Downpayment and closing cost assistance

Overview
Downpayment and closing cost assistance helps low- and moderate-income families overcome one of the most common barriers to homeownership—accumulating sufficient savings to make a downpayment and pay for closing costs on a mortgage.

Assistance can be offered in a variety of forms, including as a grant, a no- or low-interest amortizing loan or a deferred loan in which repayment is not due until the resale of the home. The assistance is often provided by a local housing agency, a nonprofit organization or a state or local housing finance agency, sometimes through a participating private lender. Program details differ across jurisdictions, but in general borrowers must fall within income and home purchase price limits and must comply with other eligibility requirements, including being a first-time homebuyer, using the home as a primary residence, and completing a homebuyer education course and/or participating in housing counseling.

This section describes some of the considerations for cities, towns and counties interested in developing a program to assist homebuyers with downpayments or closing costs.

Approach
Many cities, towns, and counties have developed grant or loan programs to help reduce the up-front costs homebuyers face in the form of closing costs and required downpayments. Many families can afford a monthly mortgage payment, but lack sufficient savings for these initial expenses, which can be 3 to 25 percent of the sales price. Structured as grants, forgivable loans, no- or low-interest loans, or deferred loans, community programs can help families who lack savings become successful homeowners.

Downpayment or closing cost assistance can be structured in a number of different ways. Some programs provide assistance as a lump sum grant. As compared to a loan, a grant avoids the administrative costs of tracking and processing repayment, but it means that the funds are not recaptured to help other households. For this reason, grants are often used only when the amount of assistance is low, such as less than
$5,000. Some grant programs are structured as matches to the family’s contributions. State housing finance agencies are also likely to structure their downpayment assistance as a grant if they receive state appropriations.

A second option is a forgivable loan. Forgivable loans often require the homeowner to reach certain milestones (for example, living in the house for a certain number of years) before all or some of the loan amount is forgiven. Structuring support as a forgivable loan rather than a grant incentivizes homeowners to remain in their home. It also provides a way to comply with the requirements of the federal HOME program that requires downpayment assistance funded through the HOME program to be used to provide a minimum duration of affordability. The duration varies with the size of the downpayment award.

Low or no-interest loan programs are another method of providing downpayment and closing costs assistance. Some no-interest or low-interest loans require regular payments – for example, over a five-year time period – while others are deferred loans which do not require repayment until the homeowner sells or refinance the home. These loans are typically structured as a second mortgage, meaning that if the buyer defaults and is foreclosed on, the housing agency is repaid only after the primary mortgage holder is repaid.

Structuring the assistance as a loan that must be repaid allows cities, towns, and counties to recycle the funds. When one loan is repaid, another family can be helped. Recycling the funds adds program complexity and requires oversight. However, it can multiply the impact of limited resources, particularly in high cost markets where downpayment and closing cost assistance can amount to a substantial per unit subsidy. By structuring support so that it can be recycled, localities can serve multiple families with their investment rather than providing a windfall to just one family.

When the amount of downpayment assistance is high – say, over $15,000 or over $25,000 – some local jurisdictions structure the downpayment assistance as a shared appreciation loan in which the family is required to repay the loan plus a share of home price appreciation when the home is sold. This approach allows program funds to retain purchasing power despite increases in home values so that downpayment funds can help one generation of homebuyers after another. (If there is no home price appreciation at resale, the family only repays the initial loan amount.)

Structuring downpayment assistance as a loan works well in housing markets and locations where home values are steady or rising. But if home prices decline, it can be difficult for borrowers to repay these loans. Since it can be difficult to predict downturns in the housing market, cities, towns, and counties may wish to consider
policies that forgive these loans in the event of such a downturn.

Cities and counties can use some Federal funds, including HUD’s HOME Investment Partnership and Community Development Block Grant program funds, to fund downpayment and closing cost assistance programs. Cities and counties can also use locally generated funds, either on their own, or to supplement Federal funds.

**Eligibility**

Downpayment and closing cost assistance programs are often targeted to low and moderate income homebuyers. For example, Virginia’s Department of Housing and Community Development’s downpayment assistance program is only available to borrowers at or below 80 percent of the Area Median Income. Programs frequently target first-time homebuyers, which is often defined as those who have not owned a home for the previous 3 years, though not all programs have this requirement. The downpayment assistance loan program in DC, described below, is not limited to just first-time homebuyers. Programs can also be targeted to buyers with certain occupations, commonly public servants. For example, the California Housing Finance Agency’s Extra Credit Teacher Home Purchase program helps K-12 teachers who are first-time homebuyers with a downpayment assistance loan of between $7,500 and $12,000. Some Housing Finance Agencies and other government entities also target downpayment assistance programs for veterans and active service members.

Programs may also place limits on the home purchases, for example by limiting the sales price, requiring the home to be a single-family unit, requiring the loan to meet certain requirements (such as a fixed-price loan) or requiring the home to be in a particular target area, such as a target reinvestment area or a resource-rich area. Many programs couple financial assistance with homeownership education and counseling.

The primary mortgage lender may have underwriting limits which include downpayment or closing cost assistance in the calculation, such as a limit on the combined loan-to-value ratio or the back-end debt to income ratio. In these cases, the maximum amount of assistance allowed could be limited.

**Examples**

- **Denver, CO** Metro Mortgage Assistance Plus provides a grant to cover downpayment and closing costs of up to 4 percent of the loan through Denver’s Office of Economic Development. Homebuyers must have low or moderate incomes, apply for a 30-year fixed rate loan, receive homeownership education and counseling and purchase a single-family home, condo, townhome or duplex in select jurisdictions. The city has a $30 million revolving pool that provides funding for the
program.

- **The District of Columbia Housing Finance Agency Down Payment Assistance Loan** provides a no-interest, non-amortizing loan that becomes due when a borrowers sells or refinances the home, or stops occupying the home as their primary residence within the first five-years after purchase. Borrowers must have low or moderate incomes, meet minimum underwriting requirements and purchase a home within DC. The downpayment assistance totals 3 or 3.5 percent of the loan amount depending on the loan, but there is no dollar amount limit to the assistance.

- **The Cuyahoga County Down Payment Assistance Program** run through Neighborhood Housing Services of Greater Cleveland provides downpayment assistance up to 17 percent of the total transaction cost, which is calculated as the purchase price plus 5 percent of the purchase price for closing costs. The maximum amount of assistance is approximately $23,000. The assistance is in the form of a deferred loan, partially forgiven after 10 years. Borrowers must be first time homebuyers with low or moderate incomes and purchase a home in particular cities and counties, among other program requirements.

**Related resources**

- HUD’s [HOME Investment Partnerships Program](https://www.hud.gov/) and [Community Development Block Grant Program](https://www.hud.gov/) websites provide information about HUD programs which are often used to fund local downpayment assistance programs. Program limits, such as income requirements, can be found here.

- HUD lists state and local homeownership programs on their website. HUD links to state and local programs on state-specific webpages, under “homeownership assistance”. For example, programs in California can be found here. In general, these pages provide contact information for state and local programs, including downpayment and closing cost assistance programs. The pages vary from state to state.

- The materials on St. Louis County’s downpayment assistance program website provide examples of many of the materials localities might need when developing a downpayment assistance program. The site includes information to help potential homebuyers understand the program, as well as a detailed manual for lenders and necessary documents such as a deed of trust.

- The Urban Institute’s [Access and Affordability interactive map](https://www.urban.org/interactive-maps-and-tools) allows users to see the number of active homeownership programs, including downpayment assistance programs, available in each state.