

**HNI First Mortgage Loan to
Purchase/Rehab or Refinance/Rehab**

- 1) Eligible borrowers will be those who are purchasing a target house or a house on a target block, or are existing owners on a target block in a Healthy Neighborhoods community who intend to be owner occupants and who are undertaking a rehabilitation project in the property. Target houses may include foreclosed vacant properties throughout the neighborhoods as approved by the Healthy Neighborhoods Exceptions Committee.
- 2) An eligible property may contain 1-4 properly zoned residential units.
- 3) Borrowers must be referred to the bank by a participating neighborhood organization that has pre-screened the borrower and explained the loan program. A non-refundable screening fee in the amount of \$100 may be charged by the neighborhood organization. Borrower is responsible for the upfront cost of a credit report if one cannot be provided at no cost.
- 4) Borrowers will be underwritten and Pre-Approved by Bradford Bank. Borrowers must meet Fannie Mae/Freddie Mac standard underwriting guidelines. Housing expense, including principal, interest, taxes and insurance should not exceed 30% of borrower's income. Total long term debt payments should not exceed 40% of borrower's income.
- 5) Maximum aggregate loan amount secured by the property (including any settlement expense loans) shall not exceed 120% of after-rehabilitation loan to value, as established by appraisal. There will be no private mortgage insurance premium required.
- 6) Construction terms will be 12 months, or longer if mutually agreeable to Bradford Bank and the borrower. Maximum permanent loan term is 30 years.
- 7) New purchasers must invest at least 3% of the purchase price from their own funds. Gifts or grants may be counted toward meeting this requirement; however, settlement expense loans will not count toward meeting the investment requirement.
- 8) The loan interest rate during rehab will be Prime, fixed on the date of application until home renovations are complete, at which time the loan will be converted to permanent status at the program loan rate. However, the loan interest rate during rehab will never be less than 6%.
- 9) The program discounted permanent interest rate will be 100 basis points below the 60 day Fannie Mae Rate as published in the Wall Street Journal, but in no event less than 4%, set at time of rate lock. Rate will be locked in for a period of no more than 30 days prior to the date of completion of construction.
- 10) The loans will constitute a first mortgage on the property payable in fixed monthly payments. The borrower will make escrow and interest payments on funds advanced during the construction period. Upon completion of construction and distribution of all loan proceeds, the loan will be modified and borrower's payments will consist of principal, interest and escrow payments.

- 11) Borrower will pay 1.5 points as a loan origination fee to Healthy Neighborhoods, plus all customary loan closing costs. These fees and closing costs may be included in the loan if borrower has met the required cash contribution and loan amount does not exceed maximum program loan to value. Healthy Neighborhoods will be responsible for cost of loan origination and certain other costs.

- 12) For any of the following available loans, borrowers may hire a general contractor, self-manage a series of licensed subcontractors to complete specific tasks, or do the work themselves. In the case of owner-made improvements, only the cost of materials in place, inspected and evidenced by receipts can be reimbursed from the loan. Based upon the complexity of the rehab and the experience of the homeowner, Healthy Neighborhoods and/or Bradford Bank in its sole discretion may reject a homeowner's request to undertake work themselves or to manage a series of subcontractors. Acquisition of properties that require substantial rehab will require a home improvement contract with a licensed general contractor in place which contract and scope of work has been reviewed and approved by the HNI consulting architect
 - a) Loans are available to finance acquisitions of homes on target blocks with sales prices no greater than \$170,000, which are in habitable condition (as determined by the appraisal report) if the owner agrees to make a minimum of \$5,000 for exterior improvements, within 12 months of loan settlement and borrows the rehab funds along with the acquisition loan. Borrowers may borrow more for interior and exterior rehab under the program. Ratios and loan to values must meet the program guidelines. The loans will remain at Bradford Bank's rehab rate until work is completed.
 - b) Loans are available to finance acquisitions of homes with sales prices greater than \$170,000 on target blocks which are in habitable condition (as determined by the appraisal report) if the owner agrees to make repairs equal to at least 10% of the acquisition price of the house within 12 months of loan settlement and borrows the funds along with the acquisition loan. For homes with sales prices of \$200,000 or more, the borrower must commit to making at least \$20,000 of improvements. Exterior improvements must be part of the scope of work. Ratios and home values must meet the program guidelines. The loans will remain at Bradford Banks rehab rate until work is completed.
 - c) Loans are available to finance properties which are not in habitable condition (as determined by the appraisal reports). Borrowers must have a construction proposal acceptable to lender and Healthy Neighborhoods, Inc. (based upon review by HNI's consulting architect prior to loan application at the bank) from MHIC-licensed, insured contractors prior to loan closing. Borrower's acceptance of a contractor's proposal should specify the intended construction period and that the borrower's acceptance is contingent upon borrower obtaining sufficient financing for the scope of the work described.

- 13) Upon loan settlement, the Bank will advance the lesser of 20% of the rehab cost or \$8,000 if a contractor is being utilized. The remainder of the rehab portion of the loan will be held for disbursement by the bank, and funds will be released during construction upon satisfactory inspection of the work in place by bank's approved construction inspector. Work carried out by the owner or anyone other than a licensed contractor, will only receive reimbursement for materials in place, after inspection and evidenced by receipts. Customary loan inspection fees will be charged.

- 14) If Borrower fails to begin renovations within the required rehab term, the loan will convert to permanent mortgage at the non-discounted prevailing 60 day Fannie Mae Rate as published in the Wall Street Journal, and sold to the fund without rehab. The unused renovation funds will be frozen and the permanent loan amount will equal the amount disbursed.
- 15) If Borrower begins renovations, but is unable to complete renovations within the required rehab term, the renovation term may be modified and extended. An extension fee may be charged. Upon completion the loan will convert to a permanent mortgage at 100 basis points below the 60 day Fannie Mae Rate as published in the Wall Street Journal, and sold to the fund.
- 16) The borrower agrees that any payment delinquency or default may be reported by the lender to the referring neighborhood organization, to Healthy Neighborhoods, Inc., and to any loan pool guarantor or insurer.
- 17) Loans to borrowers in the Midtown Belvedere and Mount Vernon neighborhoods will be limited to a maximum loan amount of \$700,000. Financing will only be offered for properties whose renovations will meet the standards of the Maryland Historic Tax Credit.
- 18) The Healthy Neighborhoods Loan Pool will finance up to 97% to purchasers of developer rehabilitated houses on target blocks who meet the other underwriting criteria of the program. Developers must be pre-approved and pay a 1% fee to Healthy Neighborhoods.