

# Helping Borrowers Overcome Down Payment and Closing Cost Barriers

Low down payment mortgages are a great solution for helping borrowers achieve homeownership, but for some borrowers, finding even a 3% down payment can be a challenge. Fortunately, in many cases, Fannie Mae allows funds for part or all of a down payment and closing costs to come from a variety of sources, helping more borrowers achieve the dream of homeownership.

**Fannie Mae allows three primary sources of closing cost and down payment assistance:**



**Gifts** from any individual who's related to the borrower by blood, marriage, domestic partnership, adoption, or legal guardianship. That includes relatives of the borrower or a domestic partner, former relatives, godparents, spouses, individuals engaged to marry the borrower, children, or other dependents.



**Grants** from employers, municipalities, nonprofit organizations (excluding credit unions), states, counties, state and local HFAs, regional Federal Home Loan Banks, federally recognized Native American tribes and their sovereign instrumentalities, or public agencies. Lenders may also offer down payment assistance grants under certain conditions.



**Community Seconds®** mortgages can come from many of the same sources as grants, but a second lien must be placed on the property. Although Fannie Mae does not purchase Community Seconds, it does purchase first mortgages associated with Community Seconds.

## Community Seconds highlights

- Loans may have more than one Community Seconds mortgage (e.g., a third lien) up to the maximum 105% CLTV.
- Can be used with both standard and affordable products, such as HomeReady®.
- May be forgivable, repayable, or have a deferred payment structure.
- If the Community Seconds has a deferred repayment structure of five years or more:
  - ▼ Risk assessment is based on LTV, rather than the CLTV, if underwritten in Desktop Underwriter® (DU®).
  - ▼ The monthly payment for the Community Seconds is not included in the borrower's debt-to-income ratio.
  - ▼ Loan-Level Pricing Adjustments (LLPAs) that normally apply to subordinate financing are waived.

**Please note:** Only principal residences are eligible for Community Seconds subordinate mortgages. At loan delivery, Special Feature Code (SFC) 118 must be provided, and the amount of the Community Seconds mortgage(s) must be included in the CLTV.

See the [Community Seconds Checklist](#) and [B5-5.1-02 \(Community Seconds Loan Eligibility\)](#) to confirm that a subordinate mortgage meets Fannie Mae's requirements for Community Seconds.

## Scenarios

The below scenarios represent situations a borrower might encounter when using down payment assistance.

BORROWER INFORMATION*	HOUSING TYPE	SOURCE OF DOWN PAYMENT FUNDS	ELIGIBILITY
<b>Scenario 1</b>	Principal residence	The borrower's employer provides a grant to cover the down payment.	<b>Eligible.</b> Employers may provide grants that help borrowers fund the down payment or closing costs.
<b>Scenario 2</b>	Second home	The down payment is funded by a Community Seconds subordinate mortgage.	<b>Ineligible.</b> Only principal residences are eligible for Community Seconds down payment assistance.
<b>Scenario 3</b>	Principal residence	The borrower applies for and receives down payment assistance in the form of two different Community Seconds mortgages.	<b>Eligible.</b> A borrower may have more than one Community Seconds mortgage up to a CLTV of 105%.

\*Scenarios assume that borrowers meet all other *Selling Guide* requirements for loans for which they've applied.

For details and documentation requirements, see:

- [Selling Guide section B3-4.3-04 \(Personal Gifts\)](#)
- [Selling Guide section B3-4.3-06 \(Grants and Lender Contributions\)](#)
- [Selling Guide section B5-5.1-02 \(Community Seconds Loan Eligibility\)](#)