



Bridging the Down Payment Gap: *Preparing for the first-time homebuyer opportunity*

Combine down payment and closing cost assistance sources with sustainable mortgage solutions and build new business for first-time homebuyers

Freddie Mac can help you generate more sustainable first-time homebuyer business by offering in-depth information about down payment and closing cost assistance options available locally and statewide. When you share this information throughout your network, you'll help more potential borrowers become homeowners and close more loans. Help your well-qualified borrowers understand and apply for state, local, and municipal assistance options to bridge down payment and closing cost gaps – creating sustainable financing for your borrowers and quality originations for your business.

> Benefits to Business

Freddie Mac is focused on:

- Helping you grow your first-time homebuyer and other business by identifying down payment and closing cost assistance resources that help well-qualified borrowers close on their mortgage loans
- Enhancing your customer service and borrower retention capabilities by providing affordability gap solution information
- Assisting you in building a knowledgeable loan originator, real estate professional, and housing counselor network
- Stabilizing the communities you serve by offering sustainable mortgage solutions

> Benefits to Borrowers

When you provide information on down payment and closing cost assistance solutions, well-qualified borrowers:

- Can fund their closing cost gap from a variety of authorized sources
- Borrowers can keep more funds in reserve to maintain the home and make their regular mortgage payments

SOURCES OF DOWN PAYMENT AND CLOSING COST ASSISTANCE

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| <p>What are the sources?</p> | <p>Well-qualified, first-time and other homebuyers seeking financial resources to bridge small gaps in down payment and closing costs have a variety of sources they can turn to to achieve their homeownership objectives, including:</p> <ul style="list-style-type: none"> • Housing Finance Agencies (HFAs). Housing finance agencies, or HFAs, are state-chartered authorities established to help meet the affordable housing needs of the state's residents. They administer a wide range of affordable housing and community development programs, including the issuance of Mortgage Credit Certificates (MCCs), which generally allow homeowners to claim around 20 percent of the annual interest on their mortgage as a federal tax credit as long as the home remains the borrower's principal residence. The estimated monthly credit is typically used by lenders like you as additional income to help the potential borrower qualify for the mortgage. • State, local, and municipal governments. Most down payment and closing cost assistance to eligible borrowers is provided through grants and deferred seconds offered by states, cities, counties, and municipalities that administer affordable housing and community development programs supported and funded by the U.S. Department of Housing and Urban Development (HUD). Grants are funds that do not have to be paid back unless the borrower sells his or her home within a certain period of time and deferred seconds are second mortgages that have low interest rates and/or deferred payments. <p>Eligible borrowers seeking down payment and closing cost assistance should apply through the program administrator (i.e., the HFA or state or local government issuing the Mortgage Credit Certificate -- or the state, city, county, municipality, or nonprofit designee offering or administering the grant or deferred second).</p> |
| <p>Mortgage Credit Certificates</p> | <p>Mortgage credit certificates are issued by certain state or local governments, including state housing finance agencies. They generally allow homeowners to claim approximately 20 percent of their annual mortgage interest as a yearly tax credit throughout the life of their original first mortgage.</p> <ul style="list-style-type: none"> • The amount of credit per mortgage loan is capped by the Internal Revenue Service at \$2,000 per year. • Mortgage lenders often use the estimated amount of the credit on a monthly basis as additional income to help the potential borrower qualify for the loan. • Homebuyers who wish to obtain an MCC must meet certain minimum guidelines (restrictions may be waived by the issuing entity in certain circumstances): (1) must not have owned a home in the previous three years; (2) must meet income and purchase price restrictions; and (3) must use the new home as a primary residence. <p>The entity issuing the mortgage credit certificate administers the program and accepts applications from eligible borrowers.</p> |
| <p>HOME Investment Partnerships Program</p> | <p>Administered by HUD, the HOME Investment Partnerships Program is the largest federal block grant to state and local governments (including HFAs), and is designed exclusively to create affordable housing for low-income households (those earning 80 percent or less of the area median income).</p> <ul style="list-style-type: none"> • Through HOME, annual formula grants to states and localities are provided that communities use – often in partnership with local nonprofit groups – to fund a wide range of activities that build, buy, and/or rehabilitate housing for homeownership or rental or provide direct rental assistance to low-income individuals and families. • HOME provides participating jurisdictions with a line of credit to draw upon, as needed, to use for grants, direct loans, loan guarantees or other forms of credit enhancement, or rental assistance or security deposits. • States are automatically eligible for HOME funds and receive either their formula allocation or \$3 million, whichever is greater. Local jurisdictions eligible for at least \$500,000 under the formula can receive an allocation. Communities that do not qualify for an individual allocation under the formula can join with one or more neighboring locality so that members' combined allocation would meet the threshold for direct funding. • Eligible jurisdictions receiving funds must provide 25 cents of their own funds for every HOME dollar received. <p>HOME state and local government grantees, or designees, administer these programs and accept applications from eligible mortgage-ready borrowers seeking funding.</p> |

SOURCES OF DOWN PAYMENT AND CLOSING COST ASSISTANCE

Community Development Block Grant

One of HUD's longest-running programs, the **Community Development Block Grant (CDBG)** program provides communities with resources to address a wide range of unique community development needs including affordable housing, anti-poverty programs, and infrastructure development.

- CDBG funds are allocated to more than 1,100 local and state governments called "entitlement" and "non-entitlement" communities.
- Entitlement communities are annual grants to larger cities and urban counties to develop viable communities by providing decent housing, a suitable living environment, and opportunities to expand economic opportunities, principally for low- and moderate-income individuals and families.
- With non-entitlement communities or state-administered CDBGs (also known as the Small Cities CDBG Program), states award grants to smaller units of general local government for community development activities. Annually, each state develops funding priorities and criteria for selecting projects.
- HUD determines the amount of each CDBG entitlement grant by a statutory dual formula which uses the needs of the community, extent of poverty, population, housing overcrowding, age of housing, and population growth lag in relation to other metropolitan areas.
- CDBGs differ from categorical grants; they are made for specific purposes in that they are subject to less federal oversight and are largely used at the discretion of the state and local governments and their subgrantees.

Grantees of Community Development Block Grant funds, or designees, administer these programs and accept applications from eligible mortgage-ready borrowers seeking funding.

Neighborhood Stabilization Program

A component of the Community Development Block Grant program, HUD provides **Neighborhood Stabilization Program (NSP)** grants to communities hardest hit by foreclosures and delinquencies to purchase, rehabilitate, or redevelop homes and stabilize neighborhoods.

- Grantees (government agencies or nonprofits administering the program) develop their own programs and funding priorities, but must use at least 25 percent of the funds appropriated for the purchase and redevelopment of abandoned or foreclosed homes or residential properties that will be used to house individuals or families whose incomes do not exceed 50 percent of the area median income.
- All activities funded by NSP must benefit low- and moderate-income persons whose income does not exceed 120 percent of the area median.
- Eligible NSP activities can include (but are not limited to): (1) the direct purchase and rehabilitation of abandoned and foreclosed homes for sale, rent, or redevelopment; (2) the establishment of financial mechanisms for purchase and redevelopment of foreclosed homes and residential properties; and (3) the demolition of blighted structures.

Neighborhood Stabilization Program funds can be used to help homebuyers purchase homes, and the borrowers must apply through the NSP grantee or designee.

SOURCES OF DOWN PAYMENT AND CLOSING COST ASSISTANCE

Information Resources



Find state and local down payment and closing cost assistance solutions in your area using the following resources:

- The **U.S. Department of Housing and Urban Development (HUD)** website provides information on local homebuying programs in all 50 states, Puerto Rico, and the U.S. Virgin Islands. Go to <http://portal.hud.gov/portal/HUD?src=/states>, click on the state name, and then click on "homebuying programs" or "homeownership assistance" to view names of programs and links to participating agency websites.
- You can also find all state agency websites at www.usa.gov/Agencies/State_and_Territories.shtml and click on the "housing" or "homeownership" page.
- The HUD website also has a list of **counseling agencies providing HUD-approved homebuyer education** at www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm (homebuyer education is required for some down payment and closing cost assistance).
- The **National Council of State Housing Agencies (NCSHA)** website has a directory, and links, to all of the state housing finance agencies. Go to <http://www.ncsha.org/housing-help>.
- The **Freddie Mac** website at www.FreddieMac.com provides overviews of Freddie Mac product offerings such as the 30-year fixed-rate mortgage and Home Possible® – and also includes information on Freddie Mac Affordable Seconds®.
- **Down Payment® Resource** at <http://downpaymentresource.com/are-you-eligible/> helps potential homebuyers determine their eligibility for a program and searches for potential funding sources.