

Down Payment Assistance Myths Debunked

Top 10 surprisingly
common down payment
assistance myths are
debunked.



This eBook is designed for real estate and housing industry professionals to understand the most common misconceptions about down payment assistance programs.

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Introduction

Myths often prevent buyers from investigating all their home financing options

Preconceived ideas often keep us from investigating further. In the case of down payment assistance, myths like “it’s only for first-time homebuyers” and “it’s difficult to qualify” prevent potential buyers from exploring all viable paths to homeownership. Furthermore, when Realtors and lenders hold misconceptions about programs, it often prevents homebuyers from better understanding their options.



According to the 2013 National Housing Pulse Survey, more renters are now thinking about purchasing a home, up from 25 percent to 36 percent. Many of these renters have the income and credit qualifications to buy a home, but simply need to overcome the down payment hurdle. Home prices, along with down payments, are increasing, and assistance programs can help make buying a home as affordable as possible.

Today’s homebuyers are doing significant online research before beginning their home buying search. In fact, over the past four years real estate-related searches on Google have grown more than 250 percent, with frequently searched terms like FHA loan, home grants and homebuyer assistance. Now is a great time to fully understand the real story behind down payment assistance.

Down payment assistance can help boost homebuyers’ purchasing power, help buyers retain a solid cash reserve for home improvements and other moving costs, and revitalize our communities with more homeowners. This eBook will debunk the top 10 myths about down payment assistance programs.

Myth #1: Down payment assistance programs are only for first-time homebuyers.

First-time homebuyers are defined as someone who has not owned a home in three years. And, not all programs specify that you must be a first-time homebuyer. It's important to know that assistance programs are for homebuyers, not investors. Most housing agencies will require that the home is occupied as a primary residence in order to qualify.

In addition, homebuyers purchasing a home in a designated target area (typically for revitalization efforts) may receive special benefits such as higher assistance amounts, more lenient income requirements and the first-time homebuyer requirement may be waived. Veterans are often eligible for a first-time homebuyer waiver, too.

HUD defines a first-time homebuyer as someone who has not owned a home in three years.

Myth #2: Assistance programs are no longer funded.

There are many public and private-funded programs available. In fact, there are hundreds of millions of dollars in down payment assistance, tax credits, affordable fixed-rate mortgages and rehab loans available throughout the country.

Each program has a different funding schedule. Some programs are government-funded and are provided through municipal or quasi-government agencies or non-profits. Others are privately funded, and some are even sponsored by employers. Some agencies use financing structures like taxable bonds to achieve unlimited and perpetual funding for its programs. Every state has a collection of programs at the state-level, and hundreds of markets around the country offer local assistance as well.



Watch this [four-minute video](#) to learn about the three most common types of homebuyer programs.

Myth #3: It's difficult to qualify for homebuyer programs.

There are many options and opportunities. The key is doing research early in the home buying process as well as reviewing the application criteria.

To qualify for an assistance program, the homebuyer and the property will have to meet certain criteria, which vary by program. Standard criteria include property location, type of home, sales price limits, household income thresholds, and homebuyer education certifications. There are often additional benefits, or even entirely separate programs, for educators, protectors, health care workers, veterans of the armed forces, and households with disabled members.



Down Payment Resource gives homebuyers the opportunity to answer a few simple questions to determine if they may meet the basic qualifications for a program.

Homebuyers must also demonstrate that they are financially responsible. Assistance programs have credit score thresholds and cash reserve requirements. Most programs will require a little money down from the homebuyer, as well as homebuyer education, especially for first-time

homebuyers, to ensure the long-term homeownership success of each new buyer.

Myth #4: Using a down payment assistance program makes home financing more difficult.

The process of getting qualified for and using a homebuyer program is very similar to that of securing a first mortgage. It involves paperwork and effort for all parties involved. The key is to begin the process early in your home buying journey.

Homebuyer program administrators often train “participating lenders.” These are lenders who are qualified to write the loans associated with the programs and understand how to incorporate this special financing into the home loan without complicating or prolonging the real estate transaction. This is why it's important for homebuyers to seek information about available programs prior to touring homes or even getting prequalified. A little homework upfront ensures a smooth, successful transaction down the road.

You can begin by visiting your state's [Housing Finance Agency website](#) to discover available programs. You can also use Down Payment Resource to access the participating lenders for specific programs.

Myth #5: Down payment assistance is only for inexpensive homes.

Many people focus on the word “assistance” in down payment assistance, believing it is only for narrowly defined homebuyers and “targeted” neighborhoods of very inexpensive homes. In fact, homes in any neighborhood may be eligible with sales price limits typically ranging from \$200,000 to over \$700,000 in high-cost markets. On average, 70% of all homes for sale are eligible for one or more programs.

Some homebuyer programs can have income limits of up to 120% AMI and higher, which can amount to well over six-figure incomes in countless markets across the country. In addition, some may offer tiered assistance dollars at varying income levels so higher incomes might yield lower assistance amounts, but higher income isn’t an automatic disqualifier. Income limits are almost always based on household size, so limits for a family of five are significantly higher than for a single person.



Myth #6: Down payment assistance is only compatible with FHA loans.

While FHA loans are by far the most common to use with down payment assistance, it doesn’t mean you can’t use other loan products. FHA has more flexible down payment requirements than some other loans so it may be a good fit. Many down payment assistance programs are also compatible with VA, USDA and conventional loans. It’s important for homebuyers to know that FHA may be the most popular or compatible first mortgage option, but certainly not the only option.

How do you know what’s the best fit? It really boils down to purchase price and assistance amount. For example, if you have \$5,000 in assistance on a \$150,000 house, that’s just under FHA’s down payment requirement, so the homebuyer still has to come up with a little extra change. However, if you have \$10,000 in assistance on the same \$150,000 house that’s over 6% down already and may open the doors for conventional financing. There are other considerations including veterans who don’t have a down payment requirement, buyers in rural areas who can use USDA loans, and homebuyers using rehab programs, which offer higher assistance amounts.

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Myth #7: Down payment assistance programs require longer closing timelines.

Many buyers are more than willing to trade a few weeks of processing time to take advantage of the opportunity to gain a little equity and retain some savings. It's true that some of these programs may take a little longer than a typical lender to underwrite, approve, reserve funds, and deliver closing documents. However, the closing timeline must be measured from the date the full down payment assistance application is submitted, not when the opportunity is first discovered. This is where the misconception lies. Buyers can work ahead by completing their homebuyer education course and other requirements upfront – work that will need to be done regardless.

Housing agencies that provide these programs should be considered partners and subject matter experts just like any other lender. Realtors can leverage the expertise of these assistance program providers to keep the buyer informed every step of the way. By being prepared and keeping all lines of communication open with your buyer and the agency, you'll be able to meet timeline expectations. And for buyers who would have stayed on the sidelines for months or years without down payment assistance, the extra steps are well worth it.



Myth #8: Down payment assistance dollars are never forgiven.

In any given market, there are a variety of programs, including some that defer payments or interest and others that offer a grant or forgivable loan. First, it's important to understand how programs work. Nearly every down payment assistance program creates a lien on the financed property, just like the first mortgage. Homebuyer programs take a subordinate second or even third lien position. But not all programs – typically grants – have to be repaid, and those that do will back-load that obligation, waive interest, defer payments, and provide a unique upfront buying power and opportunity for homebuyers.

With deferred loans, payments are often deferred for the life of the loan or grant, with 0% interest, and then the lien is forgiven after a certain number of years – maybe 5, maybe 7, maybe 10 or more – if the buyer lives in the property the entire time. Still more programs will defer all payments and interest, or never charge or accrue interest, and use proceeds from a sale or refinance to “pay off” the lien. Even the programs that require the assistance dollars to be paid back upon sale are still providing the buyer an opportunity upfront to get into a home that may not have been affordable or possible otherwise.

Good product training can help lenders, Realtors and buyers understand the long-term implications of these programs. In fact, this is exactly what homebuyers are learning in the often required homebuyer education course.

Myth #9: Sellers won't accept layered financing.

Some sellers may at first balk at contracts that include layered financing (beyond a first mortgage). They may fear longer closing times or complicated closings. Sellers have often heard cash offers are better because they're quick and will cost them less.

However, consider that buyers with down payment assistance have an extra cushion to bargain with, allowing them to compete with other buyers on price and seller-paid costs. Extra time may be necessary for the transaction, but if it's known ahead of time, the details can be planned for in advance. It also means the seller doesn't have to take a lower offer to sell faster to a more aggressive (and less common) cash buyer. In fact, down payment assistance may cover items like closing costs and other seller-paid costs, allowing the seller to gain even more. When agents and sellers open their minds to buyers taking advantage of homebuyer programs, it can help all parties involved.

In order to improve the timeline and reduce seller fears, it's crucial for Realtors to ensure their buyers take the homebuyer education course upfront, complete and submit their loan documents to the lender promptly, and do their part to expedite the process from the beginning.

Myth #10: It's advantageous for buyers to put down more of their own money for a bigger down payment.

This myth is largely the result of subprime loans of the past being incorrectly or inadvertently mixed up with down payment assistance programs. Today's programs come with prime loans and required homebuyer education. They provide a leg-up for new buyers who otherwise would be stagnant for years to come. In addition, these programs have been around for years, even decades, but got confused with the now illegal seller-funded "gift" programs and boom market subprime loans.

Sensible down payment assistance programs give the buyer a chance to retain some of their savings for long-term homeownership success and neighborhood revitalization. During the application process, potential buyers learn about the responsibilities and expenses of homeownership, including appliance repair, yard upkeep, heating and air checkups, home budgeting, and more.



With homebuyer programs, buyers don't have to put every last penny towards a down payment, leaving them "house poor." They allow the buyer to move in with a financial cushion in place, some skin the game, and critical homebuyer education under their belt. In fact, that's why delinquency rates on these loans are actually lower than that of the general market. Studies from the Government Accountability Office (GAO) and Harvard's Joint Center for Housing Studies indicate the delinquency rate on loans using down payment assistance programs is far below subprime delinquency rates, and even lower than market standard FHA delinquencies.

About Down Payment Resource

The Market's Challenge

Consumer surveys find that saving for a down payment is the number one barrier to homeownership. Even with lower home prices and more homes on the market, many would-be homebuyers remain on the fence. Many don't know that there are hundreds of millions of dollars available in down payment assistance programs throughout the country. It is challenging for both homebuyers and housing industry participants to understand and be aware of the requirements and benefits of multiple programs in each market.

Bridging the Down Payment Gap

Down Payment Resource is a web-based tool designed to simplify the process of finding homebuyer assistance programs and eligible for-sale homes. It is the industry's first product to aggregate information on down payment assistance programs, affordable mortgages and rehab loans into one, online platform and integrate the details into Multiple Listing Service data for homes on the market. The tool helps bridge the down payment gap for homebuyers by connecting eligible homebuyers and eligible properties to available assistance funds. Down Payment Resource was named the 2011 *Inman News* Innovator "Most Innovative New Technology."

Down Payment Resource Helps Housing

Using today's technology to increase the awareness and access of down payment assistance programs, Down Payment Resource helps everyone in the housing process. As REALTORS® and homebuyers search for properties through their MLS website, they will find a DPR icon displayed on any property listing that is eligible for one or more down payment assistance programs. With one click, specific details about the program and its criteria are available.



Homebuyers find affordable homes eligible for assistance programs and quickly learn if they may also qualify.

Mortgage lenders find pre-qualified homebuyers and are able to move more real estate transactions forward.



REALTORS® uncover new leads, learn about local programs and efficiently connect their clients to assistance funds.

Housing Finance Agencies market their programs to active homebuyers and agents at no cost.

For more information about down payment assistance programs, please visit www.DownPaymentResource.com and sign up to receive our monthly housing professional newsletter.

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