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 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, 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 loan as part of its affordable housing program. * See page 2 for additional requirements.	☐
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 mortgage sold to Fannie Mae; i.e., it allows the holder of the first mortgage loan 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: • Down payment assistance. • 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 the down payment, it 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.	☐
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 mortgage loan or • 15 years from the note date of the first mortgage loan.	☐
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 loan does not allow negative amortization, unless it meets the additional requirements. See page 2 for details.	☐
If the Community Seconds loan includes resale restrictions, they comply with the *Selling Guide* requirements in B5-5.1-01, Community Seconds Loans.	☐

Eligible sources of Community Seconds loans — additional requirements

- A city, town, village, or borough of a state supplying a Community Seconds loan 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 loan must meet the definition in 24 C.F.R. §266.5.
- A Native American tribe supplying a Community Seconds loan 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 loan provided:

- The amount of scheduled monthly interest deferred on the Community Seconds loan 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	N/A	$175.00 ($30,000 @ 7%/12)
Scheduled principal payment July	$180.23	N/A

Community Seconds checklist continued

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: • 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 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 mortgage granted in connection with the purchase of the property. • Repayment in full of the first mortgage (except when the shared appreciation loan is being resubordinated in connection with a refinance). • Acceleration of the first 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 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.	☐
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 B5-5.1-03, Community Seconds: Shared Appreciation Transactions in the *Selling Guide* for exceptions when the provider's share of appreciation is greater than the Standard Percentage.	☐