MINNESOTA HOUSING

2018 Single Family RFP
Affordability Gap Worksheet Guide

The Affordability Gap Worksheet is found in the Acquisition/Rehabilitation/Resale Workbook, the Affordability Gap Workbook, and the New Construction Workbook. You are required to complete the Affordability Gap Worksheet if you are applying for funds to provide Affordability Gap assistance to a Homebuyer. Funds may be used for Affordability Gap assistance, only if specified for that purpose in a loan/grant agreement with Minnesota Housing, as part of the following Housing Activities:

- Acquisition/Rehabilitation/Resale
- New Construction
- (Stand-Alone) Affordability Gap

You do not need to complete the Affordability Gap Worksheet if you are proposing an Owner-Occupied Rehabilitation program or are **not** applying for funds to provide Affordability Gap assistance to a Homebuyer.

1. **Start by reading the instructions on the applicable Affordability Gap Worksheet.**
   This worksheet requires you to make assumptions about your average or typical homebuyer: one with weighted average loan characteristics or one whose characteristics (income, first mortgage, etc.) you see commonly. You may not serve a single borrower whose characteristics are ***exactly*** the same as the typical or average buyer represented on this Worksheet. But, the typical or average characteristics expressed in this worksheet should approximate the typical or average characteristics of the buyers to be served through your proposal.

2. **Keep in mind that the right-hand columns (Columns K-M of the Worksheet) contain some guidance intended to help you determine what to input on each line.**

3. **On Lines 5-9, enter your proposed uses of Impact Fund Affordability Gap Dollars.**
   The first two uses on the list: Minimum down payment amount required by Homebuyer's first mortgage, and Homebuyer's settlement charges, represent costs which must be paid for a sale to be completed. Long-term Affordability Gap subsidy tied to the land, and First mortgage principal write-down, represent a deeper and more costly level of Affordability Gap subsidy.

4. **Describe some key mortgage qualification information in the "Average Borrower Profile" section.**
   This includes Annual Gross Income (in dollars, not percent AMI), monthly non-housing debts (to estimate a back-end debt-to-income ratio) and credit score (which informs which types and terms of first-mortgage financing available to the borrower).

Average Borrower Profile		
Annual Gross Income	Monthly non-housing Debts	Credit Score
	$ -	0

5. **Envision the entire pool of homebuyers you will serve through your program.** At the end of your 20-month Impact Fund term, what percentage of the homebuyers served through your program will have received FHA-insured first mortgages, Conventional or Portfolio loans requiring five percent down, and so on? Some definitions:

   - "FHA" means a first-mortgage loan insured by the Federal Housing Administration.

- “Conventional or Portfolio, five percent” means a first-mortgage loan which conform to the standards of Fannie Mae or Freddie Mac and requires a five percent downpayment or other loan (including a “portfolio” loan which a lender keeps on its books) which requires a five percent downpayment.
- “RD” means a first-mortgage loan guaranteed by United States Department of Agriculture Rural Development (USDA RD).
- “VA” means a first-mortgage loan guaranteed by United States Department of Veterans Affairs.
- “Land Trust Conventional” means a first-mortgage loan originated as part of a land-trust sale to a homeowner and requiring at least 20 percent down.

On Line 17, estimate the proportion of homebuyers served under your program will receive the first mortgages listed on Line 16 (and further defined in this Guide, above).

The percentages entered **must total 100%** or the worksheet will not work!

6. **On Line 20, enter the average (or median) contract sales price you expect to see through your program. (In the Acquisition/Rehabilitation/Resale and New Construction Workbooks, Contract Sales Price is auto-filled based on information you enter in the Project Information Worksheet.** Also, for these same activities, the worksheet assumes that sales price and post-rehabilitation appraised value will be the same).

Caution! Sell your properties for their Fair Market Value!
Because Value Gap and Affordability Gap are figured from Fair Market Value and purchase (or sales) price, respectively, selling properties for less than they are worth creates a third type of financing gap which may not be covered by the Impact Fund.

7. **Using the amount entered in Line 20 and Line 17, the worksheet calculates the maximum first mortgage amount based solely upon loan-to-value limits on Line 21.** (The worksheet does not take into account factors such as interest rates, income, debt ratio, or credit score. Instead, it is your responsibility to take these factors into account when entering a value).

8. **Using a mortgage calculator (tools are widely available online through sites such as Zillow.com, tcalc.timevalue.com, and bankrate.com), estimate the mortgage amount for which your typical or average borrower qualifies.** Enter this amount on Line 22. If your typical or average borrower is not limited by income, debt, or credit score to an amount lower than the maximum amount available based solely upon loan-to-value limits, just enter the amount from Line 21 on Line 22.

NOTE: Applicants awarded funds must document their own determination of each borrower’s need for affordability gap financing and are not to rely solely upon the first-mortgage lender’s pre-qualification or approval.

Mortgage Calculator Example

TCalc Online Financial Calculators

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Mortgage Qualification Calculator

See if you qualify for a home loan by your total monthly gross income and monthly expenses.
You can add this mortgage qualification calculator to your site as a tool for your customers and keep them coming back to your website. This online calculator will integrate right into your existing website automatically. Customize your mortgage qualification calculator with the style and look of your site while promoting your own products and services. Add a contact form, and use the calculators as an online lead generator. To add this calculator to your site call **800.426.4741**.

How much mortgage might I qualify for?

Most lenders base their home loan qualification on both your total monthly gross income and your monthly expenses. These monthly expenses include property taxes, PMI, association dues, insurance, and credit card payments.

Note: This calculator should be used for estimation purposes only.

Income

Combined gross annual income	$41,000.00	

Monthly Expenses

Minimum monthly credit card payments	$75.00	
Car payments	$250.00	
Other fixed monthly debt expenses	$0.00	

Loan Information

Down payment	3.000 %	● % ○ $
Interest rate	3.675 %	
Loan term	30	○ Months ● Years

Payment Information

Monthly insurance and other costs	$80.00	
Monthly association dues (if any)	$0.00	
Annual property tax	$2,273.00	○ % ● $

COMPUTE

9. **Using a mortgage calculator, estimate your typical or average borrower's monthly housing payment based on the qualifying loan amount.** The housing payment includes PITIA: **p**rincipal, **i**nterest, property **t**axes, homeowners and mortgage **i**nsurance, and any homeowners' **a**ssociation dues. Enter this amount on Line 23.

   This link (also in the Affordability Gap Worksheet) to the League of Minnesota Cities' Property Tax Calculator tool will help you estimate property taxes: http://www.lmc.org/page/1/property-tax-calc-iframe.jsp

   Hazard insurance costs vary, but a general rule of thumb is $900 dollars per year in Greater Minnesota and $1,300 per year in the Twin Cities metro for a typical home.

10. **On Line 24 through Line 27, the worksheet calculates the following:**

   - The base loan amount for those common types of first mortgages which allow for settlement charges to be financed (FHA, RD, and VA).
   - Estimated Settlement charges to the borrower (assuming an industry average of five percent of the sales price) plus common financing fees established by the FHA, USDA, and VA. Assume for

purposes of completing the Worksheet that this includes any Administration Fee you intend to charge the homebuyer to originate your Affordability Gap assistance loan.

- Financing fees commonly financed into the borrower's first mortgage amount (on FHA, RD, and VA loans).
  The minimum down payment amount required by the first mortgage (i.e., the difference between the sales price and qualifying mortgage amount before Affordability Gap assistance).

11. **On Line 28, enter an amount of seller-paid closing costs that is standard or typical for your target area and typical or average homebuyer.**

12. **The worksheet sums the required downpayment and closing costs.** This may be referred to as the amount needed to close. If you propose to use Affordability Gap funds only for minimum down payment amounts and homebuyers' settlement charges (see number three, above), then this amount is the total affordability gap for the typical or average buyer under your program.

    If you are not requesting funds for first mortgage principal write-down (i.e., down payment amount beyond minimum required), proceed to step 18.

13. Enter a target housing ratio in Line 32. (A housing ratio is PITIA payment divided by monthly gross household income.) A target housing ratio is the housing ratio you plan to help your borrowers reach through Affordability Gap assistance beyond the minimum required to close if you are requesting funds for first mortgage principal write-down (i.e., down payment amount beyond the minimum required). **Generally, a Household eligible for Affordability Gap assistance must spend no less than 25 percent of gross monthly income for housing payments.**

14. **Based on the target housing ratio and annual gross income, the worksheet calculates the target housing payment (PITIA).** This is the amount your typical or average buyer would pay each month if their housing ratio were the same as your target housing ratio.

15. **Regarding Line 34:**

    - If the target housing payment exceeds the amount on Line 23, **do not** enter a value in Line 34.
    - If the amount on Line 33 (target housing payment) is less than the borrower's monthly payment, use a mortgage calculator to estimate the amount of mortgage principal write-down needed to bring your typical or average borrower's housing ratio to the target housing ratio. Enter this amount on Line 34.

16. **On Line 35 (adjusted borrower first mortgage), the worksheet subtracts the amount of mortgage principal write down needed) from the qualifying mortgage amount before Affordability Gap assistance.** This is expected to be your typical or average buyer's first mortgage amount after Affordability Gap assistance.

17. **The worksheet adds any amount of mortgage principal write-down needed to the downpayment and closing costs.** This is your typical or average homebuyer's Affordability Gap.

18. **On Lines 40-45, enter all sources *excluding the Impact Fund and seller-paid closing costs* that will make up your typical or average homebuyer's Affordability Gap.** (Seller-paid closing costs are accounted for in Line 28; Impact Fund Affordability Gap assistance is auto-calculated in Line 46).

This is your opportunity to demonstrate the special niche your use of Impact Fund Affordability Gap Dollars will meet, taking into account other sources of down payment assistance commonly available. Please ensure this section is consistent with your answers in the "Special Niche" section of the Activity Application.

In the “Leverage and Cost Containment” worksheet, be sure to include the **total amount** of all Borrowers’ own funds, Community Second mortgage Affordability Gap assistance, and philanthropic or employer Affordability Gap assistance used directly in conjunction with Impact Fund Affordability Gap assistance.

For example: You expect to assist 10 borrowers with Impact Fund Affordability Gap Dollars, and you expect your typical or average borrower to receive $3,000 from a Community Second mortgage program. Therefore, your completed “Leverage and Cost Containment” worksheet should include at least $30,000 in leverage from a Community Second mortgage program.

19. **Complete Line 50 and Line 51:**
    - Minnesota Housing recognizes that some Administrators prefer to use leveraged resources by funding one loan solely with leveraged funds, and another solely with Impact Fund Dollars. Other Administrators make two separate loans (or a loan and a grant) funded from separate sources (e.g., Impact Fund and CDBG) to one homebuyer. Therefore, please:
        - Enter the total number of borrowers for whom you expect to provide Affordability Gap assistance over the Impact Fund award term **whether or not they receive Impact Fund Affordability Gap assistance**.
        - Enter the number of homebuyers you **expect to receive direct financial Affordability Gap assistance from Impact Fund Dollars**.

20. **The worksheet calculates the total need for Impact Fund Affordability gap dollars by multiplying the Impact Fund Affordability Gap assistance to the typical or average buyer by the number of borrowers in the program receiving Impact Fund Affordability Gap assistance.**

21. **On Line 53, enter the maximum loan amount you are willing to make with Impact Fund Affordability Gap Dollars to any one homebuyer. Do not** include any leverage sources in this figure.

22. **The box on Line 56 allows you space to explain or clarify any information in the worksheet you wish to explain or clarify.** Please include here explanation of any deviation from auto-calculated fields or industry averages.

Questions? Contact the Impact Fund team: Impact.fund.mhfa@state.mn.us

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