

**Family Housing Development Corporation
Bell Trading Post Project: Homes and Lofts**

1-1-2011

Soft Second Loan Program General Description Disclosure

FHDC is providing funds for and administering the soft second loan program at the Bell Trading Post Homes and Lofts. FHDC and the City of Albuquerque have a Development Agreement under which the property was acquired by FHDC and is being redeveloped to provide the 10 Homes and 15 Lofts. A portion of the funds in the project came from a grant to the City from HUD under the federal Community Development Block Grant ("CDBG") program; other funds were provided by a loan from Charter Bank.

The City made the land and building for the Bell Trading Post Homes and Lofts available at a reduced up-front cost. As provided in the Development Agreement and required under the CDBG program, FHDC agrees that 51% of the units will be sold to families at 80% median income or less, adjusted for family size. In administering this requirement, FHDC is generally using City affordability guidelines.

2010: 80% MEDIAN INCOMES FOR THE ALBUQUERQUE M.S.A.:

FAMILY SIZE	1	2	3	4	5	6	7	8
INCOME LIMIT	33,800	38,600	43,450	48,250	52,150	56,000	59,850	63,700

- Bell Trading Post Project will have 10 homes and 15 lofts when fully built out, totaling 25 units.
- FHDC is providing 13 soft second loans to 13 buyers at the Bell Trading Post Project. If the home is sold, leased, transferred or refinanced (discussed below) or if a default occurs, the loan must be paid back to FHDC.

QUALIFICATIONS for BUYERS UNDER the PROGRAM:

1. Applicant must be at 80% or less of median income adjusted for family size.
2. Applicant must be a first time home buyer. (As defined by HUD, this means “not having owned a home in the preceding 3 years, not including a mobile home not permanently affixed to a permanent foundation”.)
3. Applicant cannot have liquid assets in excess of \$15,000.
4. Residence must be owner-occupied, under guidelines established for the program.

SOFT SECOND LOAN AND EQUITY SHARE PROVISION

The purpose of FHDC’s Soft Second Program is to assist qualifying home buyers in affording to buy the Homes or Lofts. How this works:

- A buyer secures a first mortgage with a lender. Depending on the buyer’s income, this first mortgage may not cover the purchase price of the unit.
- FHDC’s Soft Second loan would make up the difference between the purchase price and the first mortgage.
- Under the FHDC Program, soft second loans are made to qualifying buyers to help make down payments and pay certain kinds of closing costs, sometimes known as “soft costs.” The loans are covered by second mortgages on the residence - hence, the name “soft seconds.”

FHDC SOFT 2nd LOAN: A second loan is a loan in 2nd position behind a 1st mortgage from a bank. These FHDC loans are termed “soft” because there are no monthly payments, and it does not have to be paid back until you sell it in the future, or refinance. (It is therefore, not a grant.)

1st MORTGAGE: It is called a 1st mortgage, because the bank loan is in the 1st position to be paid back. The 1st mortgage amount is determined based on the buyer’s income, generally, making a mortgage payment along with taxes and insurance (and POA fees if it’s a loft), that does not exceed 33.33% of monthly income.

EQUITY to the BUYER and EQUITY to FHDC: “Equity” can be defined as the difference between what you owe the 1st lender and what the unit is worth. The soft 2nd loan from FHDC provides equity to reduce the amount of the first mortgage in order to reduce the buyer’s monthly payments. This program is a partnership with FHDC and the buyer. As the unit may increase in value over time, the buyer’s equity would increase, and FHDC’s equity would increase. By determining the portion of the soft second loan to the purchase price, a ratio is established that determines the amount of equity FHDC holds in the property.

The buyer, _____, is receiving a soft second loan (SS) from **FHDC and the City of Albuquerque**, identified below.

The purchase price (PP) of the unit from FHDC is identified below to establish FHDC’s Equity Ratio.

	SS	/	PP	= EQUITY RATIO FOR UNIT <u>109</u>
FHDC:	\$ _____		/ \$ _____	= 0.____ or ____%
CITY of A:	\$ _____		/ \$ _____	= 0.____ or ____%

(Closing costs such as lender title insurance, loan fees and insurance / property tax escrows, are not included in the total purchase price of the home used to compute FHDC's equity portion.)

EQUITY SHARE: An “equity share” means that any increase in the value of the unit whenever it is sold in the future (after closing costs and commissions) would be shared between the buyer and FHDC. FHDC’s portion would be based on the ratio established as its “EQUITY RATIO.” In the example below, FHDC would receive 42% of the increase in value.

FHDC SS \$ 42,000 / PP \$100,000 = 42%

EXAMPLE of FUTURE SALES PRICE (Less sales expense)	\$113,000
<u>MINUS THE ORIGINAL PURCHASE PRICE</u>	<u>- 100,000</u>
AMOUNT OF THE INCREASE IN VALUE	\$ 13,000

\$13,000 increase x 42% = 5,460 to FHDC for its equity

\$13,000 increase x 58% = 7,540 to seller for its equity

In this example, the owner would be required to pay FHDC \$42,000 + \$5,460, or \$47,460.

Note that if the first mortgage is refinanced, the soft second loan, including the equity share portion, also may be due. Please check with FHDC before applying to do a refinance.

If there are any questions, please call FHDC at (505) 550-6784, or (505) 268-2773.

I, _____, A SOFT SECOND LOAN RECIPIENT, HAVE REVIEWED AND UNDERSTAND THE SOFT SECOND PROGRAM DESCRIBED ABOVE.

Date

Buyer’s signature