



DETROIT HOME MORTGAGE

Program details for future homebuyers.

HIGH CLTV EDUCATION





COURSE OUTLINE

- Traditional Mortgage Structure & Loan to Value
- Current State of Mortgages in Detroit
- The Detroit Home Mortgage Program
- Combined Loan to Value
- Combined Loan to Value Ratio Risk Disclosure



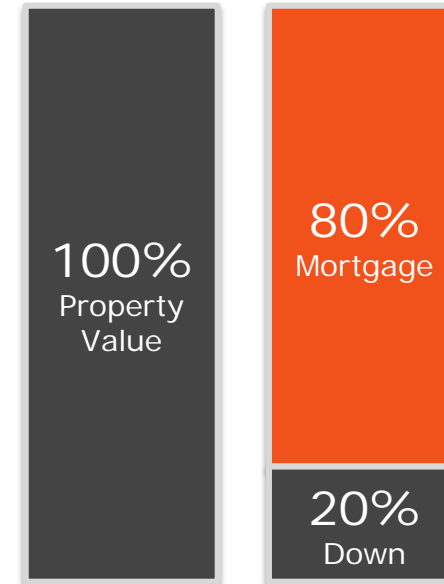
TRADITIONAL MORTGAGE STRUCTURE





TRADITIONAL MORTGAGE STRUCTURE

- Loan to Value (LTV) = Mortgage / Property Value
- Mortgage = \$80,000
- Property Value = \$100,000
- $LTV = \$80,000 / \$100,000$
- LTV = 80%
- Down Payment = \$20,000 required





TRADITIONAL MORTGAGE STRUCTURE

- Typical Loan to Value is less than 80%
- A mortgage with LTV over 80% is considered “High LTV” is seen as risky to lenders
- If more than 80% LTV, lenders often increase interest rates and require purchasing mortgage insurance

Example: FHA guidelines will allow 96.5% LTV (3.5% down) with mortgage insurance as an additional cost to the borrower.

- If LTV is greater than 100%, mortgage is considered “underwater” or “upside down”



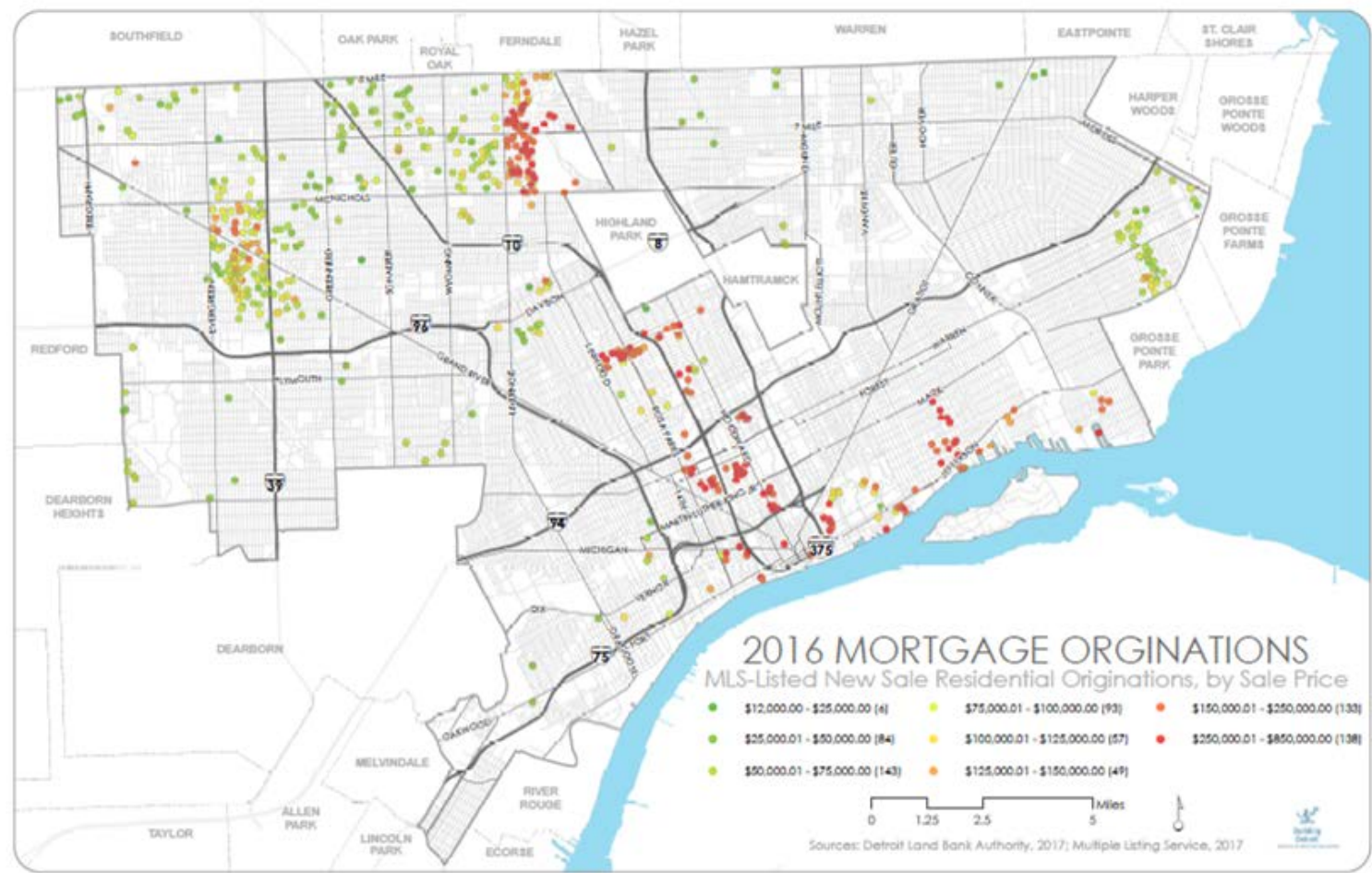
MORTGAGES IN DETROIT





MORTGAGES IN DETROIT

There were 736 mortgages made in Detroit in 2016 (19% of all sales).





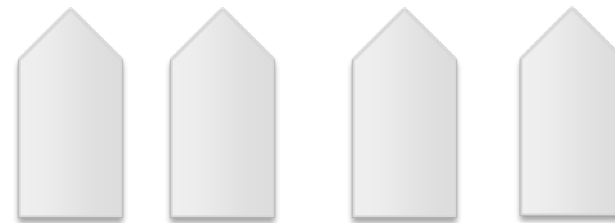
WHY SO FEW DETROIT MORTGAGES?

- Often times, homes paid for in cash are being purchased by investors and homes paid for using a mortgage are being purchased by people planning to live in the home.
- Because there are so few mortgages each year, when a bank appraiser tries to value a home in a Detroit neighborhood, they most likely use homes that were paid for in cash to compare to the home that the buyer is requesting the mortgage on.
- This results in an appraised value gap that may cause the bank to decline the request for the mortgage. This reinforces a cash-based real estate market that favors investors and makes it very difficult for normal homebuyers.

Mortgaged Home



Cash Homes



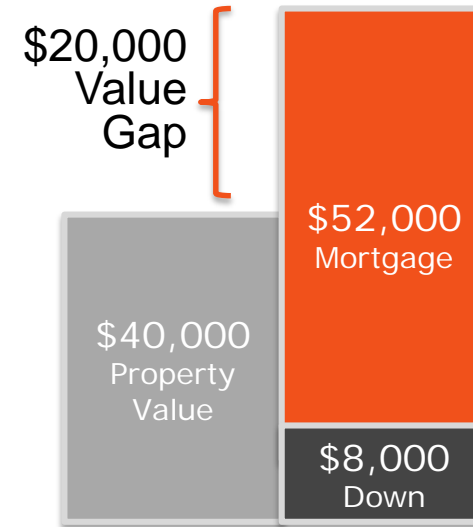
Value
Gap



WHY SO FEW DETROIT MORTGAGES?

Sample of mortgage financing challenge in Detroit:

- Borrower finds a home listed for \$60,000
- Borrower requests a mortgage for \$52,000 with a cash down payment of \$8,000
- But the home only appraises for \$40,000
- Leaving a \$20,000 appraised value gap



So, $LTV = \$52,000 / \$40,000 = 130\%$ ← Meaning the mortgage is ***not*** eligible for traditional financing



WHY SO FEW DETROIT MORTGAGES?

This means the borrower would need to have an additional \$12,000 cash to add to their down payment of \$8,000 for a total of \$20,000 to make up for the \$20,000 appraisal gap.

If the borrower is unable to bring the total of the \$20,000 cash to make up the appraisal gap, then the bank would have no other choice except to decline the financing request.



DETROIT HOME MORTGAGE PROGRAM



DETROIT HOME MORTGAGE PROGRAM



Is a non-traditional program to re-establish the mortgage market in Detroit and offer homebuyers a solution for financing a home in the cash-based real estate market by filling the appraisal gap buyers encounter.

DHM has been created to reintroduce mortgage lending for individuals and families interested in buying into Detroit's future!

Detroit Home Mortgage includes a **second mortgage** that will support LTV ratios beyond the conforming market.





DETROIT HOME MORTGAGE PROGRAM

DHM also allows for borrowers to bring a smaller down payment of 3.5% of the appraised value using a High CLTV model.

Additionally, DHM does not seek additional mortgage insurance to compensate for the higher LTV.

DHM is unlike traditional mortgages in that it provides financing for a borrower that qualifies for a traditional mortgage when their property does not.





DETROIT HOME MORTGAGE PROGRAM

Remember the borrower who needed an additional \$12,000 to add to their \$8,000 down payment in order to make up for the \$20,000 appraisal gap for the purchase of their new home?

- With Detroit Home Mortgage, the borrower is allowed to:
 - Finance at 96.5% LTV on the 1st mortgage
 - Finance a portion of the \$20,000 appraisal gap using a 2nd mortgage





DETROIT HOME MORTGAGE PROGRAM

Important to note:

- The application process is similar to other traditional mortgage programs--the Borrower will speak to a participating bank to get pre-qualified for DHM
- The borrower applies for both a 1st and a 2nd mortgage with the participating bank at the same time
- Once the borrower closes, each mortgage will have a separate payment notice
- Both payments must be made monthly to avoid becoming delinquent



COMBINED LOAN TO VALUE

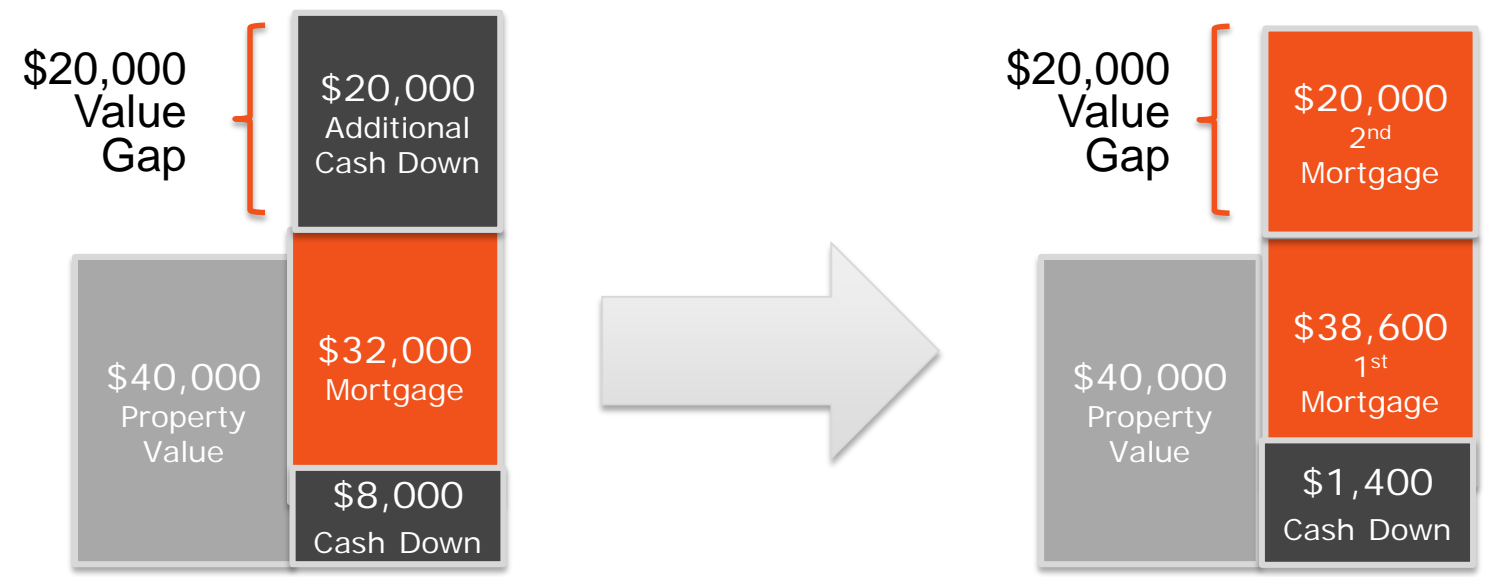




DETROIT HOME MORTGAGE

Let's revisit our borrower with the \$20,000 appraisal gap.

- With Detroit Home Mortgage, the borrower is allowed to use a High CLTV financing:
 - \$38,600 financed on a 1st mortgage (96.5% of the appraised value)
 - \$20,000 above the appraised value financed on a 2nd mortgage

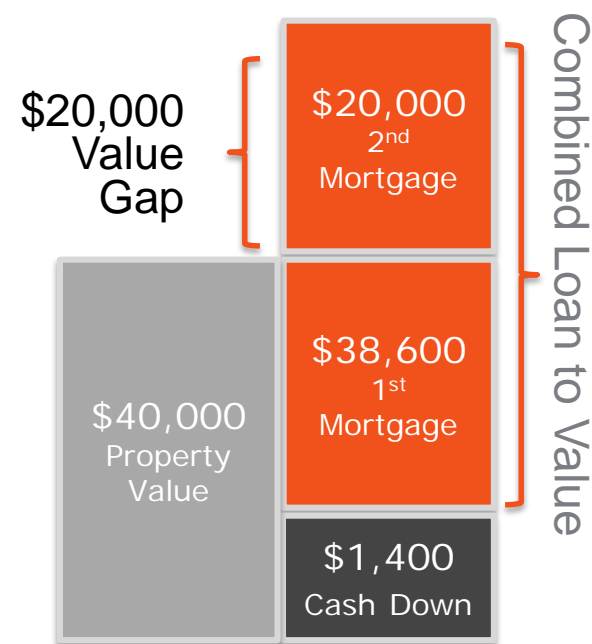




COMBINED LOAN TO VALUE (CLTV)

$$\text{CLTV} = (\text{1st Mortgage Balance} + \text{2nd Mortgage Balance}) / \text{Property Value}$$

- Total Cost to Buy a home = \$60,000 (Mortgage + Down Payment)
- Value of home = \$40,000
- First Mortgage = \$38,600 (@ 96.5% value)
- Second Mortgage = \$20,000 (amount above value)
- $\text{CLTV} = (\$38,600 + \$20,000) / \$40,000$
= \$58,600 / \$40,000
= 146.5%

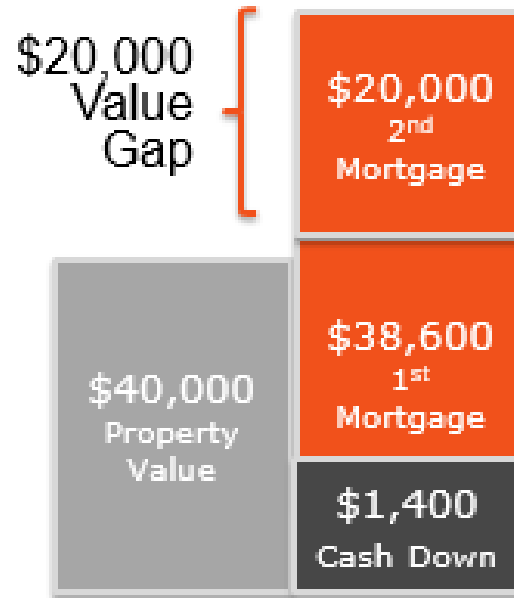




COMBINED LOAN TO VALUE (CLTV)

Sample of DHM combined mortgage financing:

- 1st Mortgage = \$38,600 (@ 96.5% value)
 - Interest estimated at 3.2% (APOR)
 - Length estimated at 20 years (240 months)
 - Estimated payment \$218 (P & I)
- Down Payment = \$1,400 (@ 3.5% value) paid at closing
- 2nd Mortgage = \$20,000 (amount above value)
 - Interest at 5%
 - Length estimated at 20 years (240 months)
- Combined monthly payments = \$349.95/month (P&I)
- If paid as agreed, positive equity achieved by 99 months or 8.25 years into mortgage (assuming no home price appreciation / depreciation)





CLTV RATIO RISK DISCLOSURE





EXAMPLE CLTV RATIO RISK DISCLOSURE

- This disclosure explains some of the risks in obtaining high loan-to-value ratio loans
- In order to purchase and/or rehabilitate a property using DHM, the combined loan-to-value ratio of the two loans you are applying for will be greater than 100%
- This means that you will owe more than the property is worth





EXAMPLE CLTV RATIO RISK DISCLOSURE

What is a loan-to-value ratio?

- The loan-to-value ratio of a loan is a comparison between the amount of the loan and the lesser of the total acquisition cost (*purchase price plus renovation cost*) or the value of the property including all planned renovations
- The combined loan-to-value ratio of your loans is a comparison of the loan amounts of both of your loans combined and the lesser of:
 - (a) the total acquisition cost or
 - (b) the value of the property including all planned renovations
- The combined loan-to-value ratio tells you how much of the property is being financed





EXAMPLE CLTV RATIO RISK DISCLOSURE

How do I determine my combined loan-to-value ratio?

- To determine the combined loan-to-value ratio, we divide the combined loan amounts by the lesser of (a) the total acquisition cost (*purchase price plus renovation cost*) or (b) the appraised value of the property including all planned renovations
- For example, if:
 - The combined amount of your two loans is \$150,000
 - The appraised value of the property after completion of the renovations is determined to be \$100,000

The combined loan-to-value ratio is 150%

- In this example, you would be borrowing \$50,000 more than the value of the property, or 150% of the value of the property





EXAMPLE CLTV RATIO RISK DISCLOSURE

- It is important that you understand that the combined loan-to-value ratio of your loans will be higher than 100%
- This is considered a high combined loan-to-value ratio





EXAMPLE CLTV RATIO RISK DISCLOSURE

What are the risks?

- There are many drawbacks of a high combined loan-to-value ratio, including but not limited to all of the following:
 1. **From the start, you would owe more than your home is worth and it may take many years before you owe less than your home is worth**

However, with the Detroit Home Mortgage program:

- Borrowers are quickly building equity because the second mortgages have a 5% fixed interest rate, and the first mortgages have a low fixed interest rate
- Both loans have a shorter maturity (10 / 15 / 20 year) so even without an increase in market values the Borrower realizes positive equity in a short period of time

From the sample CLTV mortgage positive equity in 8.25 years

- There are no prepayment penalties



EXAMPLE CLTV RATIO RISK DISCLOSURE

What are the risks?

- There are many drawbacks of a high combined loan-to-value ratio, including but not limited to all of the following:
 2. **If the value of your home declines, it will take even longer to owe less than your home is worth**

However, with the Detroit Home Mortgage program:

- Loan amounts are manageable--the CLTV percentages are high only because averaged appraised values are very low
- If home values increase, you will achieve equity in your home more quickly



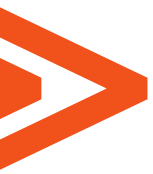
EXAMPLE CLTV RATIO RISK DISCLOSURE

What are the risks?

- There are many drawbacks of a high combined loan-to-value ratio, including but not limited to all of the following:
 3. **If you sell your home, you might owe more money on the loans than you get from the sale, meaning you would lose money**

However, with the Detroit Home Mortgage program:

- In the event of a hardship (such as job loss, medical crisis, death of spouse, divorce, etc.) that results in you being no longer able to afford the property, and which in working with the lender results in the home being sold, any unrecovered balance due on the second mortgage will be forgiven



EXAMPLE CLTV RATIO RISK DISCLOSURE

What are the risks?

- There are many drawbacks of a high combined loan-to-value ratio, including but not limited to all of the following:
 4. **You may not be able to refinance your loans--not many, if any, lenders refinance high loan-to-value ratio loans without requiring you to lower the ratio by paying down the loans**

However, with the Detroit Home Mortgage program:

- Homebuyer education and pre-purchase counseling helps buyers prepare financially for homeownership
- Take advantage of these services to be more likely to avoid situations like needing to refinance



CONGRATULATIONS!

Next Steps:

- **Contact one of the approved homebuyer counselors listed on the DHM education web page.**
- **Your counselor will take you through a short quiz before they issue your class certificate.**
- **If you have any trouble answering the questions, your counselor will explain them to you, making sure you understand the concepts.**
- **Once your counselor determines that you understand the class concepts, they will email you the High CLTV course certificate.**
- **Turn this certificate in to your loan officer.**





DETROIT HOME MORTGAGE

Thank you for watching!

