Community Seconds Frequently Asked Questions

Q1: What is a Community Seconds loan?

A Community Seconds loan is subordinate financing that is originated under an affordable housing program. Fannie Mae does not purchase Community Seconds loans; however, first mortgages that are originated with this type of subordinate financing are eligible for purchase by Fannie Mae in accordance with the requirements of the *Selling Guide.*

Q2: How can a borrower use Community Seconds Funds?

Funds from a Community Seconds loan can be used for:

- all or part of the down payment, provided the Community Seconds is not funded in any way through the first mortgage, such as premium pricing;
- closing costs;
- renovations to the property (including energy-related improvements); or
- a permanent interest rate buydown.

Q3: Who is considered as an eligible Community Seconds provider?

A Community Seconds loan may only be funded by the following entities, provided they are not the property seller or other interested party in the transaction:

- a federal agency, state, county, or similar political subdivision of a state;
- any city, town, village, or borough of a state that
    - has a local government and that has been created by a special legislative act,
    - has been otherwise individually incorporated or chartered pursuant to state law, or
    - is recognized as such under the constitution or by the laws of the state in which it is located,
- a housing finance agency as defined in 24 C.F.R. §266.5;
- 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 a borrower is an employee (see B3-4.3-08, Employer Assistance);
- a lender, only in connection with an employer-guaranteed Community Seconds loan as part of its affordable housing program; or
- an Indian tribe on the most current list published by the Secretary of the Interior pursuant to 25 U.S.C. §5131.

Q4: Are cash-out refinances eligible for loans with a Community Seconds loan?

No. A Community Seconds loan can only be used when the first mortgage is a purchase or limited cash-out refinance transaction.

Q5: Does a Community Seconds loan require a Special Feature Code (SFC)?

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

Q6: What is the minimum term for a Community Seconds loan?

If repayment of the Community Seconds loan 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:

- 15 years after the note date of the first mortgage, or
- the maturity date of the first mortgage.

Q7: Can a Community Seconds loan be used in conjunction with a government loan?

Community Seconds loans can be paired with Rural Development Section 502 (RD 502) loans. In these cases, the Community Seconds subordinate lien must meet RD guidelines. See B6-1-05, Eligible RD-Guaranteed Mortgages, for additional information.

Q8: Can a Community Seconds loan paired with an adjustable-rate mortgage (ARM)?

Yes, a Community Seconds loan can be used in conjunction with an ARM, provided the ARM has an initial fixed rate period of five years or more.

Shared Appreciation FAQs

Q9: What is a shared appreciation loan?

Shared appreciation programs are a type of Community Seconds offering that offers an interest- free loan in exchange for repayment of an interest-free loan and a share in any future appreciation of the property.

Q10: How is appreciation determined for a shared appreciation loan?

Appreciation in value is defined as the positive difference between the original sales price of the property and the subsequent value of the property determined in accordance with the shared appreciation program's legal documents, which must require that if the property is sold on the open market, the appreciation must be based on the actual sales price of the property. In any other case, the appreciation must be based on an appraisal, or if permitted in the program's legal documents, a current value established by a third-party, commercial automated valuation model (AVM).

Q11: For a shared appreciation loan, is the lender responsible for approving a Community Seconds provider?

Lenders are responsible for ensuring that shared appreciation loans meet Fannie Mae's requirements, which include all requirements for Community Seconds loans, as well as additional requirements specific to shared appreciation loans. Learn more in the Community Seconds Checklist.

Q 12: Are cash-out refinances eligible for shared appreciation loans?
No. The first mortgage must be a purchase or limited cash-out refinance transaction. Shared appreciation loans are much more likely to be originated in connection with purchase transactions, but an existing Community Seconds shared appreciation loan may be subordinated to a limited cash-out refinance. In this case, the method of calculating future value is determined exclusively by the terms of the shared appreciation documentation.

Q 13: Does a shared appreciation loan require a Special Feature Code (SFC)?

Shared appreciation loans are required to be delivered with SFC 176.

Q14: If an existing Community Seconds shared appreciation loans is not subordinated in connection with a refinance, may that Community Seconds loan be paid off with the new limited cash-out refinance?

Yes, an existing Community Seconds shared appreciation loan that is not subordinated in a refinance may be paid off with funds from a limited cash-out refinance.

Q 15: Can a borrower pay off the Community Seconds shared appreciation loan at any time?

To be an eligible Community Seconds shared appreciation loan, the documentation must allow the borrower an option to prepay that loan in its entirety at any time and to pay all other amounts due to the provider, including any shared appreciation.

Q 16: What is the AVM requirement for providers?

Fannie Mae allows the use of AVMs to determine future value to calculate any appreciation. Shared appreciation providers should not use internal or proprietary AVMs to determine what amount they will be paid because of lack of standards and transparency inherent in such models. This is why we require that if a shared appreciation loan expressly allows the use of AVM to determine future value in calculating appreciation, that AVM must be provided by a third party, commercial entity.