

Emerging Markets Gap Program Guidelines

May 2021

Three Rivers Community Action has assembled buyer downpayment/closing cost assistance to qualified households purchasing a home in Southeast Minnesota. The program will provide qualified applicants with a need-based deferred gap loan (*up to \$18,500*) that is intended to help fill the gap between the price of the home and the amount of mortgage the applicant can afford to pay. Funds are available on a first-come, first-served basis to buyers who meet ALL program guidelines. Funding for the program comes from Greater Minnesota Housing Fund (GMHF) and Minnesota Housing Finance Agency (MHFA) and is administered by Three Rivers. Program is marketed through Achieve Homeownership, a comprehensive homeownership initiative for households throughout southern Minnesota.

Application

Buyers must fill out an application and provide all required documentation before eligibility is determined and funds are awarded. Applications are processed in the order they are received and no awards are made until *all* application materials are received. Three Rivers does not guarantee the availability of funds during the application and review process.

Home Qualifications

Gap funds are available for new construction or existing homes. Three Rivers staff may require a home inspection be completed before funds are approved. Buyers must provide a copy of a Purchase Agreement and anticipated closing date.

Location

Homes must be located within the 20 counties of southeastern Minnesota.

Southeast Counties: Blue Earth, Brown, Dodge, Faribault, Fillmore, Freeborn, Goodhue, Houston, Le Sueur, Martin, Mower, Nicollet, Olmsted, Rice, Sibley, Steele, Wabasha, Waseca, Watonwan, Winona

House Price Limits

The purchase price of the home may not exceed the limits established by the Minnesota Housing Finance Agency for their first-time buyer mortgages in greater Minnesota, currently at \$294,600.

Income Limits

The Emerging Markets program targets two groups of buyers. Target 1 is diverse households (racial and ethnic minorities) at less than 80% of the state median income. Target 2 is underserved households (single parent households, disabled households) at less than 80% of the state median income. Even with these targets, any household under 80%

of the state median income is eligible for the program. Households are eligible for the gap loan funds if the combined gross income of household members who will have title to the property, any co-signer expected to reside in the property or the legal spouse of the mortgagor who will also reside in the property, including overtime and all variable income, is less than income limits published annually by the Minnesota Housing Finance Agency. Incomes must be verified and documentation must be provided to Three Rivers at the time of application and updates may be requested prior to closing.

**80% of State Median
2021 Income Limits**

Family Size	Maximum Income (Southern Minnesota)	Maximum Income (Olmsted & Dodge County)
1	\$ 52,150	\$ 55,850
2	\$ 59,600	\$ 63,800
3	\$ 67,050	\$ 71,800
4	\$ 74,500	\$ 79,750
5	\$ 80,450	\$ 86,150
6	\$ 86,400	\$ 92,550
7	\$ 92,350	\$ 98,900
8	\$ 98,300	\$ 105,300

Household with Children

A portion of the funds available are available only to households with children. Funds coming from Greater Minnesota Housing Fund are available only to households with at least one dependent child under the age of 18 (as determined by IRS). Funds from Minnesota Housing Finance Agency do not have the dependent children requirement, but these funds are extremely limited and may not be available.

Affordable Mortgage Product

Buyers must be approved for mortgage financing (with an affordable first mortgage product) **prior to a reservation of gap loan funds.** First mortgage loan products must allow a second mortgage on the property. Buyers are encouraged to pursue affordable mortgage financing from a Minnesota Housing Finance Agency lender, as those programs have below-market interest rates and often have additional downpayment funds available to qualified households. Buyers are required to contribute at least \$500 of their own funds to the transaction. **Buyers using an FHA first mortgage are required to provide a 3.5% downpayment from their own funds.**

Affordable first mortgages must meet all of the following requirements:

- Fixed-rate loan, minimum amortization of 30 years, and a minimum term of 15 years. Note that the gap loan is co-terminus with the first mortgage.
- Downpayment required by product cannot exceed 5 percent of sale price. (Note: This guideline does not preclude a buyer from making a larger downpayment if additional personal funds are available.)
- Preference is for below-market or market-rate loan products. The buyer’s first mortgage interest rate cannot exceed current market rate plus 1 percent.

- Housing expense and debt to income ratios of at least 28/36 allowed by the loan product (e.g., 29/41 is acceptable). Lenders are encouraged to use community homebuyer products with flexible underwriting guidelines.
- Closing costs (excluding prepaids) cannot exceed 3.5% percent of the loan amount. Note: This does not preclude buyers with liquid assets above \$5,000 from using their excess funds to buy down the interest rate.
- Roll over loans are not acceptable. Roll over loans have a fixed interest rate, short maturity, and a term to be negotiated.

Other Downpayment Assistance

Due to limited availability of funds, buyers are required to apply for and use all other downpayment assistance resources available such as Minnesota Housing downpayment and city / county assistance before applying for our program funds. These other funds can be layered with the Emerging Markets Gap funds on a case-by-case basis.

Homebuyer Education

All buyers must complete an approved homebuyer education course known as “Home Stretch”, and provide a certificate of completion to Three Rivers Community Action prior to closing. For a current listing of classes, see <http://www.hocmn.org>

Gap Loan Terms

Gap funds are available only at the following terms:

- Deferred loan, 0% interest
- Due on sale or satisfaction of first mortgage
- Recorded as a second (or sometimes third) mortgage on the property
- \$18,500 *maximum* assistance from the following sources:
 - Minnesota Housing Finance Agency – maximum \$10,000 available to households under 80% of median income
 - GMHF – maximum \$8,500 available to households under 80% of median income and with dependent minors living in the home
- Combined maximum assistance is \$18,500. Most buyers qualify for less, with the exact amount determined by Three Rivers based on the following factors:
 - Household income (adjusted for family size)
 - Home sale price (based on actual purchase agreement)
 - First mortgage amount (as approved by lender based on Loan Estimate)
 - Amount of other housing expenses, including taxes, homeowners insurance, private mortgage insurance, and closing costs (estimated by the program administrator)
 - Amount of downpayment/closing assistance and monthly payment assistance from MHFA or other available sources (buyer is required to maximize assistance from other sources before qualifying for gap funds).
 - Amount of borrower contribution for downpayment and closing costs. Minimum borrower contribution **from personal funds** is \$500. **For FHA loans**, borrowers are required to contribute **3.5% of their own funds** as downpayment. The payment of closing costs may not be used to help meet the FHA required minimum.
 - Amount of equity from a previous sale or other cash reserves. Borrowers are allowed to retain up to \$5,000 of equity or other cash reserves. Any amount above \$5,000

must be applied toward the purchase of the home. Large withdrawals made within 30 days of submitting application may be subject to further inquiry. **Buyers making equity contributions of more than 20% of the purchase price are not eligible for funding from this program.**

- The housing expense ratio used for the final gap calculation is 28 percent. A waiver reducing the front ratio may be granted on a case by case basis. In no instance can the front ratio be below 25% for a buyer to receive assistance.
- Gap funds may not be used to pay for prepaids. The buyer or another source must cover prepaid expenses due at closing. Prepaid expenses are in addition to the minimum downpayment from personal funds required.
- The gap loan **will not** be adjusted based on the level of other debt (e.g., car loans, credit cards, etc.) accumulated by the borrower.
- Buyers **are not** allowed to receive any cash back at closing.

Source of Funds

Financing for the Homebuyer Gap Financing Program is generously provided by the Greater Minnesota Housing Fund and Minnesota Housing Finance Agency.

Administration

- Three Rivers Community Action will administer the program, with a fee (\$500) charged to the buyer at closing to cover the costs of administration. Buyers are also responsible for recording costs of the loans.
- Applications will be taken on an on-going basis until all funds are committed. There is no application fee.
- Three Rivers requires 14 days to process a *complete* application, including all required attachments.

CONTACT:

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