Community Fix Up Loan Program
Discount Loan Option/
Interest Rate Write Down

Purpose:

Establish your own reduced interest rate for Community Fix Up loans by leveraging funds to buy down the current program rate[1] on this well-established loan program.

This allows you to:

- Provide an incentive to homeowners to participate in preserving existing affordable housing stock
- Increase the affordability of the homeowner's monthly loan payment

Benefits to Community Partner(s) & Lender:

- Access all the features of Community Fix Up loans: Fixed interest rate; longer repayment terms than traditional bank loans; equity based on after-improved value; and no or low-cost alternatives to appraisal
- Stretch a source of leveraged funds over a larger number of homeowners by only needing to allocate funds to the interest rate buy-down
- Increase homeowner's affordability and incentive to participate in housing preservation efforts

How it Works:

- Participating Fix Up lender(s) and community partner(s) establish source(s) of funds for the interest rate write-down and submit a Proposal for Community Fix Up Initiative that identifies goals and targeting to Minnesota Housing.
- After approval of the initiative, the participating lender originates and sells loans to Minnesota Housing:
  - Lender originates and underwrites loan.
  - Lender executes the note with the homeowner at the discounted interest rate agreed on by lender and partner.
  - Lender disburses loan proceeds to borrower and submits loan to Minnesota Housing for reimbursement of principal and payment of processing fee ($500).
  - Minnesota Housing discounts the principal amount of the loan reimbursed to lender based on discount factors (available on Minnesota Housing's website). See examples on next page.
  - Lender collects the discounted amount from their leveraging resource(s).
  - Loan is serviced at the rate and payment amount as indicated on the note.

[1]The "current program rate" refers to the subordinate lien rate listed on Minnesota Housing's website. The current program rate is used for calculating discounts for all Community Fix Up loans including first lien loans. The discount factors estimate the front-end payment necessary to preserve the Agency's yield on loans made at the current program rate. When loans close at the first lien rate, there is a reduction in the Agency's yield. Thus, all discount loans must use the discount factors for the current program rate.

Calculating a Community Fix Up Loan Discount/Interest Rate Write Down*

Example: Loan Amount = $7,500; Loan Term = 10 year (120 months):

- Community Fix Up Program Rate* (yield to agency) = 4.00%
- Discount Interest Rate (rate paid by borrower) = 2%

1. Lender underwrites and closes loan with borrower. Note is executed at the lender-chosen discount interest rate of 2% (rate paid by borrower).
2. Loan amount is $7,500 with a 10-year repayment term (120 months).
3. At loan purchase, Minnesota Housing discounts the principal amount of the loan that will be reimbursed to the lender using a discount factor of 90.88185%. This factor is found on the Discount Factors chart. In this example, the program rate is 4.00% - find the 2% column and the 10-year term row.
4. Minnesota Housing pays lender $6,816.14 ($7,500 X 90.88185%), plus the $500 Community Fix Up loan processing fee. The discount is the difference between the original loan amount and the discount purchase amount, in this case $683.86 ($7,500 minus $6,816.14).
5. Lender covers the discounted amount of $683.86 with funds from their leveraged funding source.

Monthly Payment Comparison:

Regular Community Fix Up Loan vs. Community Fix Up Discount Loan:

Loan Amount	Repayment Term	Community Fix Up Program Rate 4.00*	Buy-down rate 2%	Buy-down rate 1%
$7,500	10 Years	$75.93	$69.01	$65.70
$28,000	20 years	$169.67	$141.65	$128.77

Cost of leveraging the above buy-down rates**:**

Loan Amount	Repayment Term	Loan Amount Reimbursed for 4.00% (no buy-down)	Loan Amount Reimbursed and Leverage Needed for 2%	Loan Amount Reimbursed and Leverage Needed for 1%
$7,500	10 years	$7,500	Loan Amount: $6,816.14 Discount/Leverage: $683.86 Total $7,500.00	Loan Amount: $6,489.51 Discount/Leverage: $1,010.49 Total $7,500.00
$28,000	20 years	$28,000	Loan Amount: $23,374.91 Discount/Leverage: $4,625.09 T otal $28,000.00	Loan Amount: $21,249.93 Discount/Leverage:$6,750.07 Total $28,000.00

Discount factors used for above examples:

Discount Interest Rate: 2%	**Discount Interest Rate: 1%**
Factor for 10-year term: 90.88185	Factor for 10-year term: 86.52674
Factor for 20-year term: 83.48181	Factor for 20-year term: 75.89261

*Community Fix Up loan rate is for example only. Refer to Minnesota Housing's website for current rate.