

THDA’s “Stimulus Loan”

Background

Early in 2009, the United States Congress passed the American Recovery and Reinvestment Act (ARRA). Included in the act was a provision for a first time homebuyer tax credit of up to \$8,000 or 10% of the purchase price of the home. Unlike the homebuyer credit associated with the previously passed Housing and Economic Recovery Act of 2008 (HERA), this new credit would not have to be repaid by the homebuyer, and the credit could be used with a loan financed by a state housing finance agency.

Almost immediately after the act was passed, THDA started receiving pressure from its industry partners, especially homebuilders, to develop a program to “monetize” the tax credit. In essence, potential homebuyers could take advantage of the credit and receive cash when they filed their tax return, but that didn’t help on the front end of the mortgage transactions, where they needed funds to help with down payment and closing cost obligations.

THDA staff quickly developed a creative plan to respond to the needs for monetization of the homebuyer credit, as well as complement our existing single family mortgage loan programs, and presented that plan to the Board of Directors in March, 2009. The Stimulus Loan would allow homebuyers to take advantage of the tax credit during the time it was needed the most ... at closing. The Board of Directors approved the program with an effective date of April 1, 2009.

The most attractive piece of the Stimulus Loan was the opportunity for the homebuyer to pay back the loan to THDA after receiving their tax refund with no interest costs! Because there were deferred payments, and the rate was 0% if paid back by a certain date, the homebuyer was in essence using THDA funds for free. Of course, as stated below, if the homebuyer decided not to pay the loan back by the specified date, the Stimulus Loan would become a fully amortizing second mortgage with an interest rate slightly above the first mortgage.

Another important aspect of the new loan program was the homebuyer education requirement for anyone who applied for the loan. THDA has been a leader in the area of homebuyer education, and has established a network of over 300 certified counselors across the state. As with all of THDA’s down payment assistance programs, potential homebuyers are required to attend an eight-hour course and receive a completion certificate before becoming eligible for a THDA loan.

THDA was one of the first state housing finance agencies to implement a program of this nature. Due to THDA’s financial strength, Stimulus Loan program was funded with excess revenues in the bond resolutions. THDA has been able to fund regular down payment assistance grants through this revenue source as well.

How the Program Works

Our goal was to make the program as simple as possible, to help as many first time homebuyers as possible, to leverage THDA’s regular mortgage loan programs, and to protect THDA’s financial investment. Below is a summary narrative of the program, as well as an outline of the program parameters:

Eligibility Period: April 1, 2009 – April 30, 2011 (For the select population that may still be eligible for the Federal Tax Credit)

**HFA: Tennessee Housing Development Agency
2010 Entry: Homeownership – Empowering New Buyers**

To make the Federal First-Time Homebuyer Tax credit usable at the beginning of the home buying process, Tennessee Housing Development Agency (THDA) offered a second mortgage program to assist first-time homebuyers with down payment and closing costs. Principal and interest was deferred until June 1, 2010 for applications taken in 2009, and June 1, 2011 for applications taken in 2010. Payments of principal and interest commenced on July 1, 2010 or will commence on July 1, 2011 (depending on date of application) if the second mortgage was or is not repaid in full. First-time homebuyers were able to borrow funds at no interest for a short period until such time as they received the First-Time Homebuyer Credit authorized in Section 3011 of the Housing and Economic Recovery Act of 2008, as amended by Section 1006 of the American Recovery and Reinvestment Act of 2009.

Eligible Borrower	Homebuyer obtaining THDA first mortgage Great Rate or Great Advantage loans and who is otherwise eligible for the First-Time Homebuyer Credit
Maximum Household Income	THDA Homeownership Choices limits apply
Maximum Loan Amount	3.5% of Purchase Price
Interest Rate	0% deferred until June 1, 2010, 1% above corresponding first mortgage rate if amortized. For applications taken in 2010, deferment until June 1, 2011, 1% above corresponding first mortgage rate if amortized.
Loan Term	After initial deferral period, the loan will fully amortize over 10 years, beginning July 1, 2010 or July 1, 2011 if applicable
Underwriting Criteria	Borrowers must have 620 minimum credit score. Must include amortizing 2 nd mortgage payment in total housing expense ratio.
Pre-Payment	The 2 nd mortgage loan is due in full upon 1 st mortgage payoff, assumption, or refinance. No pre-payment penalty.
Allowable Fees	Normal and customary 2 nd mortgage fees
Closing Documents	2 nd mortgage Note and Deed of Trust in the name of THDA
Homebuyer Education	Required prior to closing on first mortgage loan
Servicing	Servicer will service combined payments at no cost to THDA

Results (So Far)

We were very proud of THDA's quick response to the need for the Stimulus Loan, and are also proud of the results of the program so far.

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During 2009, the number of THDA loans that included the Stimulus Loan represented 30% of our total business. Through July 31, the THDA number of loans in 2010 that included a Stimulus Loan represented 21% of the overall production.

From the inception of the program, approximately 1,060 Tennesseans took advantage of the opportunity to “monetize” the homebuyer tax credit by purchasing a home with a THDA first mortgage combined with the Stimulus Loan. This activity represented an investment of THDA funds of \$4.2 million (an average loan amount of slightly less than \$4,000).

Through July 31, 2010 a total of 303 Stimulus loans, representing \$1.2 million, have been paid in full (almost 29% of the total).

One Story

Excerpts from one of THDA’s early press releases on the Stimulus Loan:

Nashville, May 14, 2009 – Gus Matos is not a symphony conductor, but his timing has been admirable. He was helping his girl friend and her parents move her to Memphis from Florida when he came across a job opening for himself.

They were out looking for better apartments when they came across a builder ready to deal. Then they came across a lender who kept up with fresh information from Tennessee Housing Development Agency and found the value of the Stimulus loan in his lap.

“I’m now six minutes from my work and am enjoying a lot of extras in a brand new house,” said Matos. “That’s good timing.”

He knows the difference, too. His parents’ home in Florida took over a year to sell. And it’s more expensive to live there than Memphis. “I have a \$1,100 house payment that would be \$1,400 in Florida. It’s much better in Memphis.”

Matos had the good fortune to meet Kevin Ruby of Community Mortgage in Shelby County. Ruby keeps up with the opportunities offered to first-time buyers through Tennessee Housing Development Agency. Ruby knew of the federal government’s interest in promoting homeownership, learned of THDA’s 0% anticipation interest-free loan, and had notified the Realtors® he worked with to look for folks who could benefit from the Stimulus Loan.

“I know what a great help the \$8,000 tax credit will be to first-time buyers,” said Ruby. “I agree with the concept of stimulating the homebuilding industry. I have other applicants in the pipeline, but Gus is a great example of a hard-working person ready to make the big step into homeownership.”

Matos felt the eight-hour homebuyer education class he took provided important information. “Your home is an investment, you need to sacrifice. Sometimes it takes time to get what you want,” he said. He is delaying getting a dog. He’s planning for the October wedding first.

THDA has heard hundreds of similar stories during the past 15 months, which makes the success of the Stimulus Loan program even sweeter!