New mortgage product aims to address appraisal gap in distressed areas

Janelle O'Dea
Apr 14, 2019

ST. LOUIS • Getting a mortgage in some distressed areas of the city is impossible and a new mortgage product announced Friday is designed to overcome lending challenges.

At the Metropolitan St. Louis Equal Housing and Opportunity Council's annual conference, the Gateway Neighborhood Mortgage was introduced by Nikki Woelfel, vice president of community development for Carrollton Bank. The bank is one of five banks signed up to originate one of two mortgages that make up the mortgage product.

"We don't think the Gateway Neighborhood Mortgage is the silver bullet to solve problems," Woelfel said. "It's not going to instantly spur homeownership and development in some of the most distressed areas. It is just one tool in what needs to be a really big toolbox."

The other banks are Central Bank, Enterprise Bank & Trust, Great Southern Bank and Simmons Bank. The two-loan structure works around regulations preventing banks from making loans above a home's appraised value.

The mortgage from the banks will lend to borrowers up to the amount of the home's appraised value. A second mortgage, administered by St. Louis-based nonprofit Justine Petersen from a fund of $2 million in investments, will cover the amount between the home's appraised value and the listed price. Another $1 million in investments is for loan loss reserves and operating costs of the program.

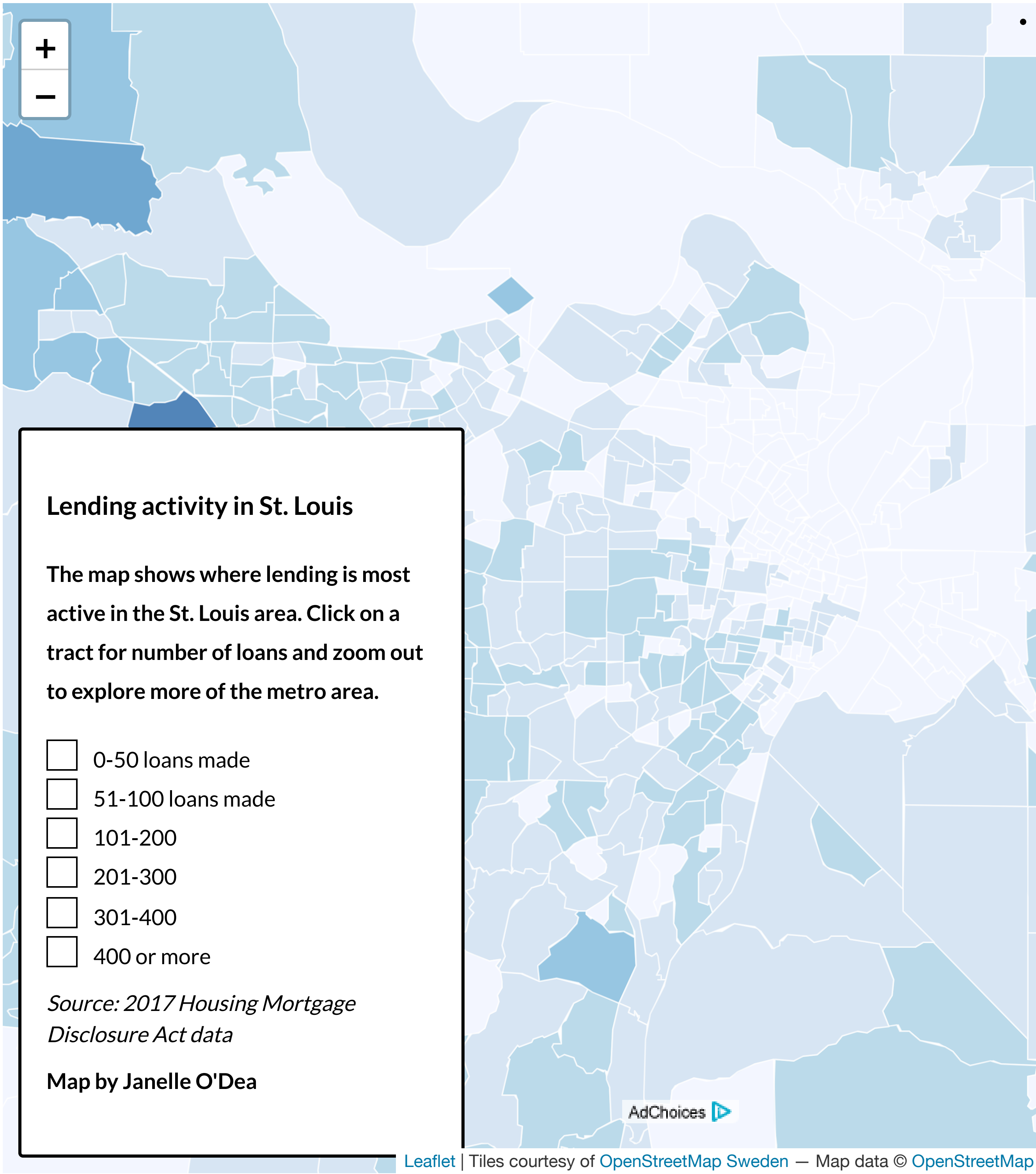
In addition to originating the second mortgages, Justine Petersen will provide counseling and education for home buyers. Part of the fundraising is meant to provide a safety net in case program participants face hardship, but Woelfel previously told the Post-Dispatch: "We will do everything we can to prevent someone from not being able to make the payment."

In addition to the banks and Justine Petersen, other community partners contributed, including the St. Louis Equal Housing and Community Reinvestment Alliance, Health Equity Works, Legal Services of Eastern Missouri and the St. Louis Community Reinvestment Association. The city of St. Louis is also supporting the program.

Population loss, historically racist lending policies, often referred to as "redlining," and a spate of foreclosures after the 2008 housing crises have made getting a mortgage difficult in some areas. What's left is an all-cash market and no comparable sales for appraisers to use when determining the value of a home.

When Phil Valko went to sell his home last year in Old North St. Louis, he ran into the appraisal gap problem. Although he eventually was able to sell the house because a buyer could secure a personal loan through family to cover the appraisal gap, he still felt helpless.

“There are official rules of recourse, but by and large people said, ‘We’re sorry this is happening, we’re aware of (the) issue and we’re hoping to work on it in a long-term systemic way.’ There’s no clear path forward.”



Lending discrimination, redlining still plague St. Louis, new data show
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