow its mortgage lending volume with each of the members.

In summary, Fahe appreciates the Members for sharing with the MIT students honestly and openly on lending issues. Fahe also appreciates the attention of the MIT students and the report they delivered. Fahe learned a great deal from working through the report and there are several items that we will be following up on. There are items in the report that we need Member feedback on.

If there are questions or feedback on any of these suggestions, please reach out to Vonda Poynter, Sr. VP of Membership and we will make sure your information, suggestions, feedback is acknowledged as we work to prioritize next steps for Fahe and Members to take. This report is the beginning of a dialogue and open conversation about how we can work better together to meet the unmet needs in the region. We look forward to continuing this dialogue and learning with and from one another.
Strength in Numbers!