

Date:

Dear: **Borrower 1 and Borrower 2**

As the President of CBC Mortgage Agency, I want to thank you for the opportunity to serve you by assisting with the down payment on your new home. I would also like to provide you with some important details about the choices you have in the financing of your home. Our government agency is working with your lender, **LENDER NAME**, to provide you down payment funds in conjunction with the first mortgage loan you are receiving. The down payment funds we provide are typically in the form of a second mortgage, which you may or may not be required to repay based on the specific down payment assistance program you qualify for.

**Our Mission - As a federally chartered, public purpose, government agency, we work to increase affordable and sustainable homeownership opportunities for credit worthy individuals who lack down payment funds.**

Given your home ownership and financial security goals, it is critical that you fully understand your mortgage terms. You have chosen to obtain home financing by using a mortgage professional. That was a good decision. Undoubtedly, in the course of the mortgage application process, they have explained to you the various alternative types of mortgages and the features, advantages, and trade-offs of each.

In addition, you have received a number of documents which disclose the key terms of the first mortgage type you have selected. You will also be provided with the promissory note which obligates you to repay the money you are borrowing. That note describes in detail how your mortgage will work. I encourage you to read these documents carefully and to consult with your mortgage professional if you should have any questions.

The following are a few important points for you to consider as you go through the home buying process.

#### DOWN PAYMENT AND INTEREST RATE - OPTIONS AND DECISIONS

The terms of your first mortgage can be impacted if you don't have your own down payment. It is possible that the interest rate on your first mortgage is higher than if you provided your own down payment. In addition, there can be a significant difference in the interest you are paying on your first mortgage depending on the down payment program you utilize. To determine which option makes the most sense for you, you should consider things like how long you think you will be in your new home. For example, if you qualify for a forgivable second mortgage, but you plan to be in your home more than 5-7 years, the additional interest you are charged on your first mortgage may exceed the amount of the forgivable second mortgage you are receiving. If this is the case, you may want to opt for a repayable second mortgage that gives you a better interest rate on your first mortgage, or you may want to bring in your own down payment.

Ask your licensed mortgage loan professional what the interest rate on the first mortgage would be were you to provide your own down payment. You can then better choose between the down payment options as described below:

#### **Option 1- Save up your own down payment, and receive no down payment assistance and the associated second mortgage.**

Advantages:

- Typically, a lower interest rate on the first mortgage
- Potentially easier processing and underwriting

Disadvantages:

- While saving up the down payment, the home you're looking may be sold.
- While saving up the down payment, home prices in general may go up, resulting in your inability to afford the home or in less future equity and wealth creation if you do purchase the home later.

- You are left with diminished savings in your bank account, causing financial difficulty or consumer borrowing to purchase furniture, yard equipment, etc. You may also lack the funds to cover an unforeseen event, i.e. unforeseen repairs or medical emergency.

**Option 2 - Buy a home now and obtain your down payment through the Chenoa Fund DPA Edge Program, provided by CBC Mortgage Agency.**

Advantages:

- Potentially enjoy future increased household net worth by buying now if home prices increase over time.
- Purchase from currently available properties without risking that inventory will be sold months when you're finally ready to buy.
- Potentially not be required to pay back the down payment you receive from the Chenoa Fund. **Borrowers qualifying for the potential repayment forgiveness program cannot exceed specific income threshold requirements** (certain additional restrictions apply for us to forgive the balance of the second mortgage, including 36 or 120 months of consecutive on-time first mortgage payments, depending on the program.)
- Typically pay a higher interest rate on the first mortgage, causing you to lock in a higher payment for potentially years. **Over time, the amount of additional interest you pay on the first mortgage could exceed the amount of the down payment assistance.**
- CBC Mortgage Agency will not subordinate the second mortgage in the first 3 years of the loan. This means that if interest rates drop 6 months after you purchase the home and you desire to refinance, you may be required to repay the down payment you received, or be prevented from refinancing altogether.

**Option 3 - Buy now and obtain your down payment through the Chenoa Fund Rate Advantage Program, provided by CBC Mortgage Agency.**

Advantages:

- Competitive market interest rates on the first mortgage.
- Potentially enjoy future increased household net worth by buying now if home prices increase over time.
- Purchase from currently available properties without risking that inventory will be sold when you're finally ready to buy.
- Preserve any funds you currently have in your bank account and use them to cover emergencies, furniture, yard equipment, etc. Oftentimes, new homeowners purchase a home, and given they now lack cash, they finance needed household items on credit, at terms much worse than they could have had under a second mortgage through CBC Mortgage Agency.

Disadvantages:

- You will be required to repay the down payment assistance funds at a fixed rate of interest over a 10-year period instead of having the option for repayment over a 30-year period.
- Although your interest rate on the first mortgage will be significantly less than if you choose Option 2, it could still be higher than if you bring in your own down payment.

CLOSING PROCESS

If your loan is approved, you will later go to closing to sign documents to own the home. This will entail signing many agreements which obligate you to repay the money you have received. In addition, you will sign a set of second mortgage documents for the down payment assistance funds, and there will be a second mortgage lien attached to the title of your property that will not be subordinated and will only be released after the loan is paid off, or in the case of a forgivable second mortgage, after 36 or 120 months of consecutive on-time first mortgage payments have been made. **If the second mortgage needs to be paid off over time on a monthly basis you will have two payments, one for the first mortgage and one for the second mortgage.**

POST CLOSING - OWNING YOUR OWN HOME

