Fannie Mae®

Community Seconds® FAQs

Q1. What is a Community Seconds mortgage?

A Community Seconds mortgage is subordinate financing provided through an affordable housing program that can help make homeownership more accessible. While Fannie Mae does not purchase Community Seconds mortgages, first-lien mortgages that are originated with eligible Community Seconds financing may be eligible for delivery to Fannie Mae.

Q2. How can Community Seconds funds be used?

Community Seconds financing may be used for:

- Down payment assistance
- Closing costs
- Property renovations, including resiliency or energy-related improvements
- Permanent interest rate buydowns

Q3. Who can provide a Community Seconds loan?

Community Seconds mortgages may only be funded by eligible providers such as:

- Federal agencies
- State, county, tribal, or local governments and housing finance agencies
- Certain nonprofit organizations
- Federal Home Loan Banks through affordable housing programs
- Employers providing housing assistance to their employees
- Certain lender-sponsored employee assistance programs
- Federally recognized tribes and eligible Tribally Designated Housing Entities (TDHEs)

The provider generally may not be the property seller, or another interested party to the transaction unless specifically permitted under Fannie Mae policy.

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Q4. What property types are eligible?

Community Seconds mortgages are eligible only on one- to four-unit principal residences. Manufactured homes may also be eligible if all applicable *Selling Guide* requirements are met.

Q5. Can a Community Seconds mortgage be used with an adjustable-rate mortgage (ARM)?

Community Seconds financing may be used with an ARM, provided the ARM has an initial fixed-rate period of at least five years and otherwise complies with Fannie Mae requirements.

Q6. Can you refinance a mortgage with an existing Community Seconds mortgage?

For a limited cash-out refinance, the Community Seconds mortgage must be resubordinated. The agreement must be recorded to ensure enforceability.

Cash-out refinance transactions are ineligible.

Q7. What is the maximum combined loan-to-value (CLTV) ratio for a Community Seconds transaction?

The maximum CLTV ratio depends on the mortgage product and Community Seconds program. Generally, CLTV ratios up to 105% may be permitted, provided all applicable Selling Guide requirements are met.

Q8. Is a borrower required to contribute their own funds?

In most cases, no.

For one-unit principal residences, all funds needed to complete the transaction may come from Community Seconds financing unless otherwise restricted by Fannie Mae or by the program.

For two- to four-unit principal residences with an LTV, CLTV, or HCLTV ratio greater than 80%, the borrower must contribute at least 5% from their own funds.

Q9. What repayment structures are permitted for a Community Seconds mortgage?

Repayment terms are determined by the Community Seconds provider and must meet Fannie Mae requirements.

Community Seconds programs may use a variety of repayment structures, including:

- Fully amortizing monthly payments
- Interest-only payments
- Deferred-payment loans

- Forgivable loans
- Loans with repayment due upon sale, transfer, or maturity

Q10. Can a Community Seconds mortgage be interest-free?

A Community Seconds mortgage may be interest-free. If interest is charged, the loan must satisfy applicable Fannie Mae requirements, including limits on the interest rate.

Q11. Can a Rural Development (RD) Guaranteed Section 502 first mortgage be delivered to Fannie Mae when Community Seconds financing is present?

Fannie Mae may purchase an RD Guaranteed Section 502 first mortgage with Community Seconds financing, provided all applicable Selling Guide requirements are met. The mortgage must be secured by a one-unit property.

Q12. Does a Community Seconds mortgage require a Special Feature Code (SFC)?

Loans with a Community Seconds mortgage are required to be delivered with SFC 118.

Q13. Where can lenders find requirements for evaluating a Community Seconds program?

Lenders are responsible for ensuring the Community Seconds program complies with Fannie Mae requirements. The Community Seconds Checklist may be used as a job aid to support that review.

Shared Appreciation

Q14. What is a shared appreciation loan?

A shared appreciation loan is a financing arrangement that provides one-time affordability assistance, such as down payment assistance, closing cost assistance, or renovation funding, in exchange for repayment of the original loan amount and a share of the property's future appreciation. Not all shared appreciation loans are eligible for delivery to Fannie Mae. To be eligible, the loan must be structured as a Community Seconds® mortgage and meet all applicable Selling Guide requirements.

Q15. How is appreciation determined for an eligible shared appreciation loan?

The method for determining appreciation is established in the program's legal documents and must comply with the *Selling Guide*.

Typically:

- If the property is sold on the open market, appreciation is based on the actual sales price.
- In other circumstances, appreciation may be determined using an appraisal or, if permitted by the program documents, an automated valuation model (AVM).

Q16. When does repayment of an eligible shared appreciation loan become due?

A shared appreciation loan meeting Selling Guide requirements may become due only upon certain events specified in the program documentation, such as:

- A specified maturity date that is no earlier than the maturity date of the first-lien mortgage
- Repayment of or default under the first-lien mortgage
- Certain unauthorized transfers or occupancy changes
- Other eligible triggering events described in the program documents

Borrowers must also have the option to prepay the shared appreciation loan and any associated appreciation obligation at any time.

Q17. Can a shared appreciation loan be used with a refinance transaction?

Shared appreciation loans may be used with purchase transactions and limited cash-out refinance transactions. Cash-out refinance transactions are not eligible.

Q18. Does a shared appreciation loan require a Special Feature Code (SFC)?

Shared appreciation loans must be delivered with SFC 176.

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