Nontraditional and Alternative Finance

Course Description

There are mortgage programs for nearly every borrower and lenders who specialize in providing those loans. This course describes the current standard loan called a traditional mortgage and then discusses the various nontraditional loan products and alternative (creative) financing that are available to borrowers. Many borrowers will qualify for and obtain a conventional mortgage to close the transaction. However, some borrowers and even the type of property may not qualify for traditional financing.

Course Description, Continued

This course provides a review of traditional mortgages, discusses nontraditional conventional, FHA, and VA mortgages, and describes various types of alternative financing products. The Freddie Mac Home Possible and Fannie Mae HomeReady mortgage products are explained. The North Carolina affordable and workforce housing programs are covered, and the programs offered in Raleigh and Charlotte are introduced. Because state agencies and municipalities often finance their programs with bonds, there is a discussion of how bonds are used to finance real estate.

Course Description, Continued

It is intended to enhance the knowledge and effectiveness of real estate licensees and is approved for 4 hours of continuing education.

Course Learning Objectives

- After completing this course, you should be able to do all of the following:
  - Describe the types of lenders that are sources of mortgage money.
  - Define nontraditional mortgage product.
  - Differentiate the types of nontraditional loans based on their loan terms.
  - Describe nontraditional conventional mortgages.
  - Describe the various nontraditional FHA mortgage products.
  - Describe the various nontraditional VA mortgage products.

Course Learning Objectives

- After completing this course, you should be able to do all of the following:
  - Describe how the types of seller financing benefit borrowers.
  - Discuss the various types of secondary financing.
  - Recognize the types of financing based on the property type or loan purpose.
  - Compare the Freddie Mac Home Possible and the Fannie Mae HomeReady programs.
  - Describe state and local affordable housing mortgages and programs offered in North Carolina.
  - Explain how bonds are used to finance real estate.

Chapter 1
Traditional vs. Nontraditional Mortgages

Chapter Learning Objectives

- After completing this course, you should be able to do all of the following:
  - Describe the types of lenders that are sources of mortgage money
  - Define nontraditional mortgage product
  - Differentiate the types of nontraditional loans based on their loan terms
  - Describe nontraditional conventional mortgages

Overview

- Making loans is a business, whether the lender is a large national bank, an investment group like a REIT, or a private lender
- Many buyers will qualify for and obtain a conventional loan to close the deal
- There are loan programs for nearly every borrower and lenders who specialize in providing those loans

Types of Lenders

- A **lender** is an entity that makes loans
- **Commercial banks** are all-purpose lenders
- **Thrifts** are a resource for residential mortgage credit
- A **credit union** is a cooperative, non-profit organization established for banking purposes
- **Life insurance companies** obtain funds from insurance premiums
  - A **takeout loan** is long-term permanent financing used to pay off a construction loan
- A **pension plan** is a retirement fund reserved to pay money to workers upon retirement

Types of Lenders

- A **mortgage company** originates, funds, sells, and services loans secured by real property
- A **real estate investment trust** (REIT) is a corporation, trust, or association that invests in real estate or mortgages
  - **Equity REITs.** Typically own and operate income-producing real estate.
  - **Mortgage REITs.** Provide money to real estate owners directly in the form of mortgages, or indirectly through buying mortgage-backed securities.
  - **Hybrid REITs.** Combine the investment strategies of both equity and mortgage REITs.

Types of Lenders

- **Finance companies** make loans against household goods and other personal property
- **Private individuals** participate in financing real estate by carrying back loans on their own property
- **Crowdfunding** is the practice of funding a project or venture by raising small amounts of money from a large number of people

Secondary Mortgage Market

- Unless buyers pay all cash for a home, they need to get a home loan
- Lenders can replenish their funds by selling their traditional mortgages to investors in the secondary mortgage
- Investors in the secondary mortgage market buy 30-year, fixed-rate, fully-amortizing (traditional) and qualified mortgages that are originated to Fannie Mae/Freddie Mac guidelines

Benefits to Homebuyers

- Keeping mortgage rates lower
- Enabling interest rates for home loans to be similar across the country, in good times and bad
- Making home loans with longer terms available to borrowers
- Putting homeownership within reach of more of America's qualified homebuyers
- Allowing borrowers to refinance at any time without penalty, in most cases

Traditional vs. Nontraditional

- Mortgages are categorized as traditional or nontraditional
- The 30-year fully amortizing, fixed-rate loan is considered a traditional mortgage

Nontraditional Mortgage Product

- Nontraditional mortgage loans are usually characterized by the following traits
  - Nonstandard amortization schedule
  - Repayment terms may be flexible
  - Higher risk due to abnormal payment terms and lower credit score requirements
  - Easier to qualify for than conventional loans
  - Rates may be higher in some cases
  - May offer principal or interest deferral

Nonconforming vs. Nontraditional Loan

- **Nonconforming loans** are any loans that don't meet Fannie Mae and Freddie Mac's standards for purchase, meaning they are not conventional conforming loans
- **Nontraditional loans** are loans that not only don't conform to Fannie Mae and Freddie Mac's standards, but also don't have typical repayment schedules

Types of Nontraditional Loans

- The longer the loan term, the smaller the payment and the more interest is paid over the term of the loan
- **Amortization** is the liquidation of a financial obligation on an installment basis
- **Amortization type** is the basis for how a loan will be repaid
  - Fixed-rate loans
  - Adjustable-rate mortgages (ARM)
  - Graduated payment mortgages (GPM)

Nontraditional Fixed-Rate Loans

- A **fixed-rate loan** has fixed interest and level payments
- A **partially amortizing fixed-rate loan** does not pay off the loan over its term
- A **balloon loan** is a mortgage that operates on a lump-sum payment schedule
- An **interest-only loan** requires only periodic interest payments during the term of the loan
- **Interest-only fixed-rate loans** have fixed monthly payments based on a 30-year amortizing schedule and a lump sum payment at the end of its term

Nontraditional Adjustable-Rate Loans

- An **adjustable-rate loan** or adjustable-rate mortgage (ARM) is a loan with an interest rate that adjusts in accordance with a movable economic index
- When fixed-rates decline, ARM products are not as attractive to borrowers

ARMs: Basic Features

- All ARMs share similar features—initial interest rate and payment, adjustment period, index, margin, and caps
- For a limited period of time, every ARM has an initial interest rate and payment

ARMs: Adjustment Period

- The interest rate and monthly payment change every month, quarter, year, 3 years, or 5 years
  - The period between rate changes is the **adjustment period**
  - ARM loans that may adjust after 1 year MUST be underwritten at one percentage point above the initial rate
- Hybrid ARMs have longer initial fixed rates of 3, 5, 7, or 10 years, while a "traditional" ARM allows for an annual adjustment after 1 year

ARMs: Interest Rate

- The interest rate on an ARM changes periodically and payments may go up or down
- The interest rate is made up of index and margin
  - The **index** is a measure of interest rates
  - The **margin** is an extra amount that the lender adds
- There is usually a limit to how much the interest rate can change on an annual basis, as well as a lifetime cap, or limit, on changes to the interest rate

ARMs: Interest Rate – Index

- The index is a publicly published number that is used as the basis for adjusting the interest rates of adjustable-rate mortgages
- Each of index moves up or down based on conditions of the financial markets
- ARMs with different indexes are available for both purchases and refinances

ARMs: Interest Rate – Margin

- The lender adds a few percentage points, or **margin**, to the index to determine the interest rate that a borrower pays
- When the margin is added to the index, the result is known as the **fully indexed rate** on the loan
- Many adjustable-rate loans (ARMs) have a low **introductory rate** or **start rate**

ARMs: Interest Rate Caps

- **Payment shock** is a significant increase in the monthly payment on an ARM that may surprise the borrower
- **Caps** regulate how much the interest rate or payment can increase in a given period
  - Periodic adjustment caps
  - Lifetime caps

Periodic Adjustment Caps

- Periodic adjustment caps limit the amount the interest rate can adjust up or down from one adjustment period to the next after the first adjustment
- Interim cap apply at the time the loan adjusts
- The note rate is the interest rate on the ARM loan at the time it is funded

Lifetime Cap

- The **lifetime cap** is the maximum interest rate that may be charged over the life of the loan
  - Loans with low lifetime caps usually have higher margins
  - Loans that carry low margins generally have higher lifetime caps

Payment Caps

- A **payment cap** restricts a payment from increasing more than a specified percentage above the prior year's payment amount
- **Negative amortization** is an increase in the principal balance caused by low monthly payments that do not pay all the interest due on the loan

ARMS: Discount Points

- **Discount points** are a one-time charge paid by the borrower to lower the interest rate on the loan
- A point is equal to one percent of the loan amount
- When considering a discounted ARM, the borrower should compare future payments with those of a fully indexed ARM

ARMs: Prepayment Penalties

- Since January 10, 2014, prepayment penalties are not permitted on ARMS
  - The penalty is typically equal to six months' interest on the loan

ARMs: Required Disclosures

- The **Consumer Handbook on Adjustable-Rate Mortgages** (CHARM Booklet) is an informational handbook published by the Federal Reserve Board that provides a loan applicant with key information on ARMs
  - Must be delivered or placed in the mail no later than 3 business days following receipt of a loan application
- The **Adjustable-Rate Mortgage Program Disclosure** is provided to borrowers who are considering an adjustable rate for their mortgage loan

ARMs: Benefits and Risks

- Benefits
  - Lower APR and monthly payment
  - The qualifying rate of ARMs can be lower than that for fixed-rate mortgages
- Risks
  - Interest rate increasing
  - Prepayment penalties

Types of ARMs: Interest-Only ARMs

- An **interest-only ARM** (IO) loan allows payment of interest only for a specified number of years (typically between 3 and 10 years
- The longer the IO period, the higher the monthly payments are after the IO period ends
- For some IO loans, the interest rate adjusts during the IO period

Types of ARMs: Convertible ARMs

- A convertible ARM can be converted to a fixed rate by the borrower at some point during the loan term
- Some states prohibit the lender from charging a conversion fee if the convertibility option is included in the note
  - This convertibility feature is often accompanied by a higher interest rate

Types of ARMs: Payment-Option ARMs

- A **payment-option ARM** allows the borrower to choose among several payment options each month
  - The minimum payment is usually **capped** so that it cannot be increased more than 7.5% above the prior year's payment amount
- Option ARMs are often 1-month adjustable loans with low initial teaser rates and low initial payments
  - A teaser rate is a low, short-term introductory interest rate
- **Recasting.** Option ARM payments are typically adjusted every 5 years by amortizing the higher principal balance created by the addition of interest (negative amortization).

Types of ARMs: Hybrid ARMs

- A hybrid ARM combines the features of a fixed-rate loan with those of an adjustable-rate loan
  - The fixed-rate feature gives the borrower some security with fixed payments in the initial term of the loan
  - The adjustable-rate feature is that the initial interest rates on these loans are typically lower than a fixed-rate loan

Nontraditional GPMs

- A graduated payment mortgage (GPM) is a fixed-rate loan with initial payments that are lower than the later payments
- The GPM has a fixed payment schedule so additional principal payments reduce the term of the loan
- Because of the negative amortization, GPMs are nontraditional mortgages
- The lower qualifying rate of the GPM helps borrowers maximize their purchasing power and can be useful in a market with rapid appreciation

Nontraditional Conventional Mortgages

- A conventional loan is any loan without government insurance or guarantees
- Non-conventional loans are backed by the government (FHA, VA, and USDA and require borrowers to pay extra upfront with ongoing fees in addition to their monthly payment
- Conventional loans either are conforming or non-conforming
  - Conforming loans have terms and conditions that follow the Fannie Mae or Freddie Mac underwriting guidelines

Nontraditional Conventional Non-Conforming Loans

- A conventional **non-conforming loan** (also called a portfolio loan) does not meet the Fannie Mae or Freddie Mac lending guidelines
  - Jumbo loans
  - Subprime loans
- **Portfolio loans** are either retained in the lender's portfolio or privately securitized for sale on Wall Street
- **Non-conforming loans** are nontraditional mortgage products

Nontraditional Jumbo Loans

- A **jumbo loan** exceeds the maximum conforming loan limit set by the Federal Housing Finance Agency (FHFA)
- Unlike conforming mortgages, a jumbo loan is not eligible to be purchased, guaranteed, or securitized by Fannie Mae or Freddie Mac

Nontraditional Subprime Loans

- **Subprime loans** do not meet the borrower credit requirements of Fannie Mae and Freddie Mac
- The purpose of "B" and "C" paper subprime loans is to offer financing to applicants who do not currently qualify for conforming "A" paper financing
- When subprime financing may be necessary
  - Credit scores less than 620
  - No credit rating
  - Good credit, but debt-to-income ratios exceeding limits allowable to qualify for a prime loan

Nontraditional Subprime Loans

- **Packing** is the practice of adding credit insurance or other extras to increase the lender's profit on a loan
- A **junk fee** is a questionable fee charged in closing costs that may not bear any significant relationship to the actual loan transaction
- A **prepayment penalty** is a clause in a mortgage or deed of trust stating that a penalty will be charged if the loan is paid down or paid off within a certain period

Nontraditional Subprime Loans

- Types of **"B" paper loans** are the 2/28 ARM and 3/27 ARM
- The **exploding ARM** is an adjustable-rate mortgage product features a teaser rate for which the borrower qualifies even with high debt-to-income ratios
  - A **teaser rate** is a low, short-term introductory interest rate designed to tempt a borrower to choose a loan

Key Terms

- Adjustable-rate mortgage (ARM)
- Amortization
- Blanket loan
- Closed-end loan
- Commercial bank
- Conforming loan
- Conventional loan
- Credit union
- Crowdfunding
- Debt-to-income ratio (DTI)

Key Terms

- Default risk
- Fannie Mae
- Finance company
- Fixed-rate loan
- Fully amortizing loan
- Freddie Mac
- Ginnie Mae
- Government-sponsored enterprises (GSEs)
- Graduated payment mortgage (GPM)
- Index

Key Terms

- Interest
- Interest rate
- Jumbo loan
- Lender
- Loan term
- Loan-to-value ratio (LTV)
- Mortgage company (mortgage banker)
- Negative amortization
- Non-conforming loan
- Nontraditional mortgage product

Key Terms

- Packing
- Partially amortizing loan
- Payment shock
- Pension plan
- Periodic adjustment cap
- Points
- Portfolio lender
- Primary mortgage market
- Principal
- Real estate investment trust (REIT

Key Terms

- Secondary mortgage market
- Thrifts

Summary

- Lenders make residential real estate loans and then sell them to investors in the secondary mortgage market
- The secondary mortgage market serves as a source of funds for the loan originators so they can continue to make loans and generate income
- The most common amortization types include fixed-rate loans, adjustable-rate mortgages (ARM), and graduated payment mortgages (GPM)

Summary

- An adjustable-rate mortgage (ARM) is a loan with an interest rate that adjusts with a movable economic index
- Convertible ARMs allow a borrower to convert to a fixed rate during the loan term
- An option ARM offers the borrower choices of various payment plans
- The hybrid ARM combines the features of a fixed-rate loan with those of an adjustable-rate loan

Summary

- A graduated payment mortgage (GPM) is a fixed-rate loan with initial payments that are lower than the later payments
- A conventional loan is any loan made by lenders without any governmental guarantees
  - Conforming loans have terms and conditions that follow the guidelines set forth by Fannie Mae and Freddie Mac
  - Non-conforming loans include jumbo loans and subprime loans

Chapter 2
Nontraditional FHA and VA Mortgage Programs

Learning Objectives

- After reading this chapter, you should be able to:
  - Describe the various nontraditional FHA mortgage products
  - Describe the various nontraditional VA mortgage products

Overview

- FHA and VA government-backed mortgage programs offer mortgage products that require special underwriting, insurance, guaranty, or other considerations

Nontraditional FHA-Insured Mortgage Programs

- Borrowers apply for FHA-insured loans through approved lenders that process applications and submit them for FHA approval
- FHA-insured loans allow low to moderate-income people to buy homes with lower upfront costs
  - Low down payments
  - Competitive interest rates
  - Easy qualifying requirements
  - Low closing costs
  - Assumable
  - No prepayment penalties

FHA Loan Programs

- The borrower applies for an FHA-insured loan through an approved lender, who processes the application and submits it for FHA approval
- Allow low to moderate-income people to buy homes with lower upfront costs
- Have low down payments, competitive interest rates, easy qualifying requirements, low closing costs, are assumable, and have no prepayment penalties

FHA Section 251 Program

- Insures adjustable-rate mortgages (ARMs) that enable borrowers to obtain mortgage financing that is more affordable by virtue of its lower initial interest rate
- Interest rate adjusted annually based on market indices approved by FHA
  - **1-year Constant Maturity Treasury** (CMT) index used to determine interest rate changes

FHA Section 203(k) Program

- HUD's primary program for the rehabilitation and repair of single-family properties
- **Eligible Borrowers.** Anyone who can make the monthly mortgage as long as the property is used as a principal residence by an individual or family.
- **Eligible Property.** Must be a one- to four-family dwelling that has been completed for at least one year.

FHA Section 203(k) Program

- **Eligible Improvements.** $5,000 requirement for the eligible improvements on the existing structures.
- **Required Improvements.** Rehabilitation construction or additions financed with a Section 203(k) home rehabilitation loan must comply with energy conservation standards and smoke detector requirements.
- **Ineligible Luxury Items and Improvements.** Luxury items and improvements that do not become a permanent part of the real property are not eligible as a cost of rehabilitation.

FHA EEM Program

- Used to purchase existing energy-efficient homes or to make energy-efficient improvements on most homes including in one- or two-unit existing residences and new construction
- A **Home Energy Rating Systems Report** is the evaluation of a home's energy-efficiency prepared by a professional rater
- **Cost-effective energy improvements** are those that will save more money through energy savings than they cost to install

FHA Section 245 GPM Program

- Insures lenders against losses on mortgage loans involving graduated mortgage payments
  - **Graduated payment mortgage.** Has lower payments initially which increase each year until the loan is fully amortized.
- Only available to owner-occupants of single-family dwellings
- Borrowers pay more interest over the life of the mortgage than with a traditional mortgage

FHA Section 245(a) GEM Program

- Fixed-rate mortgage that provides scheduled payment increases over an established period of time
- Scheduled increases in monthly payments allow borrowers to pay off the principal faster
  - A 30-year mortgage to be paid off under 20 years
- No deferred interest or negative amortization
- Mortgage term varies with each plan and the mortgage interest rate

FHA Section 255 Program

- **Reverse mortgage**. A non-recourse, first-lien, home equity line of credit on a primary residence for homeowners aged 62 and older
- **Forward mortgage**. Any mortgage in which the borrower has a monthly or other periodic mortgage payment obligation.
- Homeowner retains the title and does not have to make monthly repayments

FHA Section 255 HECM Program

- Insured by the FHA and only available through FHA approved lenders
- Borrower must have financial resources to continue to make timely payment of ongoing property charges such as property taxes, insurance, and homeowner association fees, etc.
- FHA insurance premiums paid by homeowners pays as HECM borrowers create a reserve fund to cover any losses that might occur

HECM Borrower Eligibility Requirements

- Borrower's age
  - Must be at least 62 years old when they sign the application
- Borrower's principal residence
  - Property must be the principal residence of each borrower
  - At least one borrower must be living in the home in order for the HECM loan to close
  - Home must be owned free and clear
- Borrower's federal credit record
  - Cannot have a delinquent or defaulted Federal debt that cannot be satisfied at closing

HECM Property Eligibility Requirements

- Almost all home types are eligible, but homes must meet all FHA property standards and flood requirements
- Ownership interest in an eligible property must be held in fee simple, or under a lease for not less than 99 years that is renewable, or under a lease having a remaining term of not less than 50 years beyond the 100th birthday of the youngest borrower

HECM Property Required Repairs

- HUD requires that properties meet the Requirements for Existing Housing in Handbook 4905.1
- Repairs not required by HUD are not a condition for the approval of the mortgage
- Required repairs estimated to cost more than 15% of the maximum claim amount must be completed before closing
- Required repairs estimated to cost less than 15% of the maximum claim amount can be completed after closing

HECM Property Appraisal

- Most properties are appraised as part of the HECM program
- Appraisal must be completed on the URAR in accordance with current HUD Valuation policy

HECM Mandatory Counseling

- Prospective borrowers must discuss the HECM with a counselor from a HUD-approved counseling agency before the HECM application is processed
- Counseling can be done over the phone with a national agency or face-to-face with a local agency
- Counseling, on average, costs about $125
- Counselors must discuss the financial implications of entering into a HECM and the consequences for the borrower's taxes, estate, and eligibility for assistance under Federal and state programs

HECM Amount of the Loan

- HECM are determined by calculating the principal limit
  - Principal limit is the present value of the loan proceeds available to the borrower
- Factors Used to Determine the Principal Limit
  - Age of the youngest borrower
  - Maximum claim amount
  - Expected average mortgage interest rate
  - Initial Mortgage Insurance Premium option

HECM Payment Plans

- **Tenure**. Borrower receives equal monthly payments from the lender as long as one borrower maintains the property as a principal residence.
- **Term**. Borrower receives equal monthly payments from the lender for a fixed period of months selected by the borrower.
- **Line of Credit**. Borrower receives mortgage proceeds in unscheduled payments, at times and in amounts of the borrower's choosing, until the line of credit is exhausted.

HECM Payment Plans

- **Modified Tenure**. Borrower may combine a line of credit with monthly payments, as long as the borrower maintains the home as a principal residence. In exchange for reduced monthly payments, the borrower will set aside a specified amount of money for a line of credit, that can drawn upon until it credit is exhausted.
- **Modified Term**. Borrower may combine a line of credit with monthly payments for a fixed period of months. In exchange for reduced monthly payments, the borrower sets aside money for a line of credit, on that can be drawn upon until it is exhausted.

Repaying the HECM

- A HECM does not require repayment if the home is the borrower's principal residence, and the obligations of the mortgage are met
- A borrower may prepay all or part of the outstanding balance at any time without penalty
- If a borrower repays the entire outstanding balance in order to refinance the mortgage, the loan agreement is terminated
- If the new mortgage is a HECM, the borrower will have to pay a new initial MIP and meet other eligibility criteria

HECM Recovery of Mortgage Proceeds

- Lenders recover their principal, plus interest, when the mortgage becomes due and payable, which is known as a **maturity event**
- HECM is a non-recourse loan – the lender's recovery from the borrower will be limited to the value of the home
- If the sales proceeds are insufficient to pay off the outstanding balance, the lender will file a claim with the FHA for the difference

FHA Title I Program

- Title I Manufactured Home Program lets loan applicants get financing for manufactured homes, a developed lot for the manufactured home, or the combination of the home and the lot
  - **Loan Amounts**. Maximums vary depending on whether the loan includes just the home, the lot, or both. The lot must be appraised by a HUD-approved appraiser.
  - **Loan Terms**. Title I loans for manufactured homes have shorter terms, depending on whether the loan is for a lot only or a combination home and lot, the loan term varies from 15 to 25 years.

FHA Title I Program

- **Title I Borrower Eligibility**. All buyers who meet credit requirements and plan to use the manufactured home as their principal place of residence are eligible for the program.
- **Title I Eligible Property**. The manufactured home must be considered the borrower's primary residence.
  - The loan may be used to purchase a new home or an existing home

FHA Section 203(h)

- Allows the FHA to insure mortgages made by qualified lenders to victims of a major disaster who have lost their homes and are in the process of rebuilding or buying another home
  - No down payment is required
  - Mortgage insurance premiums are paid as upfront mortgage insurance premiums incorporated into the monthly loan payments
  - Some fees are limited
  - HUD sets limits on the amount that may be insured
  - Mortgage term is any term up to 30 years

FHA Section 247

- Insures loans made to native Hawaiians to purchase one- to four-family dwellings located on Hawaiian home lands
- The borrower must be a native Hawaiian who will occupy the property as a principal residence

FHA Section 248

- Provides opportunities for low- and moderate-income Native Americans to purchase a home in their communities on Indian land
  - **Native American**. An individual member of any recognized Indian tribe and that member's family.
  - **Indian tribe**. Any Indian or Alaska native tribe, band, nation, or other organized group or community of Indians or Alaska natives recognized as eligible for the services provided by the Secretary of Interior.
  - **Indian lands.** Lands held by Native Americans or tribes under some restriction or with some attribute peculiar to the legal status of its owners.

Nontraditional VA - Guaranteed Mortgage Programs

- Only lenders who are VA-approved lenders can make VA loans
- The VA offers traditional 30-year Fixed-Rate loans and several nontraditional loan programs with a choice of repayment plans—fixed-rate loans, adjustable-rate loans, and graduated payment loans

VA GPMs

- GPMs should be used as an alternative for qualified veterans whose income is expected to increase at a rate that can accommodate the increase in monthly payments or is currently sufficient to accommodate the higher GPM payments after the leveling off period
- The principal amount of the loan may never exceed the initial reasonable value of the
- The property securing the loan must have a remaining economic life of at least 30 years

VA Growing Equity Mortgages

- GEMs have scheduled increases in monthly payments that allow borrowers to pay off the principal faster
- GEM amortization plans are generally acceptable for VA loan purposes
- The initial payment on a GEM is typically based on what the payment would be for a 30-year mortgage under the standard amortization plan

VA Construction/Permanent Home Loans

- Guarantee a construction/permanent home loan, which is a loan used to finance the construction/purchase of a residence
- The lender must obtain written approval from the borrower before each draw payment is provided to the builder
- The veteran begins making payments on a construction/permanent home loan only after construction is complete

VA Energy-Efficient Mortgages

- Gives borrowers the opportunity to finance cost-effective, energy-saving measures as part of a single mortgage
- EEMs can be made in conjunction with a VA loan for the purchase of an existing dwelling, or a VA refinancing loan secured by the dwelling
- Funds for energy-efficiency improvements are considered part of the total requirements loan, which must be secured by a first lien

VA Joint Loans

- Refers to a loan for which a veteran and other persons are liable and own the security
- Any person who uses entitlement on a joint loan must certify intent to personally occupy the property as his or her home
- If a property is to be owned by two or more eligible veterans, it may consist of 4 family units and one business unit, plus one additional unit for each veteran participating in the ownership

VA Farm Residence Loans

- A VA loan may be used to purchase a farm as a residence where the veteran intends to live
- There is no limit on acreage as long as the property is typical of the area
- There is no 'farming requirement' for this kind of purchase

Manufactured Homes Classified as Real Estate

- The VA manufactured loan program only applies to manufactured homes permanently affixed to a lot and considered real estate under state law
- Loan specifications and treatment of these loans are virtually the same as for any other VA guaranteed home loans from a loan processing standpoint, except for calculation of the maximum loan amount

Native American Veterans on Trust Lands

- Before the VA may make a loan to any Native American Veteran, the Veteran's tribal or other sovereign governing body must enter into a Memorandum of Understanding (MOU) with the VA
- Native American Veterans must pay a funding fee to obtain the VA's direct loan to purchase a home
- Borrowers have the option to finance the VA funding fee or pay it in cash, but the funding fee must be paid at the time of loan closing

VA Housing Grants for Disabled Veterans

- If veterans are service members or veterans with a permanent and total service-connected disability, they may be entitled to an SAH or SHA) grant
  - **Specially Adapted Housing (SAH) Grant**. SAH grants help Veterans with certain service-connected disabilities live independently in a barrier-free environment.
  - **Special Housing Adaptation (SHA) Grant**. SHA grants help Veterans with certain service-connected disabilities adapt or purchase a home to accommodate the disability.

Key Terms

- Adjustable-rate mortgage (ARM)
- Automatic authority
- Cash-out refinancing
- Closed-end loan
- Debt-to-income ratio (DTI)
- Default risk
- Entitlement
- Fannie Mae
- Fixed-rate loan
- Fully amortizing loan

Key Terms

- Graduated payment mortgage (GPM)
- Index
- Interest
- Interest rate
- Loan term
- Loan-to-value ratio (LTV)
- Manufactured homes
- Negative amortization
- Net take-home pay
- Nontraditional mortgage product

Key Terms

- Partially amortizing loan
- Payment shock
- Periodic adjustment cap
- Principal
- Purchase money loan
- Residual income
- Rural property

Summary

- The **FHA** is a federal government agency that insures loans made to individuals for financing homes and home repairs
- The **VA** is a federal agency that guarantees approved lenders against financial loss on loans made to eligible veterans
- The **USDA** is a source of financing for rural properties

Chapter 3
Alternative Financing

Learning Objectives

- After completing this chapter, you should be able to:
  - Describe how the types of seller financing benefit borrowers
  - Discuss the various types of secondary financing
  - Recognize the types of financing based on the property type or loan purpose

Overview

- A borrower or the type of property may not qualify for financing based on the lender's criteria, or the terms of the proposed financing are not favorable to the buyer making alternative financing a necessity
- There are different ways to finance real property and the type of property dictates the type of financing that is available to the buyer

Seller Financing

- A seller can agree to provide the funds to the buyer for the amount required to close a real estate transaction
- When a seller carries the paper on the sale of his or her home, it is also called a **purchase-money loan**
- In a **seller carryback loan**, the seller acts as the beneficiary and the buyer is the trustor

Seller Carryback Financing

- State laws may require the seller to complete a seller financing disclosure statement
- **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
- Seller credit can be an installment note with a balloon payment at the end or a fully amortizing note with equal payments until it is paid off
  - A **balloon payment** is the final payment that is larger than the other installment payments provided under the terms of the note

Discounting Mortgages

- If a mortgage or deed of trust held by the seller is sold to an outside party such as a mortgage broker, the note and security instrument are discounted
- Discounting a note is selling a note for less than the face amount or the current balance, which increases the yield to the buyer

Lease Purchase Agreements

- Traditional leases agreements that also give the tenant an option to purchase the rental property
- The title to the house remains with the landlord until the tenant exercises the option and purchases the property

Seller Contract for Deed

- A **contract for deed** is a private financing contract held by the property seller
  - The seller (**vendor**) becomes the lender to the buyer (**vendee**) and retains legal title
  - The buyer (vendee) has possession and use of the property (known as **equitable title**)
- An owner-financed contract for deed provides buyers with an opportunity to buy property without having to qualify for a loan

Seller Wraparound Loan

- A purchase-money loan that includes both the unpaid principal balance of the first loan and a new second loan against the property
- Only assumable loans can be wrapped
  - **Assumable loans** are those on which existing borrowers can transfer their obligations to qualified homebuyers
- The wraparound loan may be secured by a mortgage or deed of trust
  - When the security instrument is a mortgage, it is called a **wraparound mortgage** (WRAP) and when a deed of trust is used, it is called an **all-inclusive trust deed** (AITD)

Dodd-Frank and the SAFE Act

- Property exclusions
  - **1-property exclusion**. A person, estate, or trust provides seller financing for only one property in any 12-month period.
    - No negative amortization
    - Fixed rate or adjustable rate that resets after 5 or more years, subject to reasonable annual and lifetime limits
  - **3-property exclusion**. A seller financing entity finances the sales of three or fewer properties in any 12-month period.
    - Be fully amortizing
    - Fixed rate or adjustable rate that resets after 5 or more years, subject to reasonable annual and lifetime limits
    - Consumer has a reasonable ability to repay the loan

Secondary Financing

- Borrowers obtain secondary financing to provide additional funds for the purchase of property or to take cash out of property
- **Second lien** loans are subordinate (inferior) to the mortgage or deed of trust that secures a first lien and have a subordination clause

Private Money

- Financing sourced from individual (private, rather than institutional) investors
- The loan term is typically shorter (3-5 years), coupled with the higher interest rates, making for a much higher monthly payment

Hard-Money Loan

- Funding comes from a hard-money lender who uses a hard asset (the property) to secure the loan
- If a borrower defaults on a hard money loan by a private lender, the lender can potentially take title to the property
- States establish usury laws to set a ceiling on how high the private lender can set the interest rates
- A lien recorded against the title of the borrower's property secures the investment by the private lender

Swing or Bridge Loan

- A temporary, short-term, hard money loan made on a borrower's equity in his or her present home
- Borrowers can obtain a swing loan from a traditional lender such as a bank
- The borrower's income must be sufficient to cover all loans on both properties

Home Equity Loan

- A hard money loan made against the equity in the borrower's home
- A lender uses strict guidelines before loaning money against the equity in a property
- Loan guidelines for home equity loans take into account all outstanding loans and set combined loan-to-value limits

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