



2020 SECOND MORTGAGE FUND

ABOUT THE FUND

The 2020 Second Mortgage Fund is a program operating within the 21st Century Fund. The 21st Century Fund is a revolving loan fund that was established in 2000 as a \$21 million, zero-interest loan from the Minnesota Housing Finance Agency (MHFA).

Through the 2020 Second Mortgage Fund, Habitat for Humanity affiliates in Minnesota can apply and receive funding to subsidize the first mortgage of a qualifying project. The 2020 program operates solely within the funds exceeding \$500,000 in the 21st Century repayment account. When the repayment account dips below \$500,000, no additional 2020 second mortgages are to be disbursed until the account again exceeds \$500,000. The first mortgage of a qualifying project may be a Habitat for Humanity first mortgage or another below market interest product. If the first mortgage is approved and backed by a third-party, flexibilities will be allowed to adhere to the third-party first mortgage underwriting standards.

PROJECT QUALIFICATION and UNDERWRITING GUIDELINES

Qualifying Projects

Both New Construction and Acquisition Rehabilitation projects are eligible for second mortgage subsidies. A minimum affiliate cash investment of \$50,000 is required for acquisition rehabilitation projects.

Subsidy

Through the 2020 Second Mortgage Fund, monies are distributed in the amount of \$20,000 per unit and are secured by a second mortgage between the homeowner(s) and Habitat for Humanity of Minnesota.

Term

The second mortgage is deferred and forgivable at the time of maturity, which mirrors the maturity date of the first mortgage it is subordinate to. The minimum loan term is 25 years. The maximum loan term is 30 years.

Homeowner Income

The qualifying project must be sold to a homeowner(s) whose income does not exceed 60% of county median income as determined by HUD. This income requirement must be verified and documented by the affiliate through valid third party sources. At closing, the homeowner must also sign a prepared certification of income statement.

Front and Back End Ratios

In accordance with Habitat for Humanity International's policy, the maximum homeowner(s) front-end ratio is 30%, and the back-end ratio is capped at 43%.

Additionally, to qualify for a 2020 second mortgage, there is a set minimum front-end ratio of 25%; for the sake of the minimum ratio calculation, the current market interest rate is used. If a homeowner(s) does not qualify for the full \$20,000 due to the 25% front-end minimum, a lesser subsidy will be disbursed and secured to fit within this guideline.

Other Considerations

If a property secured by a 2020 second mortgage comes back to the affiliate through default before maturity and a new qualifying family is placed in the property, the second mortgage also recycles to a new qualifying family. If a property secured by a 2020 second mortgage is sold before maturity, the funds must be repaid to Habitat for Humanity of Minnesota and will return to the revolving loan fund.

All other underwriting considerations are deferred to Habitat for Humanity International's guidelines as laid out in the Homeowner Selection Affiliate Operations Manual (see especially [Section 2:10](#)) and the U.S. Affiliated Organization Policy Handbook (see especially [Policy 23](#)).

REQUIRED DOCUMENTATION

Habitat for Humanity of Minnesota requires the following documentation be received for each qualifying project. Upon receipt of all documentation, staff will review and determine project eligibility before authorizing the loan closing:

- Construction Cost Worksheet
- Construction Cost Accounting Detail
- Land Acquisition Documentation
- Blower Door Test Results and Certificate of Occupancy (or what counts as a CO in your area)
- Habitat of Humanity Homeowner Application
- Privacy Notice
- Homeowner and Property Data Worksheet
- Appraisal
- Income Verification
 - A copy of the homeowner(s)' most recent full Federal Tax Return
 - Provide ONE of the following items to verify each qualifying individual's income:
 - Written employer verification of employment (Fannie Mae VOE preferred)
 - Three consecutive pay stubs with sufficient data to determine YTD income. Each paystub must have Start and End Date, Check Date, Regular/Base Hours, Base Pay Rate, Overtime, Other Income, Gross Wages, and YTD \$
 - Child support received for the most recent 12 months, **verified by the county**
 - Social Security Income (SSI) and/or Social Security Disability Income (SSDI) benefit letter including the date, name of recipient, and monthly amount

- To document self-employment income, please provide the most recent two years of their FULL Federal Tax Returns including all schedules
- Any other income source that is both consistent and ongoing must be verified
- Certificate of Zero Income

At the time of closing, Habitat for Humanity of Minnesota will produce the following:

- Second Promissory Note
- Second Mortgage
- Truth in Lending Statement (TIL)
- Homeowner Income Certification
- Loan Disbursement, Priority, and Subordination Agreement

Following closing, Habitat for Humanity of Minnesota requires the following documentation:

- Homeowner Income Certification (copy)
- Purchase Agreement (copy)
- Loan Disbursement, Priority, and Subordination Agreement (original)
- First Mortgage Promissory Note (copy)
- First Mortgage with County Recording Information (copy)
- First Mortgage Closing Disclosure (copy)
- First Mortgage Loan Estimate (copy)
- Second Mortgage Promissory Note (original)
- Second Mortgage with County Recording Information (original)
- Final Title Insurance Policy for the Second Mortgage (copy)
- Second Mortgage Truth in Lending (copy)
- Any other Subordinate Lien documentation (third mortgage, deed restriction, etc.)
- Evidence of Homeowner's Property and Liability Insurance coverage
- 10% Processing Fee

Upon receipt of all aforementioned documentation, including the processing fee, funds in the amount of the second mortgage will be disbursed to the affiliate.

ADDITIONAL REQUIREMENTS

- 1) The affiliate must be in **good standing** with the Habitat for Humanity of Minnesota, Habitat for Humanity International, the MN Secretary of State, and the MN Attorney General's Office.
- 2) As program participants, affiliates must send Habitat for Humanity of Minnesota **quarterly financial statements** including 1) balance sheet; 2) year to date profit and loss statement compared to budget; 3) year to date statement of cash flow; and 4) mortgage portfolio quality report.