

House to Home Ownership Program (H2O)®

December 2005



Program Highlights:

- Provides assistance with down payment & closing costs.
- Typically provides up to 5% of purchase price.
- May be combined with other programs.
- Designated for first-time buyers, or those who have not owned in the previous three years.
- Targets households earning 80% of Area Median Income, or less.
- Available throughout Colorado.
- No monthly payments required.
- 10-year loan term payable at the time of home sale, refinance or loan maturity.
- Used in conjunction with Conventional Conforming or bank portfolio mortgage products.
- **FAST, Convenient and Predictable!**

Funding Partners

Who is Funding Partners?

Incorporated in 1996 as a 501c3 non-profit and subsequently certified as a Community Development Financial Institution (CDFI) in 1999 by the Department of the Treasury, Funding Partners (FP) is governed by a volunteer Board of Trustees representing human service providers, housing agencies, public officials private enterprise and financial institutions.

As a CDFI, FP is charged with creating access to capital and credit within underserved markets and among target populations throughout Colorado. Attracting long term investments from units of government, corporations, foundations, associations and banking institutions, FP

pursues its mission through lending activity which places below-market capital into projects and entities that expand availability of residential units deemed affordable for very low to moderate-income households.

Administering two revolving loan pools, FP is able to assist first-time homebuyers with down payment assistance through the House to Home Ownership (H2O) Program®, while the Mammel Affordable Housing Loan Fund (MAHLF) provides pre-development, acquisition and gap financing to individuals and organizations that create, rehabilitate or otherwise preserve both rental and for-sale housing for families below the median

income level. FP also provides third-party loan servicing for other entities seeking to reach similar markets with greater efficiency at minimal expense. Ultimately, FP provides a highly effective conduit to connect households with traditional financial service providers.

FP has originated over 900 down payment assistance loans, while funding 45 projects for aggregate loan production in excess of \$15 million, encompassing over 2,500 residential units.

With minimal limitations imposed by sources of funding, FP loan products are tailored to meet the needs of individual projects and those entities that serve our target markets.

Program Overview

The H2O program was introduced in 1999 as a private-sector alternative to primarily governmental programs that target first-time, low-income buyers. Typically, such assistance programs are offered through local, regional or federal agencies with strict geographic and eligibility limitations. While highly valued by qualified buyers, redundant qualifying procedures, lead time requirements and cyclical availability of funds present barriers to more wide-spread participation within the lender and Realtor communities.

H2O was developed under the recognition that private sector

participation is critical in addressing market demands. As well, evidence showed diminishing capacity for public subsidy of assistance programs that is now well documented.

With a significant investment from FirstBank, the U.S. Department of the Treasury and the communities of Fort Collins, Loveland and Boulder, H2O was launched as a highly innovative approach to creating ownership opportunities for our primary and service-sector workforce.

The program is marketed through mortgage and real estate professionals that understand and value the

benefits of serving the entry-level market through sound advice and development of a long-term relationship.

Eligibility for H2O assistance is centered on whether borrower income can be defined as low-to-moderate and whether there is sufficient income to adequately afford the proposed mortgage payment and other consumer obligations. Virtually all other credit and collateral risk factor assessment is delegated to the primary mortgage lender.

For more details on how to apply and whether H2O is right for you or your client, refer to the details inside!

**Funding Partners
is committed to
making resources
available to
Colorado's
workforce and
the professionals
who serve them.
Please visit our
website or
contact us directly
to see how we
can help you help
others!**



Market Observations

Creating a more sustainable and effective program grew from practical observations of market conditions, including:

- Potential homebuyers aren't typically motivated to save for their down payment until ownership is imminent.
- Subordinate financing that requires a monthly payment
- Since real estate tends to appreciate over time, a static level of loan fund capital diminishes in value over time.
- Assistance programs often
- requires the borrower to liquidate personal savings.
- Credit and collateral risk is adequately mitigated by conventional mortgage lenders and insurers.
- Until borrowers repay their assistance loan, there is very little to separate them from financial hardship.

Innovative Approach

In developing the H2O program, FP discounted traditional approaches and accepted mortgage industry standards in order to 'build a better mousetrap'.

- H2O does provide the means for qualified borrowers to buy a home before they save the required funds to obtain appropriate financing. However, they are strongly encouraged to immediately start a voluntary personal savings program.
- Monthly payments are not required, nor accepted. Because the loan amounts are relatively small (\$7,300 on average) and unique characteristics of the loan itself, regular servicing is impractical.
- In recognizing the uncertainty of attracting additional capital into the loan fund commensurate with escalating home prices, a method for capturing a portion of real estate appreciation was devised to create a sustainable program.
- Liquidating personal savings
- in order to qualify for H2O assistance is discouraged. In fact, the required borrower contribution into the purchase transaction is roughly equivalent to the security deposit required to rent an apartment.
- Qualifying standards do not consider borrower credit or attributes of the home being purchased. If the borrower can qualify for an appropriate mortgage, those factors are automatically deemed acceptable under H2O.
- Since FP is not only committed to helping families purchase their first home, but providing the impetus to stay in that home until they are ready to move on, H2O is designed to motivate the borrower to fully repay the loan as quickly as they are able.

Here's how H2O accomplishes these objectives:

FP accepts loan requests from mortgage professionals that offer loan products specifically designed for first time buyers with limited resources. The lender will provide all the detail necessary to approve and fund

the assistance loan.

H2O offers the borrower 10 years to make their down payment (repaying the loan), where simple interest accrues at 3% for the initial 2-year period. Thereafter, the interest rate is tied to the appreciation rate of the home, calculated at the time of payoff. The minimum interest rate is 3%, maximum is 11.5%, which means the home would need to appreciate at a similar rate. Most borrowers, however, will focus on the maximum rate rather than the appreciated value of their home, which provides a compelling reason to start saving money and repay the H2O loan as quickly as possible. Consequently, the average term for an H2O loan is less than 2 years, which allows FP to recycle those funds to next qualified borrower.

FP believes the higher purpose is served when borrowers commit to savings rather than a payment plan, since that habit is likely to carry forward after repayment. With their loan repaid, the borrower has a level of cushion against future hardship and moves on step closer to financial stability!

Program Guidelines*

Eligible Borrowers:

First-time homebuyers, defined as borrowers who have not owned a real property within the past three years.

Income Threshold:

80% of the HUD Area Median Income, adjusted for actual household size, for the county in which the property is located. Income is established by currently demonstrated wages, excluding items such as overtime, commission and bonus income that have not been earned consistently for the most previous 2-year period.

Loan Amount:

5% of the purchase price.

Compatible Mortgages:

H2O may be used in conjunction with Fannie Mae and certain bank programs that offer fixed rate or intermediate variable rate terms designed for entry-level buyers. (i.e. FLEX, My

Community, 5/1, 7/1, etc.). FHA, VA, Subprime and other non-conforming products are not permitted.

Loan to Value:

Maximum combined loan to value is 105% of purchase price.

Debt Ratio:

Recommended back ratio of 41%, with a maximum of 50% supported by acceptable compensating factors.

Minimum Investment:

Borrower must have a minimum investment of \$1,000, excluding Seller contributions.

Assets:

May not have personal assets in excess of the purchase price.

Repayment:

Principal and interest payments are not required. Payments for less than the full payoff amount are not accepted. Subsequent subordination requests are not

permitted.

Use of Funds:

Down payment, closing costs and pre-paid items related to the primary loan.

Term:

Maximum term is 10 years.

Loan Fees:

Currently, a \$150 Application Fee is charged at the time of loan closing. Please refer our website for updates.

Collateral:

Subordinate lien on subject property.

Interest Rate Caps:

3% simple interest for the initial 24-month period. Minimum 3% and maximum 11.5% thereafter. Based upon recognized appreciated value at time of payoff.

Homebuyer Training:

Required on all loans, as evidenced by an approved provider. Visit our website for a complete listing.



Since 1999, H2O has assisted over 900 families achieve home ownership, representing nearly \$7 million in financing. But the need in our state is far greater.

If your community, service group, association or company is concerned about the cost of housing, contact us today!

We can accomplish more working together!

Equity Sharing

The most unique aspect of the H2O program is the variable interest rate component. This model considers the average annual appreciation of the home over the period of time the loan is outstanding, applied as the simple interest rate after the 2nd anniversary.

While on the surface it may appear to be less attractive than the predictability of a fixed rate formula of other programs, further analysis has shown this pricing schedule to be more beneficial to the borrower. Consider that the interest rate is fixed at 3%

through the initial two year period, regardless of when the loan is actually repaid. So even if the home appreciates at 11.5% on an annualized basis over 10 years, the effective rate would be 9.8% by virtue of the simple interest formula used under the program, which is comparable to may fixed-rate 2nd mortgage products. On average, H2O borrowers pay an effective rate between 3.5 - 5% at the time of repayment.

Since the H2O loan is typically equal to 5% of the original price of the home, the equity share formula will have the borrower

share back no more than 5% of the equity they have accumulated through home ownership. However, if the home goes down in value, the minimum interest rate of 3% is applied, though that rate is well below the 'market' interest rate paid through other programs.

The single greatest advantage of this model, however, is the time value of money and convenience of paying the loan when the borrower is ready and able, rather than a monthly payment plan that forces a borrower to make sacrifices in the family budget each month.

* Certain jurisdictions may impose higher Borrower contribution or allow higher loan amounts. All guidelines are subject to revision. Please visit our website for current detail.

Funding Partners

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**Creating Access to Capital &
Credit To Low-Income
Communities Across Colorado**



Funding Partners is committed to serving the needs of households earning less than the median income, often described as our primary workforce where the prevailing wage is \$18 per hour, or less. As a state, Colorado attracts new residents from around the country and throughout the world because of the mild climate, dramatic scenery and vibrant lifestyle. Unfortunately, this dynamic forces the cost of real estate to escalate faster than prevailing wages, ultimately reducing the buying power of the typical family: smaller housing units with fewer amenities. This also causes migration to outlying areas that are farther from work, school, public facilities and service providers, further aggravating an already strained transportation and public infrastructure systems.

This declining sense of community can't be eliminated, but is effectively addressed through FP and complimentary programs.

Learn more and get connected!

Visit our website at

www.fundingpartners.org

Origination Procedures

Application:

Mortgage loan officer submits Loan File Checklist to FP, complete with all required documentation shown on the form. A loan commitment is usually issued within 48 hours, or less. Any remaining documentation requirements will be detailed.

Processing:

FP will order title work and evidence of hazard insurance. Final loan documents are delivered electronically to loan officer for presentation to borrower. All outstanding items must be cleared prior to loan funding.

Closing:

FP will deliver closing instructions and loan proceeds direct to title. Wires are sent 24 hours prior to scheduled closing date, so the loan officer must advise of any

schedule changes or special instructions.

Fees Collected:

The Application Fee is collected at closing, in addition to public recording fee for the deed of trust and will appear on the HUD1 Settlement Statement. All settlement figures should appear on a primary mortgage statement. FP will review and approve the final statement prior to funding. Title insurance is not required for H2O loans.

Requirements:

LOAN OFFICER'S ARE REQUIRED TO PRESENT ALL H2O DOCUMENTS AT OR PRIOR TO CLOSING. Please note both the borrower and loan officer must execute the Lender Certification form to satisfy this requirement.

Settlement:

Borrower may NOT receive any proceeds at the time of settlement regardless of total contribution. Title will be instructed to show any excess proceeds as a principal reduction to FP on the Settlement Statement and return such funds for proper credit.

Post Closing:

The original deed will be recorded by title with all other original H2O loan documents returned to FP via overnight courier. Any excess proceeds will be applied as principal reduction, with applicable notice delivered to the borrower upon receipt. Loan servicing is retained by FP.

