

# Understanding the HRAP Forgivable Loan

## Owner-Occupied, Full Rehab Projects



### Basic Facts

- The Home Repair and Accessibility Program (HRAP) Round 2 is a program offered by the Illinois Housing Development Authority (IHDA) to assist homeowners with needed health and safety repairs to their homes. The program's goals are to improve the health and well-being of occupants, help residents remain in their homes, and to preserve housing stock around the state. These goals align with IHDA's mission, to "finance the creation and preservation of affordable housing in Illinois."
- **Rehab assistance is provided to homeowners in the form of a five-year forgivable loan with an interest rate of 0% and no monthly payment.**
- The loan term begins after construction is completed. After the document is signed, the loan term will start on the first day of the following month. If the final signature date is March 15, then the loan term will start on April 1.
- 1/60th of the loan is forgiven each month until the end of the loan term.

### What are my primary obligations under the loan?

- For the entire HRAP loan amount to be forgiven, all owners listed on title must continue to reside in the home as their principal residence for the five-year loan term.
  - See the examples below for what happens if you leave your home before the loan term ends.
- Keep your property in good repair.
- Stay current on all payments related to your property including, but not limited to, payments on your first mortgage, taxes, insurance, etc.
- Maintain your homeowner's insurance with IHDA on the policy for the entirety of the loan term – see why below.
- **NOTE: Please review the Promissory Note and Mortgage documents for a full record of your obligations under the HRAP loan.**

### What is the "Special Notice About Your Forgivable Loan"?

- This document informs you that you are eligible for up to \$50,000 for home repairs, and that your actual loan amount will reflect the final construction costs.
- This is done because the final loan amount cannot be determined until after construction is completed and the final cost of the project is known.
- In no case will your loan exceed \$50,000, and in many cases your loan may be less than \$50,000 – it is dependent on the final construction costs.

This document also specifies that the actual loan amount will be listed in the Project Completion Certificate, which you will sign after all rehab work is complete. The 'Actual Loan Amount' on the Project Completion Certificate is the total cost of your home repairs and the associated soft costs (permits, inspection fees, mortgage recording fee, etc.).

## What are the Promissory Note & Mortgage Documents?

These documents specify the terms of the forgivable loan and your obligations under the agreement. As indicated in the "Special Notice," these documents will indicate that the final loan amount will be the lesser of \$50,000 or the final cost of construction.

## What happens if I sell my home during the loan term?

- If you sell your home during the loan term, then you'll need to pay back the remaining unforgiven loan balance with the money made from selling the house.
- When you sell your home, the proceeds are applied to satisfy the outstanding balance on your first mortgage and then on the HRAP loan. If there are surplus funds, they will be disbursed to you.

In the following example, the homeowner was awarded a \$30,000 HRAP loan and wants to sell their home two years into the loan term.

<b>Sales Amount</b>		\$100,000
<b>Outstanding 1st Mortgage Amount</b>		- \$50,000
<b>Closing Costs (Estimated 10%)</b>		- \$10,000
<b>Net Proceeds</b>		\$40,000
<b>HRAP Loan Awarded</b>	\$30,000	
<b>Loan Forgiven Amount (18 months)</b>	- \$12,000	
<b>Outstanding HRAP Loan Amount</b>		- \$18,000
<b>Owner's Proceeds from Sale</b>		\$22,000

- A \$30,000 HRAP loan would be forgiven at the rate of \$500 a month. After two years, \$12,000 would have been forgiven.
- Since the loan term is not complete, the remaining balance of \$18,000 becomes due.
- Proceeds from the sale will be used to satisfy the outstanding first mortgage amount and then to settle any closing costs related to the sale. In this example, we are estimating 10% in closing costs. Based on that estimate, the net proceeds are \$40,000.

- The outstanding HRAP loan amount of \$18,000 would be subtracted from the net proceeds of the sale.
- The owner's final proceeds from the sale would then be \$22,000.

In cases where the net proceeds from the sale do not cover the outstanding balance of the HRAP loan, IHDA will not require the homeowner to pay the difference.

If you do not have a first mortgage, then the net proceeds from the sale will still be used to satisfy the outstanding balance of the HRAP loan, and then surplus funds will be disbursed to you.

## What if I pass away and someone inherits my house during the loan term?

If a co-owner inherits the home and lives in the home as their primary residence (and fulfills their other obligations under the loan) until the end of the loan term, they will not have to pay back the loan.

If that co-owner decides to sell the home, the proceeds from the sale would be handled in the same manner as described above.

If someone who is not a co-owner inherits the home, the remaining unforgiven balance of the loan would become due – regardless of whether that new owner lives in the home. If the new owner sells the home, the proceeds from the sale would be handled in the same manner as the example described above. They would not have to pay anything owed on the HRAP loan after the sale.

## What happens if I move out of the home during the loan term, but decide not to sell my home?

If you move during the loan term, the unforgiven balance of the loan would become due. The home must remain your principal residence during the HRAP loan term.

## What happens if my income increases above the program eligibility limit at some point during my loan term?

Nothing will happen to your HRAP loan. HRAP applicants only need to income qualify at the time of the construction project. If your income increases later, there is no penalty under the program.

## Why does IHDA need to be on my homeowner's insurance?

To ensure IHDA's financial investment in your home is protected, IHDA needs to be on your insurance as "additional insured" or "mortgagee" for the entire loan term.

