

**From:** Sheila Rice  
**Sent:** Wednesday, August 17, 2011 5:06 PM

**FW: HUD secondary lending changes**

**To our colleagues in the affordable housing field:**

Change has been nearly continuous in the mortgage lending field over the past three years. NeighborWorks appreciates all of the help you have contributed to creating opportunities for successful homeownership for hard-working Montana families. NeighborWorks is now undergoing some changes in our lending world and we wanted to let you know about these right away.

For 10 years, NeighborWorks Great Falls has been classified by HUD as an Instrumentality of Government (IOG). This designation allowed NWGF to provide the 3.5% cash contribution required from the borrower for an FHA-insured mortgage. In 2009, HUD's Denver office renewed NWGF's Instrumentality of Government status and approved this IOG status for the entire state.

During the recent 2011 recertification of NWGF as a secondary lender and an IOG, HUD made the following determinations, which have been communicated verbally, but not yet received in writing. NWGF is currently operating as an IOG statewide for loans closing on or before August 31, 2011. After August 31, 2011, the changes below apply:

**These changes are for FHA-insured loans ONLY:**

In the City of Great Falls: NeighborWorks Great Falls is an IOG only in the City of Great Falls, only when it is using City funds. NWGF can only contribute the 3.5% borrower contribution within the City of Great Falls using the City's HOME or NSP (Neighborhood Stabilization Program) funds. If the borrower or property cannot qualify for a City HOME or NSP deferred mortgage, they will have to contribute 3.5% of the purchase price as a down payment on the home.

Outside the City of Great Falls: NeighborWorks is not an IOG and cannot contribute the borrower's 3.5% down payment anywhere outside of Great Falls. All borrowers will have to contribute 3.5% of the purchase price, regardless of the funding for the second mortgage.

We are working with the State Housing Division and the Board of Housing to determine a method for making HOME deferred loans with a government entity as the grantor or beneficiary thereby allowing state HOME funds to be used for the 3.5% down payment on FHA loans. We will keep you informed of this progress and of any other changes as soon as possible.

We are as chagrined about this news as you are because of its impact on our mission of creating opportunities for successful homeownership for low-income Montanans. We know that low income homebuyers can be successful if they have good pre-purchase education and counseling and if they have a fixed rate loan. Our default rate of 1% proves this success.

Options (now and in the future)

- NeighborWorks can still provide 2<sup>nd</sup> mortgage loans (both amortizing and deferred) to cover closing costs as long as the 3.5% is paid by the borrower on the FHA-insured first mortgage. In Great Falls ONLY, NeighborWorks can still provide deferred mortgages with funds from the City of Great Falls, including the 3.5% borrower's down payment.
- These changes do not apply to Rural Development, VA or conventional loans, so if your borrower can use another product, they can still get full down payment and closing costs from NWMT or NWGF.
- We are working with the State Housing Division and the Board of Housing to determine a method for making HOME deferred loans with a government entity as the grantor or beneficiary so that state HOME funds can be used for the 3.5% FHA required down payment.
- NWMT will look for banks and credit unions that would like to develop a 20/80 portfolio product.
- NWMT will look for funders who can provide capital for first mortgages without FHA-insurance.
- NWMT will seek funding for a matched savings program for families over 200% of poverty.

If you have any questions, please call Sheila Rice at 406-216-3504.

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