

Nonprofit seeks to provide more home loans

The University of Tennessee, College of Business Administration full-time MBA program collaborates annually with local not-for-profit organizations and Tech 2020 start-up companies.

As part of the Innovation and Entrepreneurship curriculum, students apply their knowledge to various challenges faced by entrepreneurs. The learning objective for the students is to allow them to "walk in the footsteps" of these organizations' leaders. The business school has two compelling interests— an educational experience for MBA students and outreach to the community.

A team of six MBA students recently entered into a consulting agreement with the Housing Development Corp. of the Clinch Valley. HDC asked the MBA team to research, develop, test and recommend a plan to build its first-mortgage origination business, with an eye toward expanding to a wider geographic region. HDC's mortgage program targets residents with low to moderate incomes who live in Anderson, Campbell, Monroe, Morgan and Roane counties.

Success in homeownership means being able to manage homeownership for the long-haul ... five, 10 and possibly 30 years. Training before and after becoming a homeowner has proven to dramatically improve these households' chances for success."

Steve Seifried,
executive director
of HDC

The company: HDC is a 501c (3) organization whose mission is to provide affordable housing options and services to those with income levels 40 to 80 percent of the county median. Created in 1992, the organization originally provided neighborhood redevelopment services, primarily in rental ownership and management, but evolved into a full-service, affordable-housing entity offering second mortgages and homebuyer education. This newest offering of first mortgages, which are sold in the secondary market, is a natural progression.

Steve Seifried, executive director of HDC, said, "We work with individuals interested in bettering their

housing situation. Sometimes we will work for years to help customers find a mortgage loan.

"When a few of our national, nonprofit partners gave us the opportunity to access the secondary mortgage market, it made sense for us to begin offering these loan products to clients."

It also has become a necessity.

Because of the war in Iraq, Hurricane Katrina and other events, many nonprofit organizations have seen a dramatic reduction in funds from traditional revenue



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Terry Bray, director of homebuyers education and lending at the Housing Development Corp. of the Clinch Valley, counsels a prospective homebuyer.

sources. This means nonprofits have to become more business-minded, depend less upon the federal government and philanthropic sector, and generate more revenues from their core work.

MBA team: Tarek El-Messidi, Josiah Glafenhein, Jason Hudson, Nadiyah Khan, Thomas King and Rachel Norris, led by faculty adviser Glenn Swift.

Client partner: Steve Seifried, executive director of HDC.

Challenge: To develop a strategy for HDC to increase its first-mortgage origination program from 35 loans in 2006 to 240 loans annually by the end of 2008, while maintaining a default rate of less than 1 percent. This challenge was converted into a concise Statement of Work to guide the team.

Approach: Through its six-week consulting engagement, the team devoted 465 hours to a proven problem-solving framework: baseline development, research, benchmarking best practices, conclusions, recommendations and predictable outcomes. Students and partners conducted weekly "check-in" meetings.

The students conducted extensive research, carefully analyzed the profiles of the 35 mortgages closed in 2006 and identified an appropriate target market. They concluded that the five-county region had ample households to achieve the targeted 240 annual loans.

Based upon its research, the team developed the following target audience profile: Head of households between 28 and 35 years old, with an annual household income between \$15,000 and

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Service: Advocacy, service and education to members

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\$25,000, household consisting of one to two individuals and eligible for a loan of about \$56,000.

The team then mapped the current mortgage process. The last research step was to benchmark HDC with similarly situated agencies for best practices.

They found two critical keys to success.

The first was to attract potential customers to monthly homebuyers education classes. These classes target individuals, at any income level, who are interested in becoming a homeowner. Many of these individuals need to work on their credit, understand the basics of budgeting and money management and mentally prepare themselves for homeownership. HDC's goal is to "Build Successful Homeowners."

"Success in homeownership means being able to manage homeownership for the long-haul ... five, 10 and possibly 30 years," Seifried said. "Training before and after becoming a homeowner has proven