

## Understanding the Structure of Habitat Mortgages

Habitat builds a home for a deserving family...

An appraisal is ordered from an outside company to determine the value of the home.

**Ex. A three bedroom home in Chesterfield County was recently appraised at 135,000.**

As the build nears completion, a **sum of all of the costs** associated with the home is tallied. This sum includes the **cost of land, infrastructure, city or county fees** and of course, the cost of **materials** used on the home. Also included is a "**soft charge**", which covers a portion of the construction overhead, such as construction salaries and gasoline for the trucks. This soft charge is the same for each homeowner and is evaluated each fiscal year.

This "cost to build" becomes the amount of the 1st Habitat mortgage.

**Ex. The three bedroom had a cost to build of 85,000. So the 1st mortgage was 85,000.**

The 2nd mortgage comes from a partnership with the Department of Housing and Community Development's Down Payment Assistance Program. This program provides \$2500 towards closing costs and up to 10% of the 1<sup>st</sup> mortgage. This brings down the 1<sup>st</sup> mortgage. The 2<sup>nd</sup> mortgage totals \$2500 + 10% of the 1<sup>st</sup> mortgage. This mortgage is forgivable over 5 years; 1/5 is forgiven annually.

**Ex. The 2nd mortgage here is  $8500+2500 = 11,000$  and the new 1st mortgage is \$76,500**

The 3rd mortgage reflects the difference between the original first mortgage and the appraised value of the home.

**Ex.  $135,000 - 85,000 = 50,000$ . \$50,000 is the 3rd mortgage amount.**

The structure of payments: Homeowners make monthly payments that pay off the first mortgage, plus insurance and tax escrow. Each month that they make their monthly payment, a payment is forgiven from the 3rd mortgage. If a homeowner stays in the home and pays on time, the 1st and 3<sup>rd</sup> mortgages will be paid off at the same time. The 2<sup>nd</sup> mortgage, again, is forgiven over the first 5 years of the mortgage as long as the homeowner stays in the home and does not refinance.

All mortgages become due and payable if the homeowner refinances or sells the home. Habitat also retains the right of first refusal for any homeowners who wish to sell their homes in the first 10 years of ownership.