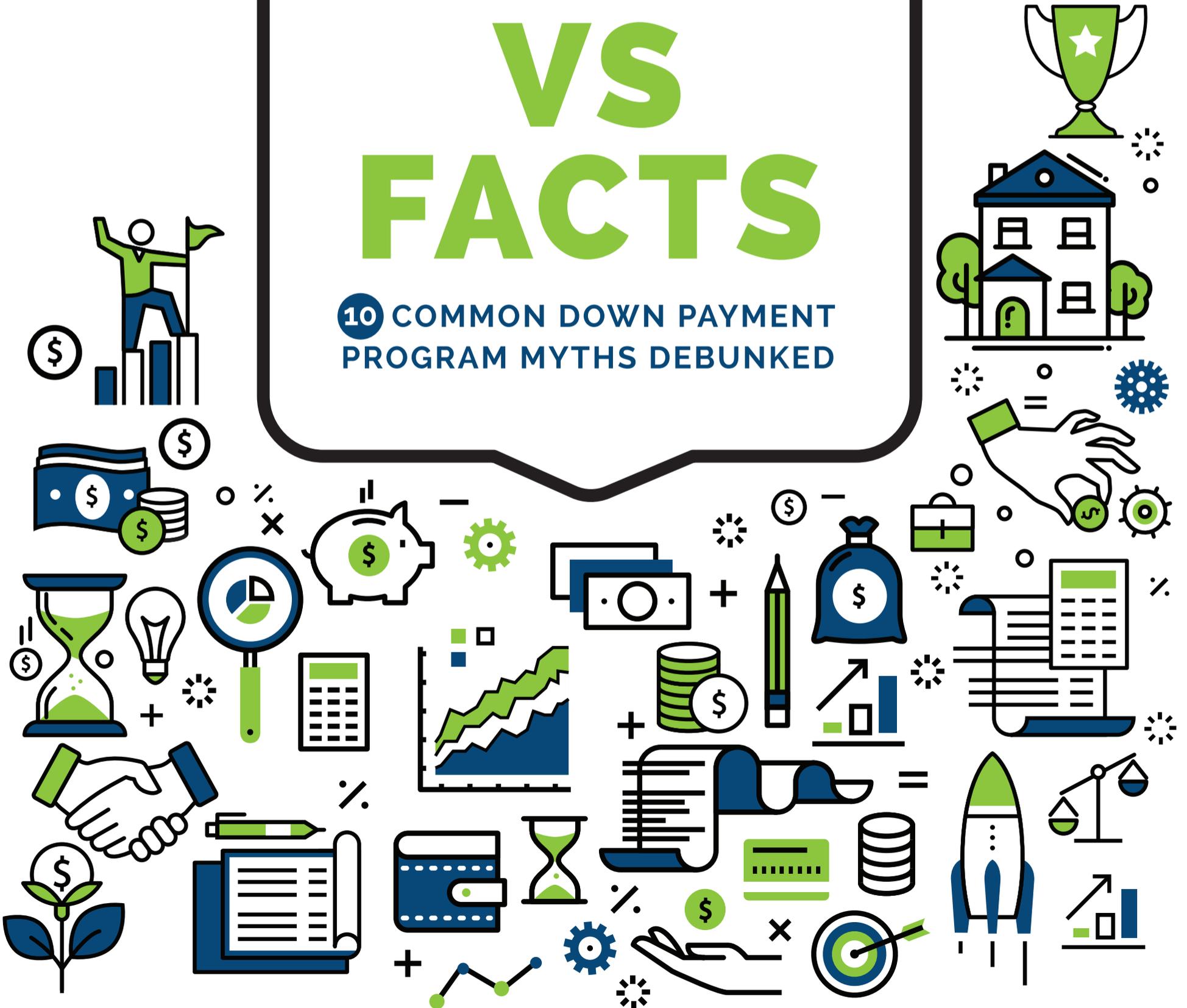


presents



MYTHS VS FACTS

10 COMMON DOWN PAYMENT
PROGRAM MYTHS DEBUNKED



If you're considering buying a home, you're probably deep in research mode right now. You're not alone. Most homebuyers do online research before engaging a lender or agent. And, if you're here, you are likely looking for more insight about the down payment for your home.

Home prices are increasing, but down payment assistance programs can help make buying a home more affordable. We're breaking down some of the most common myths about home financing and down payment programs.

Myth #1: Down payment assistance programs are only for first-time homebuyers.



Nope, not true. First of all, the majority of programs use HUD's definition of a first-time homebuyer: that is, someone who has not owned a home in three years. So, if you are someone who owned before, but are currently renting, you may be a first-timer again!

Plus, not all programs specify that you must be a first-time homebuyer. Our Homeownership Program Index found that 38 percent of programs do not have a first-time homebuyer requirement. Make sure you don't rule yourself out.

One thing that's true for all programs? They are for homebuyers, not investors. Most housing agencies will require that the home is occupied as a primary residence in order to qualify.

In addition, homebuyers purchasing a home in a designated target area (typically for revitalization efforts) may receive special benefits such as higher assistance amounts, more lenient income requirements and the first-time homebuyer requirement may be waived. Veterans are often eligible for a first-time homebuyer waiver, too.

Myth #2: It's difficult to qualify for homebuyer programs.

Truth: There are many options and opportunities. The only difficult task used to be identifying what programs might be a fit for your situation. Our search tool makes it simple for you to search your options. The key is doing research early in the home buying process as well as reviewing the application criteria.

To qualify for an assistance program, both the homebuyer and the property must meet certain criteria, which vary by program. Standard criteria include property location, type of home, sales price, household income, and homebuyer education certifications. There are often additional benefits, or even entirely separate programs, for educators, protectors, healthcare workers, veterans and households with disabled members.

Homebuyers must also demonstrate that they are financially responsible. Assistance programs have credit score thresholds and cash reserve requirements. Most programs will require a little money down from the homebuyer, as well as homebuyer education, especially for first-time homebuyers, to ensure the long-term homeownership success of each new buyer.



Myth #3: Assistance programs are no longer funded.

On the contrary. We found that more than 87 percent of all programs we track have funds available for homebuyers. In fact, there are hundreds of millions of dollars in down payment assistance, grants, tax credits and affordable first mortgages available throughout the country.



Each program has a different funding schedule. Some programs are government-funded and are provided through municipal or quasi-government agencies or non-profits. Others are privately funded, and some are even sponsored by employers. Every state has a collection of programs at the state-level and hundreds of markets around the country offer local assistance as well.

The three most common types of programs are down payment and closing cost assistance, affordable first mortgages and Mortgage Credit Certificates (MCCs).

Homeownership Program Types



9% Mortgage Credit Certificates (MCCs)

Provide up to \$2,000 in annual tax credits for the life of the loan.

9% First Mortgage Loans

Below-market interest rates, lower or no mortgage insurance, or 100% financing.

12% Additional Programs

Includes Employer Assisted Housing programs and Individual Development Accounts that provide a matching down payment savings program.

70% Down Payment and Closing Cost Assistance Programs

Grants: Gifts which do not have to be repaid

Second Mortgages: loans with a very low or no interest rate where the payment may be deferred or forgiven incrementally for each year the buyer remains in the home

Neighborhood Stabilization Programs: designed to revitalize communities.

Combined First Mortgage and Down Payment Programs

CAN YOU QUALIFY TO BUY A HOME NOW?

Many renters actually have the income and credit qualifications to buy a home, and simply need to overcome the down payment hurdle. Don't let long held myths about down payment assistance programs hold you back.

Myth #4: Down payment assistance programs make home financing more difficult.

Here's the deal—your home purchase is likely the largest purchase you will ever make. So, you want to get it right and make a wise financial decision, right? When you apply for and use a down payment program, it does require additional paperwork, however the paperwork is similar to what you are already doing when applying for a home loan.

Interview lenders to find someone knowledgeable about the programs in your area and willing to work with you. ([Check out our 5 essential questions for mortgage lenders.](#))

Lenders who can offer these programs are called "participating lenders." They are qualified to write the loans associated with the programs and understand how to incorporate this special financing into the home loan without complicating or prolonging the real estate transaction. This is why it's important for to seek information about available programs prior to touring homes or even getting prequalified. A little homework upfront will ensure a smooth, successful transaction down the road.



Myth #5: Down payment assistance is only for very low cost homes.

Don't let preconceived ideas about programs throw you off. Down payment programs aren't just for narrowly defined homebuyers and "targeted" neighborhoods of very inexpensive homes. In fact, homes in any neighborhood may be eligible with sales price limits typically ranging from \$200,000 to over \$700,000 in high-cost markets. In a [report we did with ATTOM Data/RealtyTrac](#), we found that 87 percent of homes are eligible for one or more programs.



Some homebuyer programs can have income limits of up to 120 percent of the area's median income (AMI) and higher, which can amount to well over six-figure incomes in countless markets across the country. In addition, some may offer tiered assistance dollars at varying income levels so higher incomes might yield lower assistance amounts, but higher income isn't an automatic disqualifier. Income limits are almost always based on household size, so limits for a family of five are significantly higher than for a single person.

Myth #6: Down payment assistance is only compatible with FHA loans.

While FHA loans are commonly used with down payment assistance, it doesn't mean other loan products are off the table. Today, you can find flexible down payment requirements with FHA and conventional financing. Many down payment assistance programs are compatible with FHA, VA, USDA and conventional loans.



How do you know what's the best fit? It really comes down to purchase price and assistance amount. For example, if you have \$5,000 in down payment assistance on a \$150,000 house, that's just under FHA's down payment requirement of 3.5 percent, so you would need to come up with a little extra to complete the down payment requirement.

However, if you have \$10,000 in assistance on the same \$150,000 house that brings you to more than 6 percent down and may help reduce your total monthly payment, mortgage insurance and loan fees.

Keep in mind, there are many factors to consider. Ask your lender for different loan options to review and compare.

Myth #7: Down payment assistance dollars are never forgiven.



Every market in the country has some type of down payment help. There are a variety of programs available, including some that defer payments or interest and others that offer grants or forgivable loans.

First, it's important to understand how programs work. Nearly every down payment assistance program creates a lien on the financed property, just like the first mortgage. Homebuyer programs take a subordinate second or even third lien position.

But, not all programs have to be repaid. Grants are typically structured as gifts that do not have to be repaid. The grant funds are delivered to you at closing. Grants that do have to be repaid will typically waive the interest and defer payments. This provides a unique upfront buying power and opportunity for homebuyers.

With deferred loans, payments are often postponed for the life of the loan or grant, with 0% interest, and then the loan is forgiven after a certain number of years as long as you live in the property. Other programs may defer all payments and interest, or never charge or accrue interest, and use proceeds from a sale or refinance to "pay off" the lien.

Some programs require the loan to be paid back upon sale of the home. These programs still give you an opportunity to get into a home that may not have been affordable or possible otherwise. That's especially important in markets where rents are quickly on the rise.

Did you know there are more than 2,500 homebuyer programs available across the country? In fact, they can be as unique as the homebuyers and communities they serve. Homebuyers should investigate these financing options early in their home buying journey.

What are homeownership programs?

They include loans, grants, tax credits and other programs for eligible homebuyers that can help them achieve the down payment faster, cover closing costs and get into a home sooner than they would have otherwise.

Who offers these programs?

- ▶ State Housing Finance Agencies (HFA) often offer the broadest array of opportunities.
- ▶ Cities and Counties offer programs with criteria adjusted for local median income and home prices.
- ▶ Housing Authorities
- ▶ Non-profits
- ▶ Employers

What are common requirements to qualify?

Both the home and the homebuyer must be eligible. Homeownership programs are for owner-occupant buyers only, no investment properties. Buyers must make a minimum investment, qualify for a first mortgage and complete homebuyer education. Common eligibility factors include home sales price, homebuyer income and homeownership history.

There are often additional benefits, or even entirely separate programs, for educators, protectors, health care workers, veterans and households with disabled members.

Do you have to be a first-time homebuyer? No. HUD defines a first-time homebuyer as someone who hasn't owned a home in 3 years. Plus, across our data bank of programs, 37% don't have a first-time homebuyer requirement.

Myth #8: Down payment assistance programs guarantee longer closing time lines.



It's true that some of these programs may take a little longer than a typical loan to underwrite, approve, reserve funds, and deliver closing documents. However, the closing timeline must be measured from the date the full down payment assistance application is submitted, not when the opportunity is first discovered. That's where the misconception lies.

So, do yourself a favor and research these programs early. By completing homebuyer education courses and other requirements upfront, you are getting a jump start on your loan. Bottom line: you're trading a little extra legwork to gain immediate equity and retain some of your savings.

Housing agencies who administer these programs should be considered partners and subject matter experts. Ask your agent and lender to keep you informed during the process so you meet your timeline expectations.

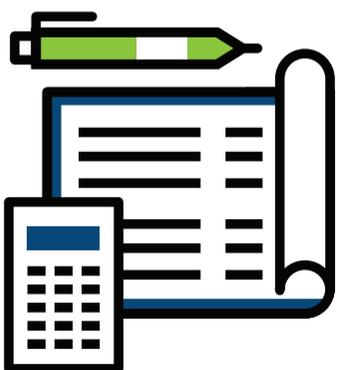
Myth #9: Sellers won't accept offers with layered financing.

Are you worried the seller will balk at a contract with financing beyond a typical first mortgage? While that might happen, we also know sellers want to sell their home...for the best price. The real issue at hand is the fear of longer closing times or complicated closings. Sellers may have heard cash offers are better because they're quick and will cost them less.

But, is cash really better? Consider that buyers with down payment assistance are actually coming to the table with extra funds (and more to bargain with), allowing them to compete with other buyers on price and seller-paid costs. It also means the seller doesn't have to take a lower offer to sell faster to a more aggressive (and

less common) cash buyer. In fact, down payment assistance may cover items like closing costs and other seller-paid costs, allowing the seller to gain even more. When agents and sellers open their minds to buyers taking advantage of homebuyer programs, it can help all parties involved.

In order to improve the timeline and reduce any seller fears, you should complete homebuyer education early, submit loan documents to the lender promptly and do your part to expedite the process from the beginning.



Myth #10: A bigger down payment is always better.



Every situation is different, but keep in mind that the average down payment for first-time homebuyers is only about 6 percent. The challenge of saving for a down payment is the number one reason most buyers wait longer than they'd like to buy a home. In fact, many sidelined buyers have the income and qualifications to make the monthly mortgage payment – they only lack the down payment.

Many consumers and experts still assume 20 percent down is best. Yes, it will help you avoid paying private mortgage insurance (PMI), but it may be worth it to pay the PMI now and buy sooner. Consider this: when your rent increases each year (not to mention those student loans), it makes it more difficult to save for that big down payment, keeping you perpetually sidelined. Renting until you have 20 percent down payment can take years at a median income, all while prices and interest rates are on the rise.

Down payment and closing cost assistance may help you finance some or all of your upfront costs, helping you get in a home sooner. Today's down payment programs allow you to retain some of your savings for long-term homeownership success. Plus, during the application process and required homebuyer education, you learn about the responsibilities and expenses of homeownership, including appliance repair, yard upkeep, heating and air checkups, home budgeting and much more.

With the help of down payment programs, you won't have to put every last penny towards a down payment, leaving you "house poor." Instead, you can move in with a financial cushion in place, some skin in the game, and critical homebuyer education under your belt.

Mortgage Insurance Primer

Mortgage insurance (MI or PMI) helps manage risk for your lender and protect them if you fail to repay the mortgage, making the loan safer for investors. Investors have set parameters that loans must meet before they are purchased. One key parameter is that the mortgage has a loan-to-value ratio of at least 80%, meaning that the borrowers have made a 20% down payment.

MI was created to help more buyers get over that hurdle and afford to buy a home. With MI, you can put down less than 20% and still become a homeowner. It adds an additional monthly fee to your mortgage.

On conventional loans with MI, coverage must automatically be canceled by the lender when the loan reaches 78% of original value through amortization. MI also may be canceled when extra payments bring the loan below 80% of original value. Contact your loan servicer for a full description of cancellation requirements.

Learn more about the [pros and cons of mortgage insurance](#).

Now that you're clear on the Down Payment Assistance Myths, let's find down payment programs that can help you become a homeowner sooner.

[Let's see if you're eligible](#)