



## Guidelines for Down Payment Assistance Programs

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### DOWN PAYMENT ASSISTANCE PROGRAM GENERAL INFORMATION

Down payment assistance (DPA) can take a variety of forms: gift funds, grant money, secured loans (hereinafter referred to as Community Seconds) and unsecured loans. Down payment assistance programs are used to provide funds for down payment, closing costs and/or prepaids. The information below will:

- Define the difference between a Community Second program and a Gift/Grant program,
- Describe how to register loans with a Community Second or Gift/Grant in Flagstar's Loantrac System,
- Describe how the underwriter needs to address the different types of programs when running through the automated underwriting system(s), and
- Describe how the underwriter is to condition for the particular programs at loan closing.

Many in the industry refer to all down payment assistance programs as grants when in fact the vast majority of DPA programs are structured as secured loans. Unsecured loans are not addressed within these guidelines and should be reviewed by the underwriter according to the applicable investor criteria.

Flagstar publishes separate lists of eligible Community Second programs and Gift/Grant programs. Refer to *Community Seconds Programs*, [Doc. #5932](#) and *Gift/Grant Programs*, [Doc. #5935](#).

How to determine if a program is a Community Second or a Gift/Grant:

- Is a lien filed in the property records?
- Do the guidelines mention that the transaction is a "loan" or that a "retention agreement" is filed?

If any type of lien is filed the DPA program is considered a Community Second loan and not a Gift/Grant. The loan amount must be considered in the CLTV, and if any payments are required in the first five years (three years for FHA) the payment must be included in the borrower's debt-to-income (DTI) ratio.

### ELIGIBLE PROGRAM PROVIDERS

- Government entities (states, counties, cities, etc.), government agencies, or instrumentalities of government
- Verifiable non-profit agencies (a 501(c)3 letter is required for verification)
- Employers (through an established employer-assisted housing program)

### INELIGIBLE PROGRAM PROVIDERS

- Seller funded
- Broker funded
- Realtor funded
- Builder funded
- For profit entities

The listing of a program on either of the above lists does not override the requirements of the product description or underwriting guidelines.

Cash back to the borrower is prohibited on a Community Seconds transaction.



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### **COMMUNITY SECONDS PROGRAMS**

Community Seconds programs are loans secured by the subject property. The loan may or may not be forgiven at the end of the loan term. A Note (sometimes referred to as a Loan Agreement or other name) is signed at closing, and a Deed of Trust/Mortgage or a Deed Restriction is filed to secure the loan. Repayment terms must always be reviewed by Flagstar for compliance with Fannie Mae, Freddie Mac and HUD guidelines. The agency providing the assistance must provide an award/approval letter to the underwriter, outlining the exact amount of the assistance and the repayment terms. While the loan may be forgiven after a specified retention period, some programs require the loan to be paid off upon sale of the property, and in some instances payments are required during the term of the loan. If a payment is required within the first five years (three years for FHA) the payment must be considered in the borrower's DTI.

Flagstar will allow more than one Community Second loan to be used with a Flagstar first mortgage as long as the CLTV does not exceed the maximum allowed by the first mortgage loan program.

### **BELOW MARKET RATE PROGRAMS (BMR)**

Below market rate programs are reviewed in the same manner as a Community Second. BMR programs generally have a non-monetary Note, Mortgage and Restrictive Covenant associated.

### **GIFT/GRANT PROGRAMS**

Gift or Grant programs require no repayment and no lien is filed in the property records. These types of funds are provided by a government agency, a verified nonprofit agency or the borrower's employer. If the award/approval letter states a lien will be taken on the property (even if all payments are deferred) the program is considered a Community Second. Gift/Grant assistance is entered as an asset on the 1003 in Loantrac.

Another type of grant program is an Individual Development Account (IDA). In most cases these programs do not have any recapture provision. When they do have a recapture provision, they are considered Community Seconds.

### **COMMUNITY SECONDS REQUIRING LENDER PARTICIPATION**

Many organizations offering down payment assistance require lenders to become approved with them in order to participate in the DPA program. Lender participation can include, but is not limited to:

- An agreement must be signed (agreements have requirements that must be able to be met)
- Training for the program must take place
- The program underwriting guidelines must be followed (even if different than the first mortgage program guidelines).
- A financial contribution may be required (whether it is an annual fee or a commitment fee)

Flagstar guidelines state, "Any lender participation required by the program would require the broker's/correspondent's approval for participation." In essence this means, the broker or correspondent is responsible for the relationship and whatever it entails with the DPA provider. Flagstar will not itself become approved with any DPA provider.

Flagstar reviews programs to determine if we can comply with the first mortgage investor guidelines for compliance purposes only.



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### FLAGSTAR-ELIGIBLE FIRST MORTGAGE PROGRAMS

Community Second programs are eligible for use with Flagstar Bank first mortgage products as outlined below by the investor/guarantor.

#### FANNIE MAE

- *Fannie Mae Fixed Rate*, [Doc. #5301](#)
- *Agency 3/1, 5/1, 7/1 and 10/1 ARMs*, [Doc. #5331](#) (only 5/1 and 7/1 ARMs eligible with Community Seconds)
- *Fannie Mae HomeReady*, [Doc. #5318](#)
- *Fannie Mae HomeStyle Renovation*, [Doc. #5719](#)

All closing documents for the second lien program should be submitted to Flagstar with first mortgage closing package.

#### FREDDIE MAC

- *Freddie Mac Fixed Rate*, [Doc. #5302](#)
- *Freddie Mac A-Minus Program*, [Doc. #5303](#)
- *Agency 3/1, 5/1, 7/1 and 10/1 ARMs*, [Doc. #5331](#) (only 5/1 and 7/1 ARMs eligible with Affordable Seconds)
- *Freddie Mac HomePossible*, [Doc. #5335](#)
- *Freddie Mac Home One*, [Doc. #5339](#)

All closing documents for the second lien program should be submitted to Flagstar with first mortgage closing package.

#### FHA

Refer to the appropriate HUD Handbook based on the agency case date as well as the LTV/CLTV and Subordinate Financing sections in Flagstar's [FHA Underwriting Guidelines](#). All programs will be reviewed according to the appropriate FHA guidelines. Non-profit entities must be approved by HUD to provide down payment assistance. All closing documents for the second lien program should be submitted to Flagstar with first mortgage closing package.

#### VA

VA provides blanket approval for down payment assistance programs offered by government entities; however, programs must still appear on the appropriate Flagstar list (Community Seconds or Gift/Grant) and Flagstar reserves the right not to accept any program that does not meet our standards. For DPA programs offered by non-profit entities, lenders cannot themselves determine whether a DPA program is acceptable. All such programs must be submitted to the VA for review. Flagstar will not submit programs to the VA. The non-profit entity must work with the VA directly and provide the VA approval documentation with the program review package. All closing documents for the second lien program should be submitted to Flagstar with the first mortgage closing package.

#### RURAL DEVELOPMENT (RD)

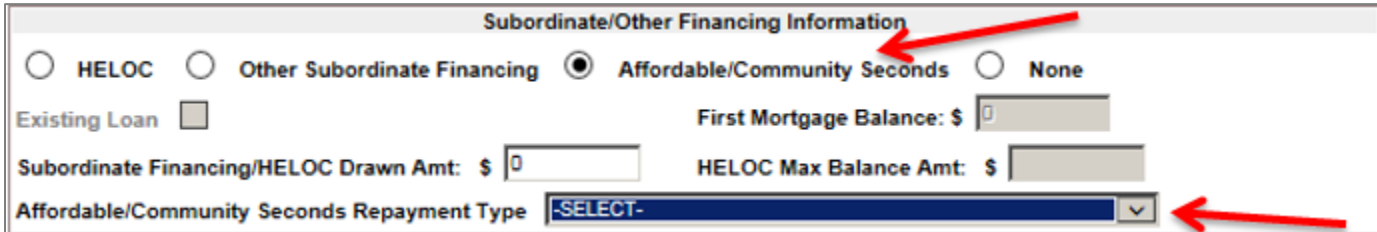
While not true in every case, generally programs deemed acceptable by Flagstar for use with Fannie Mae loan programs will be acceptable for use with Rural Development loan programs as well. All closing

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documents for the second lien program should be submitted to Flagstar with first mortgage closing package.

### REGISTRATION AND UNDERWRITING GUIDELINES

Eligible programs are entered in Loantrac as Affordable/Community Seconds.



The Affordable Community Seconds Repayment Type is then chosen based on whether the payments are forgiven or not.

Payments must be deferred for a minimum of five years (conventional) or three years (FHA) or the payment must be included in the DTI. The approval letter from the DPA provider must be provided to the Underwriter outlining the exact dollar amount and the repayment terms of the Community Second. Underwriting must include an “at close” condition for the secondary lien. If more than one Community Second is to be used on an individual loan, each subordinate lien must be conditioned separately with the name of the lien holder and the dollar amount of the Community Second lien. (Conditions should be the same for a Community Second lien as it would be for any subordinate financing).

### REFINANCE TRANSACTIONS

If a DPA program is being re-subordinated we require only the following information be submitted to [Product.Development@Flagstar.com](mailto:Product.Development@Flagstar.com) for review:

- The loan number of the refinance loan
- A copy of the original DPA note, and
- The subordination agreement for the DPA lien

### PROGRAM REVIEW

To have a program reviewed for eligibility, please submit the documentation indicated on the *Down Payment Assistance Submission Checklist, Doc. #3284* for review to Product Development via Fax: 888-633-4101 or via email to [Product.Development@Flagstar.com](mailto:Product.Development@Flagstar.com).

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Glossary of Terms	
<b>501(C)3</b>	Letter from IRS showing organization's status as a nonprofit agency
<b>ADDI</b>	American Dream Down-payment Initiative
<b>Affordable Second – Freddie Mac</b>	Approved secondary financing loans that can come from any duly authorized authority or agency of the federal, State, local or municipal government, a nonprofit community or religious organization, the borrower's employer, or a regional Federal Home Loan Bank under one of its affordable housing programs
<b>AHP</b>	Affordable Housing Program
<b>AHOP</b>	Affordable Housing Opportunity Program or Affordable Homeownership Program
<b>AMI</b>	Household income is a measure of current private income commonly used by the United States government and private institutions. To measure the income of a household, the pre-tax money receipts of all residents over the age of 18 over a single year are combined. Most of these receipts are in the form of wages and salaries, but many other forms of income, such as unemployment insurance, disability, child support, etc., are included as well. The residents of the household do not have to be related to the householder for their earnings to be considered part of the household's income. As households tend to share a common economic fate, the use of household income remains among the most far and widely accepted measures of income. However, the size of a household, which is commonly not considered, creates significant distortions which offset gains or decreases in household income and makes direct comparisons between quintiles impossible
<b>BMR</b>	Below Market Rate. Program in which city reaches an agreement with a developer to sell a certain number of new developed properties to income eligible borrowers for a reduced (Below Market) price
<b>Bond Program</b>	A bond program sells bonds and uses the funds to provide first and sometimes second mortgages to eligible borrowers. Lender participation is required. These are specific to state, county and local government programs
<b>CalHFA</b>	California Housing & Finance Agency (or Authority) Disburses funds to a number of government and nonprofit agencies for DPA. Each program participant develops their own guidelines for their agency; therefore each program must be reviewed individually.
<b>CASA</b>	Community Activity-Set Aside Program
<b>CASA Home Loan™</b>	Community Assisted Shared Appreciation. Loan that requires shared appreciation payback when home is no longer primary residence
<b>CDBG</b>	Community Development Block Grant
<b>CDC</b>	Community Development Corporation. Community Development Corporation (CDC) is a broad term referring to not-for-profit organizations incorporated to provide programs, offer services and engage in other activities that promote and support a community
<b>CDD</b>	Community Development Department
<b>CHDO</b>	Community Housing Development Organizations
<b>CHIP</b>	Community Housing Improvement Program
<b>Community Second – Fannie Mae</b>	Community Seconds allows a borrower to obtain a second lien mortgage that typically is funded by a federal, state, or local government agency, an employer, or a nonprofit organization and may be forgiven
<b>DAP</b>	Down-payment Assistance Program
<b>Deed Restriction</b>	Based on the program the property may file a deed restriction in lieu of the note/mortgage. Deed Restrictions in the context of a community second generally restrict use of property (must be primary residence) and resale price
<b>Default</b>	In a Community Second or retention agreement default is meant that the borrower does not meet their guidelines by either - not living in the home as their primary residence, as well as failure to pay the first mortgage, taxes etc. This can trigger the default clause in the note and required payments to be required



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Glossary of Terms	
<b>Deferred Payments</b>	Based on the program, payments are deferred for a certain period of time based on the program guidelines. Payments can be deferred for the entire term of the loan as long as the borrower does not default on the loan
<b>DOT</b>	Deed of Trust aka Mortgage
<b>DPA</b>	Down-payment Assistance. These may be in the form of an Affordable/Community Second or a Gift/Grant
<b>EAH</b>	Employer Assisted Housing
<b>EIN</b>	Employer Identification Number, all companies have an EIN, it is found on their W-9 if they are a business or government agency, or 501(c)3 letter if they are a nonprofit agency
<b>Fannie Mae Checklist for Community Seconds</b>	Checklist of items to determine eligibility for Community Second Programs for FNMA
<b>FEIN</b>	Federal Employer Identification Number
<b>FHLB</b>	Federal Home Loan Bank - considered a government agency by HUD
<b>FLHOP</b>	Florida Housing Opportunities Program
<b>FTHB</b>	First Time Home Buyer. As per HUD guidelines, has not owned a home in the past 3 years, or qualifies as a displaced homemaker
<b>Forgivability period</b>	The length of time a borrower must remain in the property as their primary residence in order for the loan to be forgiven. No payments (unless otherwise noted) must be made during this period
<b>GAP</b>	Difference between what borrower can afford to put down and the amount required by the lender, or a predetermined LTV by the DPA provider
<b>Gift</b>	A Gift or Grant program will require no mortgage lien or deferred payments
<b>Government Agency</b>	Any State, County, City, municipal, Federal Home Loan Bank, or Indian Tribes
<b>Grant</b>	A Gift or Grant program will require no mortgage lien or deferred payments
<b>HAP</b>	Homeowners Advantage Program or Homeowner Assistance Program
<b>HIP</b>	Homeownership Incentive Program
<b>HOME</b>	The HOME Investment Partnerships Program (HOME) is a type of United States Federal assistance provided by the U.S. Department of Housing and Urban Development (HUD) to States in order to provide decent and affordable housing, particularly housing for low- and very low-income Americans. It is the largest Federal block grant to States and local governments designed exclusively to create affordable housing for low-income families, providing over US \$2 billion each year. The program is commonly referred to as the Home Investment or Home Partnership Program, and is often operating in conjunction with other housing and other urban development programs, such as the CDBG program. Its federal identification number, or CFDA number, is 14.239.
<b>Home Steps</b>	Freddie Mac REO division. There is no loan product (such as FNMA HomePath) for their REO's. Check their website for current seller concessions
<b>HOP</b>	Homeowners Opportunity Program
<b>HOPE (for Homeowners)</b>	Homeownership Preservation Subsidy Program. Not a DPA program, this is a workout program for delinquent mortgagees
<b>HPS</b>	Homeownership Preservation Subsidy Program
<b>HUD description of "soft or silent second"</b>	Any financing (other than the FHA-insured first mortgage) that creates a lien against the property is considered secondary financing and not a gift, even if it is a "soft" or "silent" second (which has no repayment provision) or has other features forgiving the debt
<b>HUD Nonprofit Agency Roster</b>	Nonprofit agencies approved for community seconds by HUD, divided into four regions. For FHA loans, non-profit agencies that provide secondary financing must be approved by the appropriate regional loan center."





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Glossary of Terms	
<b>IDA</b>	An Individual Development Account (IDA) is a matched savings account that enables low-income families to save, build assets, and enter the financial mainstream. IDAs supplement the savings of Low income households with matching funds drawn from a variety of private and public sources. The borrower's funds are listed as assets, and the matching funds are true gift funds. There can be no cash back to borrower when using these funds
<b>Indian Tribe</b>	Indian tribes are considered an instrumentality of government as a sovereign nation
<b>Instrumentality of Government</b>	In order to be considered an instrumentality of government the nonprofit must be an entity "established by a governmental body or with governmental approval or under special law to serve a particular public purpose or designated by law (statute of court opinion.)
<b>Lender Participation</b>	Any lender participation required by the program would require the broker/correspondents approval for participation
<b>MALP</b>	Mortgage Assistance Loan Program
<b>MAP</b>	Mortgage Assistance Program
<b>MCC</b>	Mortgage Credit Certificate - these are not gift/grants/or Community Seconds. Refer to the <a href="#">Conventional Underwriting Guidelines</a> for details
<b>NHS</b>	Neighborhood Housing Services
<b>Non-profit Agency</b>	A non-profit organization (abbreviated NPO, also not-for-profit) is an organization that does not distribute its surplus funds to owners or shareholders, but instead uses them to help pursue its goals. Examples of NPOs include charities (i.e. charitable organizations). For Flagstar purposes an IRS designated 501(c)3 letter is required
<b>NSP</b>	Neighborhood Stabilization Program. This is part of the stimulus program that provides funds to government agencies and nonprofits to help reduce the number of foreclosed properties. Funds can only be used for the purpose of buying and/or renovating a foreclosed property
<b>PIN</b>	Police In Neighborhood
<b>Red Text</b>	This simply designates new programs added for tracking purposes
<b>Retention Agreement</b>	Filed in lieu of a note and Deed of Trust/Mortgage to assure borrower remains in property as principle residence for a specified period of time. It is still considered a lien on the property and loans with a retention agreement filed are still considered a Community Second and not a gift/grant
<b>Seller Funded DPA</b>	Not allowed. Seller - or any party who benefits monetarily from the transaction - reimburses the "gifting" agency the funds
<b>Shared Appreciation/ Shared Equity</b>	In lieu of interest paid on the loan when second lien is paid off an "equity share" is paid to the lien holder. An Agency may not charge interest and still get shared appreciation. This may not exceed the percentage of assistance toward the purchase price originally given. (If 10% of purchase price was given as DPA then no more than 10% of shared equity, plus the original loan amount may be required to be paid when loan is due.)
<b>SHIP</b>	State Housing Initiatives Program
<b>Silent Second</b>	FHA refers to silent seconds as seconds with no repayment provision or a second having other forgivable features. The term "silent second" is used most frequently to describe self-serving or perhaps fraudulent schemes where house sellers accept second mortgages as part of a sale transaction, without the full knowledge of the first mortgage lender. The "silence" refers to the absence of full disclosure to the first mortgage lender.
<b>Soft Second</b>	Same as Affordable/Community Second, the term is typically used in the Eastern United States
<b>WISH</b>	Workforce Initiative Subsidy for Homeownership