Who wrote the article. This article was written by CBC Mortgage Agency (https://chenoafund.org) staff writers for the purpose of helping homebuyers learn about the mortgage industry, down payment assistance, and related topics.

Directions for reuse. You have permission to use this article in print and electronically media (e.g., blogs, newsletters, websites, podcasts, Email) for commercial and non-commercial use as long it is passed along unchanged and in whole, with credit to Chenoa Fund.

Article begins on next page.

Article Title: Homebuying Simplified: Down Payment Assistance – The Basics

Of all the barriers keeping people from becoming homeowners, one seems the most daunting of all: the down payment. For many young or low-to-median-income Americans, the idea of coming up with a sizeable chunk of cash to put down seems next to impossible – especially if they lack relatives who might give or loan them some or all of the funds.

A September 2018 report by The Urban Institute confirms this, noting that two-thirds of renters cite “affording the down payment” as a key obstacle to homeownership. The same study revealed that 66 percent of consumers find it either somewhat difficult or very difficult to save for a down payment.

Here’s another key finding unearthed by The Urban Institute: the vast majority of consumers (80 percent) are either unaware of down payment requirements set by lenders or are misinformed. Specifically, only 19 percent of consumers believe lenders would make loans with a down payment of five percent or less. And nearly one in three people surveyed say they believe lenders expect borrowers to put down 20 percent.

Exacerbating such confusion is another reality keeping would-be buyers on the sidelines – most people are unaware of down payment assistance programs. Even those who have heard of down payment assistance, or DPA, have misperceptions about it, assuming that help is available only for specific census tracts, distressed neighborhoods or very low-income households.

The good news is that there are now more than 2,100 active DPA programs in the U.S., at the local, state and national levels. Who is eligible? That depends on each program’s criteria. Some programs target a geographic area as large as the nation, while others focus on individual cities — or even specific neighborhoods.

Here are some other eligibility criteria common to many programs:

- Loan must be for primary residence
- Home sale price limit, calculated as a percentage of the area’s median home price

- Family income threshold, based on the area's median income
- Credit score minimum
- Homeownership education course often required

Some DPA programs serve only first-time homebuyers. But the industry definition of "first-time homebuyer" – someone who has not owned a home in three years – offers flexibility for those reentering the land of mortgage payments.

And if you are a teacher, veteran, first responder, healthcare worker, or active member of the military, there may be a special program for you. More than 14 percent of programs target people in these and other community service oriented professions, according to Down Payment Resource,

The money buyers receive through DPA programs is typically a grant, an interest-free loan or a deferred payment second mortgage (often called a "soft second") to be paid off in the future. Funds can total up to tens of thousands of dollars and typically can be used for the down payment, closing costs, principal reductions, and repairs. In most cases, buyers must occupy the home as a principal residence for a certain period to avoid having to repay the DPA, and must pay off any loan before selling the property.

One place to start when looking for a DPA program is Down Payment Resource, which tracks trends and helps buyers narrow their search for assistance that meets their needs. State Housing Finance Agencies are another good resource, and some counties and cities offer programs for buyers within their boundaries.

At the Chenoa Fund, we offer DPA to credit-worthy families on a national scale. We have a variety of options, both for FHA and conventional loans, that range from zero percent, no payment second mortgages to repayable second mortgages that offer added underwriting flexibility.

The bottom line is this: Homeownership remains the cornerstone of the American Dream, and if your plans are on hold strictly because of the down payment, rest assured there's likely help out there for you.

Up next: Choosing the DPA program that's right for you

Homebuying Simplified: Choosing a Down Payment Assistance Program

You've reached that magical point in life. You've got a solid job with a stable income, a good credit score, limited debt, and plans to sink roots in your community. In short, you're ready to become a homeowner, except for one thing – the down payment.

If that scenario sounds eerily familiar, take heart. For starters, you're not alone. And secondly, there's help out there for folks like you.

Down payment assistance, or DPA, is a tool designed to help credit-worthy borrowers meet their up-front cash obligation and secure a mortgage. In recent years, DPA has become an increasingly significant part of affordable homeownership programs offered by state Housing Finance Agencies, local governments and nonprofit organizations.

Before you start looking for a DPA program that suits your needs, ask yourself a few questions. Finances are one key area. Are you definitely ready to take on a mortgage? Failing to make a loan payment is not like missing a month or two of rent and trying to keep the landlord calm. Lenders expect on-time payments, and there are costly consequences – potentially leading to foreclosure – for falling behind.

If the economics look good, take stock of your employment situation. Make sure you're not planning a job change any time soon, nor facing a possible transfer. Buying a home is a commitment, and having to sell a house quickly is no fun – and a potential money loser.

Assuming all systems are go, it's time to explore the DPA possibilities that best fit your situation. Lenders are one good resource, and friends and colleagues who have recently purchased homes can often steer you in a promising direction.

Online, help can be found at Down Payment Resource, through multiple sites created by lenders and the real estate industry professionals, and through state Housing Finance Agencies, which can be accessed here. FreddieMac also has a borrower help center that can provide useful advice.

DPA usually is provided in the form of a grant or, more commonly, a second mortgage. The second mortgages often have a zero or low interest rate, allow for deferred repayment or may be entirely forgiven over time.

Your personal circumstances and long-term plans largely dictate which approach you should take. Borrowers who intend to remain in their home for many years, for example, would benefit from a first mortgage with a low interest rate and DPA assistance through a repayable second mortgage.

On the other hand, for buyers who plan to stay in their homes only a few years before moving up to something bigger and better, a forgivable down payment coupled with a higher interest rate on the first mortgage likely makes more sense.

At our organization, the CBC Mortgage Agency, we offer several DPA options to borrowers on a national scale under the umbrella of the Chenoa Fund:

DPA Edge Program: With this program, borrowers receive a 30-year term, 0% rate, no payment second mortgage. Borrowers must meet a minimum FICO score of 620 and report a qualifying income that is equal to or below 115% of the median income for the county in which they will live. The loan is forgiven once the borrower makes 36 consecutive on-time payments on the original FHA first mortgage.

Chenoa Fund Repayable Second Program: This program carries no income restrictions and offers two options for a repayable second mortgage – a 10-year repayable second at 0% interest rate or a 30-year repayable second at 5% interest rate. Borrowers must meet a minimum FICO score of 620.

Rate Advantage Program: This alternative allows borrowers to lock in their first mortgage at a market comparable rate. Borrowers must meet a minimum FICO score of 620, have a debt-to-income ratio of 50% or less, and have a qualifying income equal to or less than 115% of the median income for the county in which they will live. The down payment assistance is repaid over a 10-year period at 8%.

Whatever path you choose, we offer our encouragement as you make the transition from renter to homeowner. Studies consistently document the many social and economic benefits of homeownership, from family stability to improved psychological health and higher rates of high school and college completion.

Here's hoping your hard-earned dollars will soon be paying the mortgage, not rent.

Source: Chenoa Fund, https://chenoafund.org
The Chenoa Fund is an affordable housing program administered by CBC Mortgage Agency (CBCMA), a federally chartered governmental entity. CBCMA specializes in providing down payment assistance financing under FHA and conventional guidelines.