Fannie Mae®

Community Seconds Checklist

Community Seconds®

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

A check mark 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,
- A state, county, or similar political subdivision of a state (including a housing finance agency[1] or local government,[2] so long as the first lien mortgage loan is secured by a residence located within the jurisdictional boundaries thereof).
- 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.
- An employer, where the borrower is an employee.
- A lender, only for a loan to an employee made in connection with their employer's guaranteed loan program.
- A federally recognized tribe appearing on the most current list published by the Secretary of the Interior pursuant to 25 U.S.C. §5131 or a Tribally Designated Housing Entity (TDHE)[3] that administers the housing assistance program of such a tribe, so long as the residence is located within the boundaries of that tribe's applicable territorial limitations or a borrower is a member of such tribe.

Note: In order to be an eligible Community Seconds provider, any separate legal entity (other than a nonprofit organization exempt from taxation under Section 501(c)(3) of the Internal Revenue Code) owned directly or indirectly, in whole or in part, by a federally recognized tribe must be a TDHE (and the Community Seconds loan must satisfy the conditions applicable to a TDHE, including that the residence is located within the tribe's applicable territorial limitations or a borrower is a member of the tribe). A corporation or other legal entity created by or owned in whole or in part by such an Indian tribe is not eligible unless it qualifies as a Tribally Designated Housing Entity, as defined in 25 U.S.C. §4103(22).

A Community Seconds provider must not be the property seller or other interested party in the transaction, except when they are the provider of a shared equity program or sweat equity program. See B3-4.1-02, Interested Party Contributions (IPCs), B5-5.3-03, Shared Equity Transactions: Eligibility, Underwriting and Collateral Requirements and B5-6-02, HomeReady Mortgage Underwriting Methods and Requirements.

[1] A housing finance agency as defined in 24 C.F.R. §266.5.
[2] A local government as defined in 5 U.S.C. §3371(2)(A) or (B).
[3] A TDHE as defined in 25 U.S.C. §4103(22).

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- [ ] The property to which the Community Seconds loan applies is the borrower's principal residence.
- [ ] The Community Seconds loan is subordinate in priority to the first lien mortgage sold to Fannie Mae; i.e., it allows the holder of the first lien mortgage to foreclose and acquire clear title to the property free of all interests of the Community Seconds mortgage provider.
- [ ] Proceeds from the Community Seconds loan are only being used for the following purposes:
    - All or part of the down payment, provided the Community Seconds loan is not funded in any way through the first lien mortgage, such as premium pricing.
    - Payment of closing costs.
    - Payment for renovations (including energy-related improvements).
    - Funding a permanent interest rate buydown.
- [ ] If the Community Seconds loan is used to fund all or part of the down payment, it is not funded in any way through the first lien mortgage, such as through higher interest rates.
- [ ] When repayment is required, the maturity date of the Community Seconds loan, or the due date of any balloon payment on the Community Seconds loan, cannot be before the earlier of the maturity date of the first lien mortgage, or 15 years after the note date of the first lien mortgage.
- [ ] The Community Seconds interest rate may not exceed the interest rate of the first lien mortgage by more than two 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 loan does not allow negative amortization, unless it meets the additional requirements. See B5-5.1-01, Community Seconds Loans.
- [ ] If the Community Seconds loan includes resale restrictions, they comply with the *Selling Guide* requirements in B5-5.1-01, Community Seconds Loans.

If deferred interest is permitted on the Community Seconds loan, verify that:

- Deferred interest in any month during the first 5 years does not exceed the first mortgage's scheduled monthly principal payment.
- Interest accrues at a fixed rate using simple interest.
- Accrued interest is payable only upon sale/transfer, refinance, or payoff of the first mortgage, or default.

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Shared appreciation

Shared appreciation programs are a type of Community Seconds® offering that create affordability for eligible buyers by providing down payment, closing cost assistance, and/or funding for renovations to the property, including energy-related improvements, in exchange for repayment of an interest-free loan and a share in any future appreciation of the property. In addition to the above requirements in the Community Seconds checklist, shared appreciation must also meet the following criteria:

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

- ☐ The provider of a shared appreciation loan is:
  - An eligible Community Seconds provider.
  - Responsible for administration and oversight of the program.
  - Advancing its own funds (or those of other parties for whom it is administering the program, so long as each such party is an eligible Community Seconds provider) to the borrower.
- ☐ The first lien mortgage is a purchase or limited cash-out refinance transaction.
- ☐ Interest (deferred or otherwise) is not applied, other than default interest on an overdue principal or a share in appreciation.
- ☐ Expenses or fees are not imposed on the borrower after loan origination, except in cases of default or in connection with borrower-initiated transactions as described in the program's legal documentation.
- ☐ After completion of the borrower's obligations to the shared appreciation provider (or their assignee), including payment of any shared appreciation in value, the borrower does not have any further obligation to the shared appreciation provider or any assignee.
- ☐ The shared appreciation loan and any share in appreciation is payable in connection only with one or more of the following events:
  - A date specified in the program's legal documentation, which must not be earlier than the scheduled maturity date of the first lien mortgage granted in connection with the purchase of the property.
  - Repayment in full of the first lien mortgage (except when the shared appreciation loan is being resubordinated in connection with a refinance).
  - Acceleration of the first lien mortgage in accordance with its terms (for purchase loans, this is limited to acceleration after the conclusion of loss mitigation or other measures to cure a delinquency in the indebtedness secured by the first lien mortgage).
  - Following an unauthorized transfer of the property or an event of default relating to failure to maintain collateral.
- ☐ The program's legal documentation permits the borrower the option to prepay the loan in its entirety at any time and to pay all other amounts due to the provider, including any shared appreciation.
- ☐ The program's method of calculating future appreciation in value is based only on the following:
  - When the property is sold on the open market, the appreciation must be based on the actual sales price of a property that is sold on the open market.
  - In any other instance, the appreciation must be based on an appraised value of the property obtained in accordance with the program's terms.

  Note: For limited cash-out refinance mortgages, appreciation in value may be based on any method included in the program's legal documentation

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☐ The provider's share of appreciation does not exceed the "Standard Percentage," which is derived by dividing the original shared appreciation loan amount by the original sales price.

- *For example, if the provider contributed a 10% down payment toward the purchase of a home, the provider cannot share in appreciation greater than 10% (the Standard Percentage) when the home is sold.*

Refer to B5-5.1-02, Community Seconds: Shared Appreciation Transactions in the *Selling Guide* for exceptions when the provider's share of appreciation is greater than the Standard Percentage.

If deferred interest is permitted on the Community Seconds loan, verify that:

- Deferred interest in any month during the first 5 years does not exceed the first mortgage's scheduled monthly principal payment.
- Interest accrues at a fixed rate using simple interest.

Accrued interest is payable only upon sale/transfer, refinance, or payoff of the first mortgage, or default.

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