Habitat for Humanity®
of Madison County

Finance Policy (FI-09)

House Pricing, Mortgage Terms & Title Transfer Policy
Approved: December 14, 2015
Revised: October 12, 2020

Purpose: The purpose of the House Pricing and Title Transfer Policy is to A) set how sales price of Habitat homes is determined, B) set financing terms and limits of mortgages, and C) and timeframe of the closing. Additionally, sections II)B) Mortgage Terms pertaining to First Mortgages and Subordinate Mortgages in this policy would be retroactive to all current homeowners if they chose to accept the updated Mortgage Terms.

I) **Sale Price**

- A) The Sale Price of the housing unit shall be its Fair Market Value, except when applicable laws or funding program requirements require a different methodology such as SHOP house pricing.
- B) The Fair Market Value shall be determined by an independent, third-party appraisal.
- C) In no event may the Sale Price exceed Fair Market Value.
- D) For no Profit. The 1st mortgage of the partner family will not exceed cost incurred in the development of the property less any third party subsidy and/or cost of closing on the property not prepaid.

II) Affordability & Mortgage Terms

- A) Affordability
  - 1) HFHMC shall structure payment of the Sale Price and any financed closing costs through a financing package that is reasonably expected to be affordable over the life of the loan.
  - 2) The monthly mortgage payment, including all escrow cost, will not exceed 30% of the applicants gross income at the time of closing as verified by an affiliate qualified loan originator.
- B) Mortgage Terms
  - 1) First Mortgage
    - a) The affiliate will offer terms of twenty, twenty-five, and thirty years on the first mortgage to its clients.
    - b) How to calculate the amount of the first mortgage:
      - i) On new construction: The first mortgage will be for the "hard" cost (Consisting of the affiliate's cost for the land, upkeep of the property, infrastructure, and the cost of building the residence) and "soft" cost for administrative and construction staffing not to exceed 10% of the hard cost amount. Additionally, closing cost may be financed as part of the first mortgage, but are not to be included in calculating soft cost.
      - ii) On recycled homes, donated homes, or other homes that are not new construction: The first mortgage will be the same as the Sale Price as set by an appraisal (Fair Market Value) plus any closing cost not paid prior to closing, minus any subordinate mortgages, down payments, or other reductions paid on the homeowner's behalf.
    - c) Extraordinary Event: The homeowner will owe Habitat for Humanity of Madison County the outstanding balance on the Note, Contingent Deferred Interest, appraisal costs, attorney fees, and any other amounts due under the Note.
      - i) An Extraordinary Events is defined as one or more of the following events happening during the first half of the mortgage term:

(a) the homeowner sells the Property to a third party; (b) the homeowner transfers the Property to someone other than their spouse; (c) the homeowner refinances the Property; (d) a third party forecloses on the Property; or (e) you prepay the loan prior to the maturity date..

ii) Notwithstanding the foregoing, the following events are excluded from the definition of an Extraordinary Event: (a) the Property is transferred into one spouse's name as the result of a divorce decree or judgment; (b) the Property is transferred into one spouse's name as the result of the death of a spouse; and (c) the Property is transferred to a child as the result of the homeowner's death.

d) The Contingent Deferred Interest (CDI) rate will be 100% of the Net Profit during the first year of the mortgage and reduced in equal percentages each year on the anniversary rate so at the completion of 50% of the mortgage term, the CDI will be 0%.

For example, if the mortgage term is 30 years, the rate will reduce by 6.67%.

Year 0 (until the date of the first anniversary)- The CDI is 100%
Year 1-93.33%
Year 2-86.67%
Year 3-80.00%
Year 4-73.33%
Year 14-6.67%

e) Events of Default: The homeowner will begin to accrue interest at the rate of ten percent (10%) per annum on the outstanding balance on the Notes, and any other amounts due under the Note if any of these Events of Default happens during the life of the mortgage:

i) the homeowner rents the Property to a third party;
ii) the homeowner fails to occupy the Property as his or her main residence without prior written approval from our Board of Directors. Due to the 45 day right of first refusal in the mortgage note, the Board would be providing its approval if the affiliate chooses not to repurchase the property during that time period.;
iii) a third party forecloses on the Property, or
iv) an extraordinary event, not listed above as an Event of Default, occurs during the first half of the mortgage term.

2) Subordinate mortgages

a) The subordinate mortgage will be used anytime the first mortgage (not including any portion of the first mortgage used to cover closing cost), down payments, and down-payment assistance grants do not meet the sales price.
b) The term of the subordinate mortgage will be no longer than fifteen years, but never less than ten years.
c) The subordinate mortgage will be forgiven on equal percentage of the original amount, rounded to the nearest cent, on an annual basis. Example, if the homeowner has a $15,000 mortgage is fifteen years, 6.67% or $1,000 will be forgiven on each anniversary date.
d) The subordinate mortgage will be required to be paid in full in the event of default or an extraordinary event, as listed in the first mortgage note happens.
e) The subordinate mortgage will accrue CDI in the event of an extraordinary event and default interest in the event of an event of default.

C) The sum of all mortgages originated in connection with the purchase and sale of a housing unit to a partner family shall not exceed the Fair Market Value except to the extent of customary and reasonable closing costs that are financed.

III) Structure of the Sale

A) Timing of Title Transfer – Every effort should be made to transfer the title to the completed housing unit to the partner family within six months of completion (issuance of a certificate of occupancy for new construction or major rehab or from time of occupancy for recycle project). If the future homeowner is completing partnership criteria and the home is ready for occupancy, the future homeowner may occupy the property, at Habitat's discretion, though the use of an occupancy agreement or a lease-purchase agreement. Either agreement will clarify respective rights and obligations (such as providing the required documentation for closing and 3rd party subsidies) for both parties and provides a process for termination.

B) Marketable Title – Marketable title will be conveyed to the homebuyer at closing. The deed will be consistent with local real estate custom. The deed will include a title insurance policy protecting the homebuyer against any claims arising during HFHMC's period of ownership. The title policy will comply with all applicable federal laws and the laws in State of Alabama.