

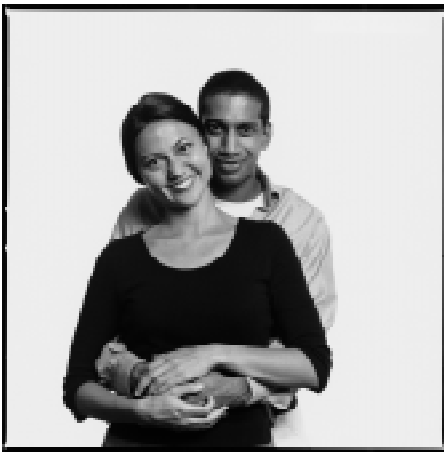
# SoftSecond<sup>TM</sup> BASICS

A SERVICE OF THE MASSACHUSETTS HOUSING PARTNERSHIP

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*The SoftSecond<sup>TM</sup> Loan Program combines a conventional first mortgage with a subsidized second mortgage to help qualified low- and moderate-income families purchase their first home.*

*Created in 1990 by the Massachusetts Housing Partnership, the Massachusetts Bankers Association, state housing officials and community organizations including the Massachusetts Affordable Housing Alliance, the SoftSecond<sup>TM</sup> Loan Program has already helped thousands of families achieve the dream of homeownership.*



## Benefits to Homebuyers

The SoftSecond<sup>TM</sup> Loan Program gives first-time homebuyers increased purchasing power through two mortgages—a conventional first mortgage and a subsidized second mortgage. Dividing the mortgage in two lowers the primary mortgage and allows participating homebuyers to avoid private mortgage insurance, reducing overall monthly expenses. SoftSecond<sup>TM</sup> loans are offered through participating lenders throughout the state.

### FEATURES OF THE SOFTSECOND<sup>TM</sup> LOAN PROGRAM

- Low interest rate
- No points
- No private mortgage insurance
- Many banks offer reduced closing costs

#### SoftSecond<sup>TM</sup> Breakdown

- 77% First Mortgage  
*Homeowner pays principal and interest (like a conventional mortgage)*
- 20% Second Mortgage  
*Homeowner pays interest only for the first ten years. Subsidies are available for qualified homebuyers.*
- 3% Down Payment  
*Homebuyers must put down 3%. At least 1.5% must be your own money (minimum \$1,500).*

Toll-free **877-752-7131**

for more information: Telephone **617-330-9955**

On-line **www.mhp.net**

## To qualify for a SoftSecond™ mortgage you must:

- ☑ **Be a first-time homebuyer (or not have owned a home within 3 years)**
- ☑ **Complete an accepted homebuyer training course**
- ☑ **Be within the household income eligible guidelines**
- ☑ **Choose a home you can afford in a city or town that participates in the SoftSecond™ program**

### How does it work?

The SoftSecond™ Loan Program works by splitting a home mortgage in two. Buyers are qualified based on the first mortgage, which is 77% of the purchase price; the "soft second" mortgage is 20%, and the remaining 3% is the down payment. Instead of one mortgage, the homebuyer gets two mortgages that are affordable. And, unlike a conventional mortgage, private mortgage insurance is not required.

Payments begin on the first mortgage immediately, but buyers pay only interest on the "SoftSecond" mortgage for the first ten years. Eligible homebuyers can qualify for public funds that cover some of the interest on the second mortgage during those ten years. The homeowner takes over the entire "SoftSecond" payment in year eleven. Repayment of some of the public funds may be required if the home is sold or refinanced.

### Am I eligible to participate in the program?

To participate in the program, you must meet the following guidelines:

1. You must be a first-time homebuyer. This means you haven't owned home in the three years prior to applying for the SoftSecond™ Loan Program. If you have owned a home with a former spouse, are a single parent, or owned a home without a foundation you can also be considered a first-time homebuyer.
2. You must complete an accepted first-time homebuyer education course. Ask MHP for a list of acceptable courses in your area or view the list on the website at [www.mhp.net](http://www.mhp.net).
3. Your total household income must be within Program limits. Limits vary by community. Ask MHP for a list of current income limits or view the list on the website at [www.mhp.net](http://www.mhp.net).

4. You must agree to use the property you purchase through the SoftSecond™ Loan Program as your primary residence throughout the term of your loan.

5. You must choose a home in a participating community with an established subsidy source. Ask MHP for a list of currently participating communities or view the list on the website at [www.mhp.net](http://www.mhp.net).

6. You must choose a home within the purchase price limits. Limits vary by community. Ask MHP for a list of current purchase price limits or view the list on the website at [www.mhp.net](http://www.mhp.net).

### How can this program help me buy a home?

Before purchasing a home, you must qualify for a loan through a participating bank. Banks evaluate a variety of factors in qualifying prospective borrowers, including credit history, mortgage amount, amount of monthly payments, and personal income. The bank usually requires your *housing ratio*—which is the percentage of your monthly income used to pay your mortgage payments, taxes and insurance—to be less than 33%.

#### **The following example will help illustrate how the SoftSecond™ Loan Program helps you lower your housing ratio and get over the initial hurdle of qualifying for the loan.**

Assume a person with an annual income of \$45,000 wants to purchase a home priced at \$195,000 through the SoftSecond™ Loan Program. With the minimum down payment—3% of purchase price— of \$5,850, the person has to borrow the remaining amount of \$189,150. With conventional financing, the person's income of \$45,000 would be considered insufficient by lenders to cover the monthly mortgage payments, taxes and insurance for the property. The lender would say the borrower's *housing ratio* is too high, and therefore, could not qualify the borrower for the loan.

The SoftSecond™ Loan Program addresses the qualification problem by breaking the total mortgage amount into a *first* and a subsidized *second* mortgage. In the example, the \$189,150 total mortgage would be broken into a *first mortgage* of \$150,150 and a *second mortgage* of \$39,000. A government subsidy loan would pay a portion of the borrower's second mortgage interest payments. Splitting the total mortgage also allows the borrower to avoid the additional expense of private mortgage insurance (generally required as an additional monthly payment when the loan exceeds 80% of property value).

Participating lenders would now qualify this home buyer based on the monthly payments on the first mortgage and the reduced share of the monthly interest on the second. Since the homebuyer is spending less monthly income on the total mortgage payments, the *housing ratio* decreases to 28% and the lender would qualify the individual for the loan.

### How much of a down payment do I have to make?

The program requires that you have a total down payment equal to 3% of the home's purchase price. At least 1.5% of the price must be your own money (this amount must be at least \$1,500). You may use gift money or down payment assistance from your community to add to your own money for this downpayment.

### How will this program reduce my overall debt and monthly payment

In addition to offering low down payments and favorable underwriting, the SoftSecond™ Loan Program significantly reduces your debt, especially in the early years of ownership. The first mortgage is fully amortizing—i.e., you pay principal and interest as soon as the loan closes.

However, to decrease your financial burden in the first ten years, the payments on the second mortgage are limited to interest only. Public funds may also cover a substantial portion of the interest due on the second mortgage in the early years. For the first five years, public funds may cover up to 75% of the interest payments on the second mortgage. Over the next five years the amount of subsidy gradually decreases and is phased out by year 10. This gradual phase-out means your payments remain constant for the first five years, increase slightly years six through ten and then level off. By year eleven you are making the total principal and interest payments on your own.

### How are the 1st and 2nd mortgage amounts and the subsidy determined?

The first and second mortgage amounts are based on what you can afford. The first mortgage can be up to 77% of property value. For the second mortgage, you can borrow the greater of 20% of the purchase price of the property or \$20,000. If you choose to put more than 3% down, that percentage will be subtracted from your first mortgage amount.

You are expected to contribute approximately 28–33% of your monthly income to carry the first and second mortgages and other housing expenses. The amount of subsidy you receive is the difference between the amount you are able to contribute to the second mortgage and the payment's full monthly amount.

### If I don't qualify for the subsidy, should I still participate in the program?

If you can pay the entire first and second mortgage payments and the taxes and insurance without utilizing more than 28% of your monthly income, you will not qualify for subsidy. However, participating in the program is still beneficial. The program not only al-

SoftSecond™ Loan Program		Conventional Home Mortgage	
Annual Household Income	\$ 45,000	\$ 45,000	Annual Household Income
interest rate	5.500%	6.000%	interest rate
private mortgage insurance	\$ 0	\$ 75	private mortgage insurance
SoftSecond™ monthly mortgage payment	\$ 1,228	\$ 1,237	conventional monthly mortgage payment
<b>SoftSecond™ Buying Power</b>	<b>\$ 195,000</b>	<b>\$ 155,000</b>	<b>Conventional Buying Power</b>

*Example based on purchase of single family home with estimated taxes, insurance, and interest rate based on current program rates with 3% downpayment.*

lows you to qualify for a larger loan, but you also get a lower interest rate and avoid making a monthly payment for private mortgage insurance.

### What happens if I want to sell or refinance?

All subsidy awarded by MHP is secured by a mortgage. If you receive subsidy and later decide to sell your home, you are responsible for repaying the subsidy, within certain limits. If you sell within five years of purchase, you must repay only the full amount of the subsidy actually applied to the interest payments on the second mortgage. If you remain in your home for five years or longer, the repayment is limited to the lesser of the amount of the subsidy used or 20% of the net appreciation gained at the time of sale. However, in no event shall this amount, when combined with your other secured debt, exceed 77% of the property's value.

If you choose to refinance the second mortgage, subsidy money can no longer applied to your monthly payment. The amount you repay will be calculated in the above manner. However, as long as the total secured debt does not exceed 85% of the property's current value, as supported by a satisfactory appraisal, MHP will consider deferring repayment of the subsidy until you sell your home.

### How do banks participate in the program?

Banks participate by originating the first and the second mortgages under the program. Some banks sell the first mortgages on the secondary market. The banks' ability to sell the first mortgages in the secondary market reduces bank risk over time and greatly leverages the use of bank commitments to the program. Generally, the second mortgages are held by the banks in their own loan portfolios.

In order to make this mortgage product even more affordable to first-time buyers, the banks in Boston participating in the SoftSecond™ Loan Program are offering first and second mortgages at one half of a percent below conventional interest rates. Communities are encouraged to negotiate the interest rate of these mortgages with participating lenders.

### Why do banks participate in this program?

Banks participate in this program because it addresses many of their community lending concerns and because it makes good business sense. Low- and moderate-income first-time buyers represent a major potential market for banks. The SoftSecond™ Loan Program substantially increases the ability of these buyers to purchase homes.

**What is My First Step?** If you think you are eligible to participate, call the local contact in the area where you would like to buy a home. You can obtain a list of local community contact names and numbers from MHP or view it on our website at [www.mhp.net](http://www.mhp.net).



Massachusetts Housing Partnership

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