Home Equity Line-of-Credit Loan

- An **open-end loan** that is a type of second lien loan that taps into a property owner's equity and establishes a revolving credit line
  - An open-end loan is expandable by increments up to a maximum dollar amount
- When determining the borrower's actual credit line, the lender considers the borrower's ability to repay the loan by looking at income, debts, other financial obligations, and the borrower's credit history

Home Equity Line-of-Credit Loan

- Set a fixed time during which a homeowner can borrow money
- Outlines the method the borrower must use to repay the line of credit
- Have variable interest rates rather than fixed rates
- Sometimes lenders advertise a temporarily discounted **teaser rate** for home equity lines
- Lenders may permit a borrower to convert a variable interest rate to a fixed interest rate

Home Equity Line-of-Credit Loan

- Before entering into a HELOC, a borrower should consider how he or she plans to repay the outstanding balance
- The Truth in Lending Act requires lenders to disclose the important terms and costs of their home equity plans, including the APR, miscellaneous charges, payment terms, and information about any variable-rate feature
  - The lender may not charge a fee until the borrower has received this information

Traditional Second Lien Loan

- Provides more predictable loan payments than a HELOC
- Offers a fixed amount of money that is repayable over a fixed period

Financing by Property Type or Loan Purpose

- Many lenders finance a specific type of property or offer a loan product for a particular loan purpose
- There are different ways to finance real property and the type of property dictates the type of financing that is available to the purchaser
- The loan purpose and the borrower's plans for the loan proceeds will determine other types of alternative financing

Manufactured & Mobile Homes

- A mobile home is a factory-built home manufactured prior to June 15, 1976, constructed on a chassis and wheels, and designed for permanent or semi-permanent attachment to land
  - Considered personal property unless it has been converted into real property (attached to a permanent foundation)
- Manufactured homes are homes built in a factory after June 15, 1976 and must conform to the Manufactured Home Construction and Safety Standards (HUD code)
  - Manufactured homes can be financed as personal property or as real property

Financing Manufactured Homes

- If the manufactured home is not permanently attached to the land, a borrower may obtain a personal property loan or financing direct from the retailer
  - A **personal property loan** is a loan for anything movable that is not real property
- If the manufactured home is permanently attached to the land, a borrower can obtain real property financing from a bank or financing direct from the retailer

Financing Co-Ops

- A cooperative or co-op is ownership of an apartment unit in which the owner has purchased shares in the corporation that holds title to the entire building
- A member of a cooperative possesses the right to live in the apartment unit through an occupancy agreement or a **proprietary lease**
- Financing available in the form of a **co-op share loan**
  - This is a type of loan that is made to finance the purchase or refinancing of the borrower's ownership interest in a residential unit in a co-op project owned by the co-op housing corporation

Financing Vacation Homes

- A buyer can obtain a loan for a vacation home through a traditional lender
- Since the home will not be a primary residence, lenders view the loan as a risky proposition
  - Underwriting guidelines and qualifications are stricter in comparison to loans for primary residences

Financing Timeshares

- A **timeshare** is a real estate development in which a buyer can purchase the exclusive right to occupy a unit for a specified period of time each year
- Prospective purchasers of this type of ownership can find unique financing arrangements
- Favorable financing terms for timeshares are available to borrowers with a good credit rating and sufficient income

Financing Unimproved Land

- Loans for raw land are riskier to a lender since the chance of default is higher for loans for land than loans for borrowers who are financing their primary residence
- Along with a borrower's credit rating and income, lenders also examine the purpose for the raw land
- Other considerations include whether the purpose of the land conforms to zoning laws, the existence of easements, and the availability of utilities

Financing Rural Properties

- **Rural property** is property located in the outlying region of an urban center
- A common financing tool is seller financing
- The Farm Credit System is a national network of lenders that work together to provide funds to foster agricultural production and finance the purchase of rural property
- The Farm Service Agency (FSA) encourages farm ownership and makes operating loans to borrowers who cannot obtain a loan from a bank or other Farm Credit System lender

Financing Rural Properties

- **Direct Loan Programs**. Made and serviced by FSA using government money. FSA helps applicants evaluate their real estate, facilities, machinery, equipment, financial management, and goals.
- **Guaranteed Loan Programs**. Made and serviced by commercial lenders. FSA guarantees the lender's loan against loss, up to 95%. FSA approves eligible loan guarantees and provides oversight of lender activities.
- **Land Contract Guarantee Programs**. Available to farm or ranch owners who wish to sell real estate through a land contract to a beginning or socially disadvantaged farmer or rancher.

Financing Mixed-use Properties

- A **mixed-use property** is a property that combines residential living units and commercial space within the same building structure
- Obtaining financing for a mixed-use property can be a challenge since the underwriting guidelines vary
- Lender use a mix of tenants on the property, the size of the loan, the borrower's intended use of the space, and other property characteristics to determine the type of loan product as well as the financing terms

Financing Construction Projects.

- A **construction loan** is a **temporary** loan used to finance the construction of improvements and buildings on land
- During the construction phase, an interim loan is necessary to fund the costs of the construction
- Upon completion of the construction, the borrower must obtain permanent financing or pay the construction loan in full
  - The permanent loan that pays off a construction loan is a **takeout loan**

Subordination Clause

- If a borrower has an earlier, separate loan on the land itself, a lender making may contain a subordination clause
- A subordination clause is a statement in a financial instrument that is used to change its priority
  - This clause is used mainly when land is purchased with the intention of seeking future construction financing to build on the property

Interim Loan

- A short-term loan that finances construction costs such as the building of a new home
  - The lender advances funds to the borrower as needed while construction progresses
- Lenders often include a contingency that states that after the project is completed, long-term financing must be secured

Interim Loan Disbursement

- Lenders use plans for **disbursing construction loan proceeds** to guard against overspending by the borrower
- A **fixed disbursement plan** pays a percentage of funds at a set time
- **Obligatory advances** are paid out at various stages of construction

Takeout Loan

- Can be used to pay off any interim construction loans taken out prior to the construction project
- A **forward-takeout commitment** is a letter that promises to deliver a takeout loan in the future if the property is built according to plans and specifications and leased at the target rental rate

Blanket Loan

- Secured by several properties
  - The security instrument used can be a blanket deed of trust or a blanket mortgage
- Developers use blanket loans when they buy large tracts of land to be subdivided into parcels and sold separately
- Individuals can acquire a blanket loan when they have an existing home and are purchasing another one
  - Once the existing home sells, the property is released from the blanket mortgage or blanket deed of trust so that it can be reconveyed to the new owner

Pledged-Asset Mortgage Loan

- A loan that allows a borrower to give a security interest in other assets rather than having to liquidate them to pay a down payment
- Allows the borrower to continue receiving income and other benefits from those assets
- Avoids the possibility of the borrower having to pay income taxes on sale proceeds if the assets had to be sold to make a down payment

Lender Participation Loans

- **Equity Participation Mortgage**. A mortgage that allows the lender to share in part of the income or resale proceeds from a property owned by the borrower. The lender participates in the income of the mortgaged property beyond a fixed return or receives a yield on the loan in addition to the straight interest rate.
- **Shared Appreciation Mortgage**. The lender and the borrower agree to share a percentage of the appreciation in the market value of the property that is security for the loan. In return for the shared equity, the borrower is offered beneficial loan terms.

Unsecured Loan

- An unsecured loan is one in which the lender receives a promissory note from the borrower without any security for payment of the debt, such as a trust deed or mortgage
  - The only recourse is a lengthy court action to force payment

Key Terms

- Adjustable-rate mortgage (ARM)
- Amortization
- Blanket loan
- Carryback financing
- Cash-out refinancing
- Closed-end loan
- Contract for deed
- Cooperative
- Crowdfunding
- Fannie Mae

Key Terms

- Finance company
- Freddie Mac
- Hard money loan
- Home equity line-of-credit
- Home equity loan (HEL)
- Interim loan
- Manufactured homes
- Negative amortization
- Nontraditional mortgage product
- Packing

Key Terms

- Partially amortizing loan
- Participation loans
- Payment shock
- Pledged–asset mortgage
- Points
- Portfolio lender
- Purchase money loan
- Rural property
- Swing loan
- Takeout commitment

Key Terms

- Takeout loans
- Unsecured loan
- Wraparound mortgage

Summary

- Alternative financing methods include seller financing, secondary financing, and other financing alternatives that are based on the type of property or the purpose of the loan
- A common source for secondary financing of a sale is the seller
  - Carryback financing is the extension of credit by a seller who takes back a note for a portion or the entire purchase price of a property
  - A wraparound loan is essentially a purchase-money loan that includes both the unpaid principal balance of the first loan and a new second loan against the property

Summary

- Borrowers obtain secondary financing to provide additional funds for the purchase of property or to take cash out of property
  - Secondary financing includes hard money loans from private lenders, swing loans, home equity loans, and home equity lines-of-credit
- Financing is available based on the property type
  - The loan purpose and the borrower's plans for the loan proceeds will determine other types of alternative financing
  - This includes loans for construction, pledged account mortgages, rollover mortgages, lender participation loans, and unsecured loans

Chapter 4
Financing Affordable and Workforce Housing

Learning Objectives

- After completing this chapter, you should be able to:
  - Compare the Freddie Mac Home Possible and the Fannie Mae HomeReady mortgage programs
  - Describe state and local affordable housing mortgages and programs offered in North Carolina
  - Explain how bonds are used to finance real estate

Overview

- Workforce housing may be defined as reasonably afforded by a moderate to middle income, critical workforce and located in acceptable proximity to workforce centers
- Housing prices are based on supply and demand
- In North Carolina, both state and city agencies have mortgage programs to help ensure that homebuyers have affordable housing

Home Possible & HomeReady Mortgages

- Freddie Mac and Fannie Mae promoting affordable lending products
- Freddie Mac Home Possible and Fannie Mae HomeReady mortgages have more liberal and non-traditional borrower eligibility requirements to help creditworthy borrowers with lower and moderate incomes obtain an affordable, sustainable mortgage

Freddie Mac Home Possible Mortgage

- Gives buyers an affordable option for real estate financing
- A **first-time buyer** is someone who has not had any ownership interest in residential property in the last 3 years prior to the loan closing
- A **move-up buyer** is a homeowner who wants to sell a home to purchase a more expensive one
- **Equity** represents the difference between the current loan amount owed on the home and its market value

Home Possible Requirements

- The Home Possible program is available for various property types
- The minimum FICO score necessary to qualify for the Home Possible program varies from lender to lender
- Borrowers without a credit score can qualify for a Home Possible mortgage with a 95 percent maximum LTV through the Loan Product Advisor® or by meeting the requirements in the Freddie Mac Selling Guide
- Freddie Mac guidelines require stable monthly income for all borrowers who sign the mortgage note

Home Possible Requirements

- Because the Home Possible loan program is designed for low to moderate-income borrowers, income limits may apply
- Home Possible mortgages correlate with the same conforming loan limit guidelines used for all conventional mortgage programs
- All borrowers who sign the mortgage must also occupy the home as a primary residence

Home Possible Down Payments

- The Home Possible loan program allows funds from a variety of sources to help a borrower reach the 3% to 5% down payment requirement
- If family and friends help a borrower with gift funds, the donors will need to sign a **mortgage gift letter**
- **Seasoned funds** are a source of money that has been in those in the accounts holding the funds for at least 60 days
- Traceable funds come from a verifiable source with a traceable history

Home Possible Gifts & Other Contributions

- A gift or grant from a lender is only allowed after a minimum three percent contribution is made from the borrower's personal funds or other eligible sources of funds
- Down payment assistance cannot be funded through the mortgage transaction in any way by the lender
- Premium financing by a lender can be used to assist a borrower with closing costs, financing costs, and prepaid escrow requirements

Home Possible PMI

- **Private mortgage insurance** is a type of insurance that protects the lender against financial loss if a homeowner stops making mortgage payments
  - A borrower will no longer be required to pay PMI when the loan balance equals 78% of the value of the home (**loan-to-value ratio**)
- One advantage of a Home Possible loan is that a borrower can request to remove mortgage insurance payments when the ratio reaches 80%

Home Possible Homebuyer Education

- Any borrower who is a first-time buyer and will be on the mortgage note must take a homeownership course from Freddie Mac called CreditSmart
- Homeownership education is required if the credit reputation for all borrowers is established using only Noncredit Payment References
- A seller or mortgage servicer must provide **early delinquency counseling** to borrowers who have problems meeting their mortgage obligations

Fannie Mae HomeReady Mortgage

- **Borrower eligibility**. Lenders will be notified if a loan case file appears to be eligible for HomeReady even when the product has not been selected.
- **Pricing**. Pricing is better than or equal to Fannie Mae standard loan pricing.
- **Eligibility**. The LTV ratio can be up to 97% LTV and eligibility is not limited to first-time home buyers.
- **Underwriting/income flexibility**. HomeReady will allow various sources or income, grants, and gifts.
- **Homeownership education.** Requiring pre-purchase homeownership education.

HomeReady Mortgage Requirements

- A first mortgage, **purchase money transaction**, or **limited cash-out refinance transaction** (LCOR) for one- to four-unit properties used as the borrower's principal residence
- Eligible products include fixed-rate mortgages with terms up to 30 years, and certain ARM plans
- Borrower income eligibility aligns with Fannie Mae's regulatory housing goals

HomeReady Subordinate Financing

- Subordinate financing from a seller-held mortgage is not permitted with HomeReady mortgages
- Subordinate financing is permitted if it complies the terms for the Community Seconds loan, which allow a maximum combined loan-to-value of 105%
- If the subordinate financing is from an employer, it does not have to require regular payments of either principal and interest or interest only
  - Financing terms may require full repayment of the debt if the borrower's employment is terminated before the maturity date of the subordinate financing

HomeReady Homebuyer Education

- At least one borrower must complete an online homeownership education program called Framework
  - The borrower must pass a final test with a score of at least 80% to receive a certificate of completion
- HomeReady, servicers must offer early delinquency counseling to the borrower during the first seven years of the mortgage
- Landlord education is required for HomeReady loans secured by 2- to 4-unit properties

NC Housing Finance Agency

- A public agency that finances affordable housing opportunities for North Carolinians whose needs are not met by the market
- Combines public funds with private investments to finance affordable housing opportunities
- Operations are overseen by a 13-member Board of Directors

NC Housing Finance Agency

- Finances mortgages and down payment assistance for first-time and move-up buyers by selling government-insured or Fannie Mae/Freddie Mac-incurred mortgage-backed securities
- Sells tax-exempt Mortgage Revenue Bonds and uses the proceeds to finance mortgages and down payment assistance for first-time home buyers and military veterans with low and moderate incomes
- Offers financial programs to develop affordable rental housing projects across the state

NC Home Advantage Mortgage

- Provides eligible home buyers with down payment assistance up to 5% of the loan amount, competitive interest rates and up to 100% financing on FHA, USDA, and VA loans
- Eligibility
  - Purchase a townhome, condo, duplex, or new manufactured home in North Carolina as a principal residence
  - Income under $99,000 and a minimum credit score of 640
  - Be a legal resident of the United States

NC 1st Home Advantage Down Payment

- Provides eligible first-time home buyers and military veterans with $8,000 in down payment assistance
  - Down payment help is a 0%, deferred second mortgage, which is forgiven 20% per year at the end of years 11-15, with complete forgiveness at the end of year 15
- Using this down payment assistance, buyers may be eligible for up to 100% financing on FHA, USDA, VA, and conventional loans

NC Home Advantage Tax Credit

- Saves money on federal tax liability with a **Mortgage Credit Certificate** (MCC)
- Newly built homes are eligible for a tax credit up to 50% of the annual interest paid
- Can be used in conjunction with a 30-year fixed rate mortgage, including FHA, VA, USDA, and conventional loan types

NCHFA Financing for Home Repair

- The **Essential Single-Family Rehabilitation** program finances major repairs for NC homeowners who are elderly or have disabilities and whose incomes are 80% or below the median for their area
- The **Urgent Repair Program** finances emergency home repairs for NC homeowners who are elderly or have special needs and whose incomes are below 50% of the median for their area
- If the URP program is not available, homeowners may receive help from the **Displacement Prevention Partnership**

Community Partners Loan Pool

- The **Community Partners Loan Pool** can be combined with an NC Home Advantage Mortgage for assistance of up to 20% of the sale price
- Available to buyers using a USDA Section 502 loan for their mortgage
- Structured as a second, zero-interest mortgage

Workforce Housing Loan Program

- Encourages the development of low- and middle-income housing
- Administered by the NC Housing Finance Agency in combination with federal Housing Credits
- Workforce housing targets middle-income workers
  - Households who need workforce housing may not always qualify for housing subsidized by the Low-Income Housing Tax Credit program or the Housing Choice Vouchers program

Raleigh Community Development

- Raleigh is committed to creating 5,700 affordable housing units for families with low-to-moderate incomes by 2026 using the Affordable Housing Bond
- Raleigh's Homebuyer Program offers low-interest loans up to $20,000 to help with down payment and closing costs or a gap in financing
- Raleigh requires that homebuyers attend a Homeownership Class

Raleigh Affordable Housing Projects

- Washington Terrace
  - Aging 23-acre, 245-unit, low-income housing project
  - Villages at Washington Terrace and Booker Park North
- Duplex Village
  - New Bern Avenue rental property comprised of 66
  - 24 units purchased by the City for future affordable housing
- Extended Stay Hotel for Permanent Supportive Housing, Emergency Shelter
  - Mixed occupancy, combining the existing extended-stay model with opportunities for permanent supportive housing and other affordable housing

Charlotte Affordable Housing

- Charlotte needs an additional 32,000 units of affordable housing to meet the current need
  - More than 55,000 Charlotteans do not currently have an affordable place to live
- Housing Charlotte Framework focuses on expanding the supply of, and preserving existing, quality affordable housing, and supporting family self-sufficiency

Using Bonds To Finance Real Estate

- Used to provide credit for the housing sector and to finance real estate projects
- A contract between a lender (bondholder) and a borrower (issuer) by which the borrower promises to repay a loan with interest
  - An issuer is obligated to pay principal and interest on a debt instrument it issues
  - A bondholder is a creditor
  - A shareholder is an owner

U.S. Government Bonds

- A debt security issued by a government to support government spending
- U.S. Treasury securities are debt obligations issued by the U.S. Department of the Treasury
  - Income is exempt from state and local taxes, but not from federal taxes
- Bonds issued by GSEs provide credit for the housing sector
- Bonds issued or guaranteed by Federal Government agencies are backed by the full faith and credit of the U.S. government

Corporate Bonds

- Debt instruments issued by industrial, financial, and service companies to finance capital investment and operating cash flow
- A **secured debt** is a debt whose payment of interest and/or principal is secured or backed by a specific pledged asset or other form of collateral
- **Unsecured bonds**, also called **debentures**, backed only by the integrity (good faith and credit) of the issuer

Municipal Securities

- A general term referring to securities issued by local governmental subdivisions
- When issuing munis, "local government" not only means a city, town, or county, but also school, water districts and public works projects
- Interest is tax-exempt at the federal level and can be exempt at the state and local levels
- Municipal bonds are classified as general obligation bonds and revenue bonds

General Obligation Bonds and Notes

- A municipal bond backed by the issuer's good faith, credit, and taxing power only
- Only entities with the ability to levy and collect taxes can issue GO bonds
- The financial stability of the municipality that is issuing the bonds is usually based on tax burden, budget, existing debt, and overall economic health of the municipality

Revenue Bonds

- A municipal bond issued to finance public works
- The bond is supported directly by the revenues of the project, such as user fees and other charges generated by a particular public works project
- The quality of a revenue bond issue depends on whether the project that it funds can generate enough cash to pay the interest and principal on the bonds.

Special Municipal Bonds and Notes

- **Special Tax Bond.** Municipal bond secured by a sales or excise tax.
- **Special Assessment Bond**. Secured by the taxes on properties benefiting from bond-funded improvements.
- **Public Housing Authority Bonds**. Issued by a housing authority to build or improve low-income housing
- **Project Notes**. Short-term debt security issued by a municipality.
- **Construction Loan Notes**. Short-term debt security issued by a municipality to fund construction of housing projects.

Key Terms

- Area median income
- Bond
- Bondholder
- Down payment
- First-time buyer
- General obligation bond
- HomeReady mortgage
- Issuer
- Loan-to-value ratio (LTV
- Move-up buyer

Key Terms

- Municipal security (muni)
- North Carolina Housing Finance Agency (NCHFA)
- Private mortgage insurance
- Revenue bond
- Seasoned funds
- Secured debt
- Stable income
- Unsecured bonds (debentures)
- U.S. Treasury securities
- Workforce housing

Summary

- Home Possible and HomeReady mortgages have more liberal and non-traditional borrower eligibility requirements
- NCHFA finances affordable homes and apartments in NC for people whose housing needs are not met by the market
- Many NC cities are committed to creating affordable housing units for families with low-to-moderate incomes
- Bonds may be used to provide credit for the housing sector and to finance real estate projects