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## Gap Financing Program Guidelines

September 2024

Three Rivers Community Action has assembled buyer down payment/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 \$28,000*) 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 Minnesota Housing Finance Agency (MHFA)'s Impact Fund and Greater Minnesota Housing Fund (GMHF) 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.

### First Mortgage Lender Qualification

To ensure that buyers are accessing all downpayment assistance for which they are eligible, Three Rivers Gap assistance is only able to be paired with lenders that are MHFA-approved lenders for the MHFA Start-Up mortgage/downpayment assistance or offer the USDA/RD Direct mortgage product (up to 100% LTV). If a household is working with an MHFA-approved lender and the buyer does not qualify for MHFA, Start Up or other downpayment assistance then Gap Financing can still be used. See the Affordable Mortgage Product section on the following page for more details.

### 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. The remaining economic life of the property must be equal to loan term plus 10 years as identified in appraisal.

### 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 acquisition limits established by the Minnesota Housing Finance Agency for their Start Up program, currently at \$604,400.

### Target Households

The Gap Financing program targets diverse households, racial and ethnic minorities, households new to the country, and first generation homebuyers at less than 80% of the state median income. Even with these targets, any household under 80% of the state median income who is a first-time homebuyer is eligible for the program.

### Income Limits

Households are eligible 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.

For MHFA Impact Funds (up to \$19,500):  
80% of State Median  
June 1, 2024 Income Limits

Maximum Income (Southern Minnesota)	Maximum Income (Olmsted & Dodge County)
\$ 89,500	\$ 93,800

For GMHF Funds (up to \$8,500)  
80% of State Median Adjusted for Household Size  
April 1, 2024 Income Limits

Family Size	Maximum Income (Southern Minnesota)	Maximum Income (Olmsted & Dodge County)
1	\$62,650	\$ 65,650
2	\$ 71,600	\$ 75,000
3	\$ 80,550	\$ 84,400
4	\$ 89,450	\$ 93,750
5	\$ 96,650	\$ 101,250
6	\$ 103,800	\$ 108,750
7	\$ 110,950	\$ 116,250
8	\$ 118,100	\$ 123,750

### Affordable Mortgage Product

Buyers must be approved for mortgage financing (with an affordable first mortgage product) prior to a reservation of gap loan funds through an MHFA-approved lender or USDA/RD. First mortgage loan products must allow a second mortgage on the property. If working with an MHFA-eligible lender, the buyer must be screened for MHFA Start-Up first before other products are pursued; if the buyer is ineligible for the MHFA product, the lender may offer other affordable products that can be paired with Three Rivers assistance. USDA/RD lenders are exempt from the requirement to screen household for MHFA Start-Up.

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.

Please note the GMHF (up to \$8,500) portion of our funding is not able to provide secondary financing to individual homebuyers using FHA financing.

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 gap loans have a 30-year term.
- Downpayment required by first mortgage cannot exceed 5 percent of sale price, unless additional downpayment is required for homebuyer to qualify for first mortgage. If downpayment exceeds 5% we will need an explanation in writing from lender. (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 to income ratio of at least 28 allowed by the loan product (e.g., 29 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 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 (if available) in addition to MHFA Start-Up or the USDA/RD product (i.e. local downpayment assistance programs, lender downpayment programs, etc.). Other downpayment funds can be layered with the Three Rivers Gap funds on a case-by-case basis - this determination will be made through one-to-one homebuyer advising (see below).

#### Homebuyer Education & One-to-One Homebuyer Advising is required

All buyers must enroll on Three Rivers one-to-one homebuyer advising services and 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>. Please note that the Advisor will assist the household in determining if they have accessed all other downpayment assistance options available to them prior to submitting an application for a Gap Loan.

#### Gap Loan Terms

Impact Fund (MN Housing) loans are available only at the following terms:

- Deferred loan, 0% interest
- 20-year forgivable, 5% forgiven annually
- Balance due on sale or satisfaction of first mortgage
- Recorded as a second (or sometimes third) mortgage on the property
- maximum \$19,500 available to households under 80% of median income

GMHF Loans are available only at the following terms:

- 30-year Deferred loan, 0% interest
- Balance due on sale or satisfaction of first mortgage
- Recorded as a second (or sometimes third) mortgage on the property
- maximum \$8,500 available to households under 80% of median income adjusted for family size

Combined maximum assistance is \$28,000. Most buyers qualify for less, with the exact

amount determined by Three Rivers based on the following factors:

- Household income
- 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 and deposits made within 60 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%. 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.
- If the housing expense ratio exceeds 35% of the household's income, a waiver will be considered if the household can show ability to pay through established rent payments/existing housing payments.
- 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 Minnesota Housing Finance Agency and Greater Minnesota Housing Fund.

### 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 costs from closing the loan including recording fees.
- Applications will be taken on an on-going basis until all funds are committed. There is no application fee.
- Three Rivers requires a minimum of 30 days to process a *complete* application, including all required attachments.

### CONTACT:

For more information, contact us today:

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