Habitat for Humanity of the Chesapeake

Zero-Equivalent Mortgages
Advanced Topics in Housing Finance
June 24, 2011

AFFILIATE OVERVIEW

- HFHC’s service area includes Baltimore City, Baltimore County, Howard County, and Anne Arundel County
- Our partner families range from 25%-60% AMI, and undergo rigorous personal financial counseling and training to prepare them for homeownership.
- Families must also invest at least 250 hours in “sweat equity” through volunteerism.
- We currently have $23 million in assets, and FY12 budget of $18.9 million with 50 employees.
- Plan to place 68 families in completed homes over the next year

CHALLENGES

- In absence of the zero-equivalent mortgage program, HFHC would have to fundraise over $8.5 million next year solely for house construction, or severely reduce the number of families served and our impact
- Our mortgage portfolio has exceeded $10 million generating $540k per year. Because our mortgages are 30-year zero-interest notes, the financial value of the portfolio is eroded each year simply due to inflation.
- The majority of our homeowners do not qualify for traditional mortgages, and we have not yet developed a partnership with any state financing agency to aid in underwriting or assigning mortgages, as other affiliates such as New York have done.
- We have banking partners willing to lend funds for construction against property that we already own. However, an exit strategy is required.

SOLUTION

- HFHC borrows from traditional lenders and banking partners to finance construction, using property or land already owned as collateral
- Upon completion of construction, HFHC goes to settlement with a partner family. The family's mortgage is underwritten by a partner bank, or is assigned to the financial institution shortly thereafter.
- HFHC pays to the financing partner an amount equal to the present value of the interest the bank would likely receive over 30 years, or at a price negotiated between HFHC and the financial institution.
- The proceeds from the mortgage sale are used to repay the construction loan.
- Any remaining debt is retired through traditional fundraising

EXAMPLE

	Fundraising Model		Leveraged Mortgage Model	
I. Finance Construction				
Units Under Construction		10		10
Average Development Cost	$	170,000	$	170,000
Total Cost of Construction	**$**	**1,700,000**	**$**	**1,700,000**
Amount Borrowed from Bank		0		1,700,000
II. Place Families, Leverage Mortgages				
Average Mortgage to Homeowner	$	135,000	$	135,000
Total Mortgages to Homeowner	$	1,350,000	$	1,350,000
Average Interest-Buy Down to Bank		0%		20%
Total Interest Buy Down	$	-	$	(270,000)
Total Cash Generated at Closing	**$**	**-**	**$**	**1,080,000**
III. Use Mortgage Proceeds to Repay Loan				
Construction Loan Balance	$	-	$	1,700,000
Repayment Using Mortgage Proceeds	$	-	$	(1,080,000)
Remaining Debt	**$**	**-**	**$**	**620,000**
IV. Fundraising for the Gap				
Fundraising Required	$	1,700,000	$	620,000
Fundraising Per House	**$**	**170,000**	**$**	**62,000**

PARTNERSHIPS

- HFHC has partnered with several financial institutions in the community to implement the program
- The program is of value to our financial partners for several reasons including
  - CRA credits for federal banks
  - We have the ability to guarantee mortgages
  - Charitable interest in our neighborhoods
- All of these items impact pricing, which often depends on each partner's community development priorities.

MECU
Baltimore's Credit Union

Habitat for Humanity®
of the Chesapeake

MECU – A sound Financial Partner for our members

- MECU has a strong commitment to our community.
- Fulfills our mission to serve all of our members including the underserved and to promote home ownership.
- Habitat applicants are qualified and prepared.
- Habitat loans perform well.