Community Seconds checklist

Community Seconds®

- Are a powerful tool in helping borrowers address the upfront costs of buying a home.
- Can be used to fund all or part of the down payment and closing costs.
- May include terms that limit homebuyer/transferee income or the purchase price of the home to help maintain affordable entry-level housing.

Community Seconds are subordinate mortgages that can help make homeownership more accessible to borrowers. Although Fannie Mae does not purchase Community Seconds mortgages, we do require that they meet certain criteria when they are subordinate to first mortgages purchased by Fannie Mae. Lenders can use this checklist as a guide to determine whether a Community Seconds mortgage meets Fannie Mae's requirements by answering Yes to all the following questions.

A checkmark in the box indicates "YES, the statement is true."

Community Seconds funds are provided by any one of the following, so long as it is not the property seller or other interested party:
- A federal agency, state, county, or similar political subdivision of a state.
- A self-governing city, town, village, or borough of a state.*
- A housing finance agency (HFA).*
- A nonprofit organization exempt from taxation under Section 501(c)(3) of the Internal Revenue Code.
- A regional Federal Home Loan Bank under one of its affordable housing programs.
- A federally recognized Native American tribe or its Tribally Designated Housing Entity (TDHE).*
- An employer, where the borrower is an employee.
- A lender, only in connection with an employer-guaranteed Community Seconds mortgage as part of its affordable housing program.

* See page 2 for additional requirements.

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The property to which the Community Seconds mortgage applies is the borrower's principal residence. ☐

Except for Community Seconds with resale restrictions permitted under the Selling Guide, the Community Seconds mortgage is subordinate in priority to Fannie Mae, i.e., it allows the holder of the first mortgage to foreclose and acquire clear title to the property free of all interests of the Community Seconds mortgage provider. ☐

The Community Seconds mortgage is not funded in any way through the first mortgage, such as through higher interest rates. See Premium Pricing Doesn't Mix with Community Seconds for more information. ☐

Proceeds from the Community Seconds mortgage are only being used for the following purposes:
- Down payment assistance.
- Payment of closing costs.
- Payment for renovations (including energy-related improvements).
- Funding a permanent interest rate buydown.

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If the Community Seconds mortgage has a balloon payment, it is not payable until the earlier of:
- The maturity date of the first mortgage loan; or
- 15 years from the note date of the first mortgage loan.

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The interest rate for the Community Seconds mortgage does not exceed the interest rate of the first mortgage loan sold to Fannie Mae by more than 2 percentage points. (For example, if the interest rate on the first lien is 5%, then the Community Seconds interest rate may not exceed 7%.) ☐

The Community Seconds mortgage does not allow negative amortization, unless it meets the additional requirements. See page 2 for details. ☐

If the Community Seconds mortgage includes resale restrictions, they comply with the *Selling Guide* requirements in B5-5.2. B5-5.1-02, Community Seconds Loan Eligibility. ☐

The Community Seconds mortgage does not allow the provider to share in the property appreciation or it complies with shared appreciation requirements in B5-5.1-02 (in Provider's Share in Appreciation in Value). ☐

This document is incorporated by reference into the Fannie Mae *Selling Guide*.

Eligible Sources of Community Seconds Mortgages — Additional requirements

- A city, town, village, or borough of a state supplying a Community Seconds mortgage must have a local government and must have been created by a special legislative act, been otherwise individually incorporated or chartered pursuant to state law, or be recognized as such under the constitution or by the laws of the state in which it is located.
- An HFA supplying a Community Seconds must meet the definition in 24 C.F.R. §266.5.
- A Native American tribe supplying a Community Seconds mortgage must be on the most current list of Indian tribes published by the Secretary of the Interior pursuant to 25 U.S.C. §5131.
  - A Native American tribe may act through a TDHE that meets the definition in 25 U.S.C. §4103(22).

Negative Amortization

Because negative amortization will occur if the interest rate is greater than zero and the payment of interest is deferred for a period of time, negative amortization will be acceptable for a Community Seconds mortgage provided:

- The amount of scheduled monthly interest deferred on the Community Seconds mortgage for any full calendar month within the initial five years (of the Community Seconds loan) may never exceed the scheduled monthly principal payment of the first mortgage for that month (see below for an example);
- Interest is accrued on a simple-interest basis at a fixed rate; and
- The accrued interest is fully deferred until:
  - Sale or transfer of the property,
  - The loan is refinanced or the first mortgage is paid in full, or
  - Declaration of an event of default under the subordinate note or the security instrument.

Negative Amortization Example

In the following example, the loan is eligible as the amount of deferred, accrued interest on the Community Seconds loan for July is less than the scheduled principal payment for the first mortgage in that month.

Note date: May First payment date: July	First Mortgage	Community Seconds
UPB	$150,000	$30,000
Interest rate	5%	7%
Maximum accrued, deferred interest July	NA	$175.00 ($30,000 @ 7%/12)
Scheduled principal payment July	$180.23	NA