

U F F - D A !

Useful Facts and Figures - Data for Affiliates!

May 2009

Second Mortgages

Over the past two years, Habitat Minnesota has received many inquiries about the “typical” first and second mortgage term lengths, second mortgage forgiveness provisions, shared appreciation arrangements and repurchase or buy back provisions. In response, Habitat Minnesota reviewed 23 Minnesota affiliate loan documents and compiled the data in Charts 1 - 5.

The second mortgage, the amount of which is the difference between the first mortgage and the appraised value, serves three purposes.

First, if the first mortgage amount represents the cash cost and value of in-kind donations of professional labor, materials and land to the home, then the second mortgage represents the donors’ and volunteers’ charitable gift of funds and labor or the “community investment” in the home. Because Habitat homes are built with volunteer labor and the home is sold at no profit, the purchase price of a Habitat home falls below its fair market value. The second mortgage protects the community investment by preventing the homeowner from selling the home soon after

Chart 1: Sampling of 2nd Mortgage Forgiveness Terms

Sliding scale forgiveness starting in year 1 (75% forgiven by Year 10, fully forgiven by Year 20, prior to 30 year first mortgage term)
Even percentage forgiveness year 1-10 (fully forgiven by year 10, prior to 30 year first mortgage term)
First 5 years, no forgiveness; even percentage years 6-10 (fully forgiven by year 10, prior to 30 year first mortgage term)
First 5 years, no forgiveness; even percentage years 6-14 (fully forgiven in year 14)
First 6 years, no forgiveness; even percentage monthly beginning year 7 and fully forgiven in year 15 or year 20 (prior to 30 year first mortgage term)
Even percentage forgiveness starting year 1 through year 30
Anywhere from 2 to 15 years, no forgiveness; even percentage forgiveness for the balance of the term until the maturity date
Forgive only at maturity date

Chart 2: Sampling of Shared Appreciation Terms

Year 1-15 sliding scale 6.66% / year for homeowner, balance to affiliate
Year 1-15, owner gets equity paid in on first and split appreciation 50% / 50%. Year 16-30 all appreciation to homeowner
Year 1-20 sliding scale lowered by 5% / year to affiliate. Year 21 - 31 all appreciation to homeowner. Value of appreciation to affiliate not to exceed the equivalent of 12% / year on outstanding principal.
Year 1-15, owner gets equity paid in on first and appreciation multiplied by the cumulative change in the Consumer Price Index (CPI). Affiliate gets balance of appreciation. Year 16-30, all appreciation to homeowner.
Year 1-5, affiliate gets 100% appreciation. Years 6-30, affiliate gets 75% appreciation.
Year 1-5, affiliate gets 90% appreciation; Years 6-10, 75%; Years 11-15, 50%; Year 16-30 all appreciation to homeowner.
Year 2-7 sliding scale percentage to affiliate. Year 8 and beyond all appreciation to homeowner. Value of appreciation to affiliate not to exceed \$30K.
Year 2-9 sliding scale percentage to affiliate. Year 10 and beyond all appreciation to homeowner.

closing or upon early forgiveness of the second mortgage, realizing a substantial profit for just one homeowner at the expense of the “community investment.”

Second, the second mortgage protects the homeowner from predatory or sub-prime lenders. Without the second mortgage, a predatory lender may target a Habitat homeowner for refinancing at a high interest rate and for an amount greater than the first mortgage. Typically, this offer is attractive to the homeowner in order to cash in their equity. Often times the homeowner loses the home because they cannot afford the higher monthly payments.

Chart 3: Summary of Second Mortgage Terms	Number	Percent
# of affiliates that fully forgive the second mortgage prior to maturity date	7	30%
# of affiliates that forgive the second mortgage over the term of the mortgage and fully forgives only at the maturity date	12	52%
# of affiliates that do not forgive any of the mortgage until the maturity date	4	17%
# of affiliates that share appreciation	7	30%

Chart 4: Average First Mortgage Term	Number	Percent
30 years	15	65%
25 years	7	30%
Less than 25 years	1	4%

Third, the second mortgage helps to preserve affordable housing in the community. If the original homeowner wants to sell the home, the affiliate can buy back the home for the amount of the first mortgage, forgiving the second mortgage at the time of sale and partner with a new Habitat family. Or, if the affiliate does not want the home back, they can use the proceeds of sale equivalent to the balance of the first mortgage and all of the second mortgage to build another Habitat home.

Chart 5: Summary of Home Repurchase/Buy Back Provisions	Number	Percent
Affiliate must offer same as a third party offer	10	43%
No specific right of first refusal	6	26%
Right to repurchase for cost (equity paid on first mortgage) for at least 10 years and up to 30 years with some allowable appreciation for homeowner	5	22%
Right to repurchase for 55% - 66% of new appraised value	2	9%

Building Equity for the Habitat Homeowner

Chart 6	Market Rate Transaction	Habitat Transaction
Market Value	\$120,000	\$120,000
House Cost/ First Mortgage	\$120,000	\$80,000
Second Mortgage		\$40,000
First Mortgage Term	30 years; 6.5% interest	30 years; 0% interest
Monthly payment	\$758.48	\$222.22
Total Payments Over 30 years	\$273,053	\$80,000
Principal	\$120,000	\$80,000
Interest	\$153,053	\$0

Regardless of second mortgage terms, the homeowner develops equity with each monthly mortgage payment made, due to the 0% interest mortgage rate. To illustrate the impact of 0% interest financing on building equity, Chart 6 compares a conventional, market rate home sale and mortgage repayment to a Habitat transaction. A conventional homeowner will pay the full amount of the home cost as well as approximately \$153,000 in interest over a 30-year term. In comparison, every payment made by a Habitat homeowner is principal and immediately builds equity instead of paying interest. This information may be helpful when considering the terms of forgiveness of the second mortgage and/or sharing in home value appreciation in the context of “wealth” creation, or equity building, for the Habitat homeowner.

What’s in store for the June UFF-DA! Report?

In the June edition of the UFF-DA! Report, learn about...RESTORES! Where do ReStores get their product? What sells and what doesn't? And learn other interesting information about Minnesota's ReStores compiled by Statewide ReStore VISTA, Mary Zimmermann.

Habitat for Humanity of Minnesota
 2401 Lowry Ave NE, Suite 210 • Minneapolis MN 55418
 877-804-3466 (phone) • 612-789-0846 (fax) • www.hfhmn.org