

# 13 – DOWNPAYMENT PROGRAMS

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## DOWNPAYMENT ASSISTANCE PROGRAMS

**These guidelines apply to all downpayment assistance loans offered at the Commission**  
Details for Home Advantage 0% Downpayment Assistance Program can be found on page 13.9

### ***PROGRAM DESCRIPTION***

All downpayment assistance programs offered at the Washington State Housing Finance Commission are community second mortgages and must be used in conjunction with a Home Advantage or House Key Opportunity or Covenant first mortgage. Each Downpayment Assistance program offered at the Commission receives funding from different sources including, but not limited to federal funds (HOME, CDBG), state funds, city funds (housing levy) and the Commission's Program Related Investment Funds. *Additional guidelines per the individual program manuals also apply and are required as per the source of funds for the downpayment assistance program.*

### ***MAXIMUM INCOME LIMIT, LOAN AMOUNT & MORTGAGE DETAILS***

Please refer to the individual downpayment assistance manual for terms.

Downpayment assistance program loans are not assumable.

Minimum Loan amount of assistance is \$1,000.

When the borrower is required to make payments, the late charge is 4%.

### ***PROGRAM ELIGIBILITY***

1. First Mortgage must be a Home Advantage or House Key or Covenant: FHA, Fannie Mae HFA Preferred, Freddie Mac HFA Advantage, USDA Rural Development, VA, or HUD 184 Loan.
2. Income levels must meet the downpayment assistance programs' requirements (see limits in each manual); Please note: Income limits for the 1<sup>st</sup> mortgage may be different. The Borrowers must meet both 1<sup>st</sup> and 2<sup>nd</sup> income limit guidelines.
3. With the exception of both options for the Home Advantage dpa program, the Borrowers must be a first time homebuyer (have not owned and occupied in the past 3 years) or purchase in a Targeted area of the state, lender to provide last 3 years tax returns, Affidavit Addendum to Loan Application and credit reports for all borrowers. If using the Covenant program, the homebuyers must be a first-time homebuyer as defined under the program.
4. The Borrowers must demonstrate a need for assistance with the exception of the Home Advantage dpa program at 0% interest.

### ***COMBINED LOAN TO VALUE (CLTV) AND TOTAL LOAN TO VALUE (TLTV)***

FHA, HUD 184 – Cannot exceed 100% of FHA’s acquisition cost. FHA’s acquisition cost does not include 2<sup>nd</sup> mortgage fees.

Fannie Mae HFA Preferred or Freddie Mac HFA Advantage – CLTV up to 105%.

VA – Cannot exceed 100% of the lesser of sales price or Notice of Value, plus eligible closing cost.

USDA Rural Development – Maximum CLTV as per current USDA guidelines.

### ***RESERVES (NOT APPLICABLE TO THE HOME ADVANTAGE or COVENANT DPA PROGRAM AT 0% INTEREST)***

The Borrower(s) may keep, but are not required to have up to 12 months PITI (including the projected payment on the downpayment assistance loan if applicable) or \$20,000 (whichever is greater) in liquid checking and savings account after loan closing.

### ***BUYDOWNS***

Lenders may not offer rates lower than the ones published on our Website and reserved on the Emphasys system. Further buydowns are not allowed.

### ***RESERVATIONS***

Reservations for downpayment assistance loans are usually made on the Emphasys system at the same time as the first mortgage loan reservation. Funds are reserved on a first-come, first-served basis. Loan originators may reserve the maximum allowable amount per the program guidelines for their borrower since cash to close cannot be exactly determined at loan reservation. A reservation for downpayment assistance can be made on-line at any time prior to submission of a pre-closing compliance package. Increases in the reservation amount are subject to the availability of funds. If funds are not available, our Website will indicate if we are taking a wait list.

Reservations for any Needs Based or specialty downpayment assistance programs are **not** permitted on the 3% or 5% Home Advantage first mortgage rate options, use only the 4% Home Advantage first mortgage rate option.

## ***INCOME CALCULATION***

The source of funding determines how income is calculated for the program. Please refer to the correct downpayment assistance manual for the type of income used for the program.

### ***Compliance Income***

Please refer to the individual downpayment assistance manual to see if the downpayment assistance program uses compliance income.

Current downpayment assistance programs using compliance income include ARCH, and Bellingham DPA.

The calculation used to determine compliance income is the same as the calculation used to determine compliance income for the House Key first mortgage as shown in Section 3 of the House Key Manual which uses future anticipated income for all household members age 18 or older. Please contact the Commission if you need assistance calculating compliance income.

After the applicant's income for the Second Mortgage has been calculated, refer to the Maximum Income Limits chart in the individual downpayment assistance manual to determine if the applicant is at or below the income limit.

### ***Credit Underwriting Income***

Please refer to the individual downpayment assistance manual to see if the downpayment assistance program uses credit underwriting income.

Current downpayment assistance programs using credit underwriting income include the Home Advantage DPA, Needs Based Home Advantage DPA, HomeChoice DPA, Veterans DPA, Opportunity DPA, and the Covenant Homeownership DPA.

When using Credit Underwriting Income, the income for the downpayment assistance program is different than the income used to determine income for the House Key which uses household "Compliance" income as shown in Section 3 of the House Key Manual. For downpayment assistance mortgages using Credit Underwriting Income only, income is calculated according to the investor's (FNMA, FHLMC, FHA, VA) underwriting guidelines. The lender should then refer to the Maximum Income Limit in the manual to determine if the borrower is at or below the income limit.

A copy of the underwriter's signed and dated income worksheet or loan approval reflecting final income figures must be included in the Pre-Closing Compliance Review File.

## ***CALCULATING DOWNPAYMENT ASSISTANCE LOAN AMOUNT***

For the **Home Advantage 0% downpayment assistance** loan, the loan amount cannot exceed 3%, 4% or 5% (5% DPA option available on Home Advantage Conventional or FHA only) of the total gross loan amount of first mortgage. No Needs Assessment Worksheet is required.

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For the **Covenant DPA**, the loan amount is up to 20%, not to exceed \$150,000, of the purchase price or appraised value, whichever is less, plus applicable allowable closing costs (per Community Second guidelines) paid by the homebuyer. The underwriter will calculate Need using the Covenant Needs Assessment form. The borrower(s) assets will not be considered on the Covenant Needs Assessment form.

For all other Commission second mortgage programs including Home Advantage 1% Needs Based Option:

**The downpayment assistance loan amount is the lesser of:**

- A) Amount of need as established by the Needs Assessment Form (based on maximum financing or on gap financing) calculated by the underwriter; or
- B) Maximum loan amount per program

***NEEDS ASSESSMENT WORKSHEET FORM (NOT APPLICABLE TO HOME ADVANTAGE DOWNPAYMENT ASSISTANCE PROGRAM AT 0% INTEREST)***

The underwriter will calculate the Need on the Needs Assessment Form located in the Forms section of the Downpayment Assistance Manuals at underwriting approval to determine the exact amount of funds needed. The Needs Assessment Form should be completed using a **current** VOD or bank statements and should be adjusted as the borrower's situation changes.

The underwriter will determine the down payment, closings costs, additional costs, and pre-paids as shown on Needs Assessment Form. These figures should match 1003 and underwriter's loan approval. The underwriter determines the amount of cash required by the Borrower to close the transaction. Stocks, bonds, IRA's, 401(k)s, mutual funds, life insurance policies, annuities liquid assets, and any other type of account causing a penalty in order to access are not included in the calculation.

The Mortgage Lender will then subtract out seller and Mortgage Lender contributions. The Mortgage Lender then determines liquid assets available to borrower in checking/savings accounts. The Mortgage Lender will list out separately gift letters if gift has not already been verified in checking account. The earnest money, lender deposits and paid out of closings should be listed separately if the money has cleared the bank based on VOD or bank statement. These figures should match the 1003 and underwriter's loan approval.

Subtract the allowed liquid reserves from the total amount of verified assets available at underwriting approval. If the amount is less than or equal to 0 enter "0" on Line F of Needs Assessment Form.

The underwriter calculates the shortage of cash to close based on the total cash required to close (Line E of Needs Assessment Form) from Total Assets Available to Close minus up to 12 months PITI or \$20,000 whichever is greater (Line F of Needs Assessment Form).

## ***ELIGIBLE USES OF DOWNPAYMENT ASSISTANCE FUNDS***

- Downpayment Assistance funds are used for downpayment, closing costs, and pre-pays. Per GSE guidelines, borrower paid real estate commissions are allowed to be paid only for Fannie Mae and Freddie Mac loans. Real estate commissions are **not** allowed to be paid for government loans including FHA, VA and USDA.
- Downpayment Assistance funds cannot be used to pay any portion of the real estate commissions when the loan originator is also a licensed real estate agent and serves in both roles on the same transaction---regardless of whether they act as the listing or selling agent.
- Downpayment Assistance funds cannot be used to buy either the first or second loan rate down.
- Downpayment Assistance funds cannot be used to pay off bills or liens of the borrower. If the borrower is required by underwriting to pay off bills in order to qualify, these items must be paid by the borrower. Please provide a copy of the loan approval with the total of the bills to be paid by the borrower as required by underwriting. This amount must match the amount on the Closing Disclosure (as applicable)
- Downpayment Assistance funds cannot be used to replenish the Borrower's bank account if they do not have reserves in the bank after closing.
- Downpayment Assistance funds cannot be used to pay for repairs to property. Furthermore, if Borrower chooses to pay for repairs from their own funds, escrow holdbacks must be for an exact bid from contractor. In order to avoid cash back, escrow cannot over collect borrower funds (i.e. 1/ ½ times). Please refer to Page 2.5 (Escrow Holdbacks) and Page 4.2 (Acquisition Cost).
- Downpayment Assistance funds cannot be used to pay the difference between the sales price and the appraised value.
- Downpayment Assistance funds cannot be used to pay for short sale negotiation fees, attorney fees, or any other similar fees.

In order to avoid cash back issues at closing, the Mortgage Lender should re-calculate the Needs Assessment Form where applicable after receiving an estimated closing statement. Adjustments should be made to the loan amount if necessary **prior** to releasing loan documents. If in doubt, it is always a good idea to reduce the loan amount slightly than risk the chance of the borrower receiving cash back.

On the **Needs Assessment and the Covenant DPA Needs Assessment Forms**, if the borrower's front-end ratio (PITI/Income) is less than 25% based on the appropriate income for the downpayment assistance program, the underwriter will decrease amount of subsidy to bring up the front-end ratio to acceptable assistance base levels for gap financing. The Borrower must qualify with the 25% ratio test in order to be eligible for gap financing. If the borrower fails to meet the ratio test, then the underwriter must proceed using the appropriate maximum loan-to-value (LTV) allowed by the first mortgage program type. In other words, on an FHA loan, the minimum downpayment is 3.5%.

Needs assessment does not apply to the Home Advantage 0% Downpayment Assistance Program.

## ***CASH BACK***

The intent of the Downpayment Assistance Loan is to provide the funds necessary to close the transaction and not to provide cash back to the borrower.

In no event will downpayment assistance funds result in cash back to the Borrower. Mortgage Lender should advise Borrower upfront that if a check is presented to them at closing when using a downpayment assistance mortgage funds, and the check exceeds the amount(s) that they originally paid into the transaction via required earnest money and lender deposits, that they should refuse the check. If using a specialty downpayment assistance, with the exception of the Home Advantage dpa program at 0% Interest, the Borrower should also refuse the check if the amount of the total refund plus their current liquid assets in the bank will result in more than 12 months PITI or \$20,000 whichever is greater in reserves.

In the event that there is a refund to the borrower at closing and the refund plus the Borrower's remaining liquid assets exceed 12 months PITI or \$20,000 whichever is greater, the Lender may apply the *refund* amount towards the principal balance of the 2<sup>nd</sup> mortgage or lower the amount of assistance and redraw the loan documents. If it is then determined that cash back was given to the Borrower, the appropriate master loan servicer will not purchase the Mortgage Loan unless the second mortgage note is lowered accordingly and within the allotted time frames.

If using the Covenant Homeownership downpayment assistance, if the borrower(s) closing costs are decreased at closing, the Covenant DPA loan amount may also need to be reduced or the DPA loan may be subject to principal reduction after closing.

If using ARCH or Bellingham downpayment assistance, the borrower may not receive ANY cash back at closing, including earnest money or funds paid in, as per HOME fund rules, excess funds must be used to pay down the DPA loan.

## ***CLOSING AND DELIVERING THE LOAN***

**Program Application Fee.** There is a \$40.00 program application fee for all downpayment assistance loans. This amount will be subtracted from amount reimbursed to the Mortgage Lender. This fee must be disclosed on the second mortgage Closing Disclosure.

**Funding and Delivery.** Participating lenders fund the second mortgage at loan closing. The funding and delivery procedures are as follows:

- 1) Second mortgage Notes and Deeds of Trust are originated under the Commission's name;
- 2) The master loan servicer will purchase loans with a copy of the Deed of Trust with the original recorded copies to follow.
- 3) Interim Interest is not collected at closing on downpayment assistance loans with deferred payments.

## ***HUD COMMITMENT LETTER FOR FHA LOANS***

Per HUD ML #2013-14 dated May 9, 2013, the Washington State Housing Finance Commission has, at or before closing, incurred a legally enforceable obligation to provide the funds for the Borrower's required Minimum Cash Investment. A Commitment Letter will be sent to the originating Lender in compliance with FHA's insurance requirements applicable to secondary financing transactions. This letter will be sent electronically to the Contact Name who reserved the funds in the Emphasys system after the loan is "Committed".

## ***FHA INSURANCE AWARD LETTER***

The Commission has agreed to loan to the Borrower a Second Mortgage Loan on the terms as shown on the Emphasys system. An Award Letter to satisfy the requirements of HUD Handbook 4000.1 will be issued to the Borrower(s) by the Commission when the loan is "Committed".

## ***INSURANCE REQUIREMENTS***

**Hazard Insurance.** Hazard insurance is required sufficient to cover both the first and second mortgages, or the maximum insurable value of the property whichever is less. The policy must contain a guaranteed replacement cost endorsement. Binder must indicate the first loan be *payable* to the loan servicer using the standard Mortgagee clause as written as shown in Section 2 of the [Home Advantage](#) or the [House Key](#) manual. Please refer to Section 2 of each manual for more information.

**Title Insurance.** Title insurance coverage is required for the first mortgage only. The second mortgage appears as a lien of record in second position when the policy is issued. As title insurance is not required for the second mortgage, the lender is not allowed to charge a title fee on the second mortgage.

## ***PAYMENT STATEMENT***

On the second mortgage, the Borrower receives a separate monthly statement from the appropriate master loan servicer.

## ***PAYOFF OF SECOND MORTGAGE***

All second mortgages are due and payable upon sale, refinance, early payoff of the 1<sup>st</sup> mortgage, no longer occupy the property as primary residence or transfer of the property as shown in the note and deed of trust for the downpayment assistance program.

If the Borrower(s) refinances, the second mortgage must be paid off in full. The Commission will only subordinate our second mortgages in conjunction with a Home Advantage first mortgage if program is available. The downpayment assistance loan is not assumable.

The Borrower(s) should contact the master loan servicer on their first mortgage for payoff information and their second mortgage as applicable.

### ***TRID GUIDANCE***

Please follow your own company's compliance guidelines for TRID and RESPA. The loan is subject to repurchase if the loan is not eligible for pooling or is audited and found to not be in compliance. As a courtesy to our lenders we have Loan Estimates and Closing Disclosures if your system is unable to generate them. You are also welcome to use your own forms as applicable.

These forms are made available as a courtesy to our lenders to use at lenders own discretion. Please feel free to use these disclosures or those provided by your Lending Institution. The Commission makes no representation regarding the accuracy or compliance of these forms with regulatory requirements. Please check with your own company's compliance department regarding whether these forms satisfy your compliance requirements.

By using these forms, you are agreeing that the Commission and its employees assume no responsibility for, and that you will hold the Commission and its employees harmless from, any claims or expenses that may be related to or arise from any violation of law arising from your use of these forms.

In most cases, a Loan Estimate and Closing Disclosure will be required on amortizing loans, loans with deferred interest with an interest rate, and loans with deferred payments at 0%, but that is up to your own company's interpretation of TRID. If the Commission is uncertain regarding the documentation presented we may request a letter from your corporate to verify your loan closing documents meets TRID compliance guideline

## 13 – DOWNPAYMENT PROGRAMS

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### HOME ADVANTAGE 0% DOWNPAYMENT ASSISTANCE

*Please see Section 13 (Downpayment Programs) for all other terms and conditions.*

#### **PROGRAM ELIGIBILITY**

1. Eligible Borrowers who purchase within the state of Washington and meet the guidelines below.
2. No requirement for reserves
3. No Needs Assessment required.

#### **MORTGAGE DETAILS**

Interest Rate – 0% simple interest, payment deferred

Loan Term – 30 years

Maximum Loan Amount – 3%, 4% or 5% (5% DPA option for Home Advantage Conventional or FHA only) of 1<sup>st</sup> mortgage total gross loan amount, rounded down to the nearest dollar.

Repayment – Due at the time of sale, transfer, refinance, early payoff of 1<sup>st</sup> mortgage or 30 years, (whichever comes first).

Eligible households may qualify for a maximum loan amount of up to 3%, 4% or 5% (5% DPA option available on Home Advantage Conventional or FHA Only) of the first mortgage total gross loan amount in all counties towards downpayment and closing costs. Borrower is not required to take the full 3%, 4% or 5%.

#### **INCOME LIMITS**

To be eligible for a Program loan, an applicant's income must not exceed the following Program Income Limits at the time of loan closing:

Statewide: \$215,000

#### **INCOME CALCULATION**

*This downpayment assistance program uses Credit Underwriting Income for the Home Advantage 2<sup>nd</sup> mortgage.* Please see page 13.3 of [manual](#).

A copy of Automated Underwriting System (AUS) and underwriter's signed 1008/92900-LT/VLA reflecting final income figures must be included in the Pre-Closing Compliance Review File.