

Check It Out

Downpayment Assistance Programs Can Help Put More Members into Homes

Downpayment assistance, or DPA, is an umbrella term for the many programs offered by a federal, state, county or local government agencies, nonprofits or employers. DPA programs include loans (with widely varying payback provisions), grants and other programs for potential homebuyers who are income- and credit-qualified and ready for homeownership.



“Many programs offer buyers flexibility to use the grant or loan to fund their downpayment and/or closing costs,” said Rob Chrane, CEO of Down Payment Resource. “It’s important for buyers to review and compare program options with their agent and lender so they apply for the program that is best for their personal situation.”

GRANT PROGRAMS

Grant programs are gifts provided by an eligible third party which do not have to be repaid by the homebuyer, do not incur a lien on the property being purchased, and have no associated note or deed. These programs offer a true gift to the buyer at closing to help cover the cost of some or all of the down payment or closing costs.

One example is the PenFed Foundation Dream Makers Grant (see sidebar for link to more information), a national program that provides eligible military or veteran homebuyers with a 2-to-1 matching grant up to \$5,000.

SECOND MORTGAGE PROGRAMS

Many downpayment programs come in the form of a second mortgage, or subordinate lien, with varying payback provisions. The second mortgage is usually funded by a federal, state or local government DPA program, or a nonprofit or an employer that offers downpayment help in their market or service area.

Some programs defer monthly payments, some forgive portions or all of the downpayment help over time or in the future, and some require monthly payments.

The terms vary across programs, and sometimes a program may combine different features. Loan officers have to consider the repayment terms when qualifying a borrower.

REPAYABLE OR SOFT SECOND MORTGAGE PROGRAMS

Repayable downpayment assistance programs provide the buyer with the downpayment they need now so they

can buy a home sooner. The funds are delivered at closing often as a zero-interest second loan, but some may accrue interest and some may be amortizing loans.

These downpayment programs typically range from 5-year to 30-year loans with varying repayment terms. The repayment starts immediately or kicks in after a predetermined period of months or years (a “soft” second).

One example is the repayable NeighborWorks Blackhawk Region Down-Payment Assistance Program (See sidebar for link to more information.), available to buyers in the City of Beloit, Wisconsin. It provides a loan of \$3,000 minus \$500 for their homebuyer education program. The interest rate is 7% if the buyer opts for automatic payment or 7.25% without automatic payment.

Some repayable programs may have a partial balloon payment, meaning the remaining balance of the original second mortgage may come due at the end of the second mortgage term.

DEFERRED OR SILENT SECOND PROGRAMS

Silent seconds are downpayment programs that postpone repayment of the original downpayment assistance un-

til one of several events occurs—typically, when the borrower sells, refinances, rents or moves out of the original home purchased. As with repayable DPAs, this structure can help the program administrator fund the program for future buyers.

When buyers plan to live in the home for many years, they will benefit most from the home's appreciation in value. However, as with most forgivable debt, there may be a taxable impact. A 1099 may come in the mail after the buyer sells, refinances, rents or moves out of the home. Buyers need to be aware of, and plan for, this possibility.

An example of a silent second is one of the City of Napa's First Time Homebuyer Programs (See sidebar for link to more information.) that provides a loan of up to \$58,000, or 30% of the purchase price, whichever is less. It's a 1% simple interest loan with a 30-year term, but repayment is deferred for up to the 30-year term as long as the buyer remains in the home as the owner-occupant.

FORGIVABLE SECOND MORTGAGE PROGRAMS

With a forgivable second mortgage program, some or all of the original downpayment assistance amount is forgiven. When and how much of that downpayment help is forgiven may vary, but it's common for a per-


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One example is the City of Austin "Standard" Downpayment Assistance Program (See sidebar for link to more information.) that provides up to \$14,999 of assistance for eligible closing costs, prepaid expenses and downpayment. It's a zero-interest, 5-year forgivable loan and payments are deferred over that 5-year affordability period.

HPI DATA ABOUT ALL TYPES OF PROGRAMS

Here are some statistics about homeownership programs:

- 38% of homeownership programs do not have a first-time homebuyer requirement and are avail-

centage of the loan to be forgiven each year for a predefined number of years.

For example, 20% of the loan might be forgiven each year for five years, so after five years the entire original downpayment loan is forgiven and the second lien removed. However, if the program's conditions are not met—for example, the buyer moves out of the home—the loan must be repaid, at times with interest.

able for eligible repeat homebuyers. ("First-time homebuyer" is defined by HUD as someone who has not owned a home in three years.)

- 75% of programs are available in a specific local area, such as a city, county or neighborhood; 25% of programs are available statewide through state housing finance agencies.
- 19% of programs allow buyers to purchase a multi-family property as long as the buyer occupies one of the units.
- More than 6% of programs are available for community service workers, including educators, police officers, firefighters and health-care workers.
- 6% of programs have benefits for veterans, members of the military and surviving spouses. These programs can also be layered with zero downpayment VA loans.
- 69% of programs in the DPR database are downpayment or closing cost assistance; 9% of programs are first mortgages, and 8% of programs are Mortgage Credit Certificates (MCCs).
- States with the greatest number of downpayment programs remained consistent—California, Florida and Texas are the top three. (See sidebar for link to a complete list of state-by-state program data.)
- More than 50% of programs accept online homeownership education.

WANT TO LEARN MORE?

Here are the programs mentioned in the article with URLs to more information online:

- **PenFed Foundation Dream Makers Grant:**
http://www.pentagonfoundation.org/site/PageServer?pagename=dream_index
- **NeighborWorks Blackhawk Region Down-Payment Assistance Program:**
<https://nwblackhawkregion.org/we-lend/>
- **City of Napa's First Time Homebuyer Programs:**
<http://www.cityofnapa.org/200/Homeownership-Compradores-de-Casa>
- **City of Austin "Standard" Downpayment Assistance Program:**
<http://www.austintexas.gov/department/down-payment-assistance>
- **State-by-state list of downpayment program data from DPR:**
<https://downpaymentresource.com/wp-content/uploads/2018/04/HPI-state-by-state-data.Q12018.pdf>

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