

## Covenant Homeownership Downpayment Assistance Program Special Purpose Credit Program

---

***Please see Section 13 (Downpayment Programs) of the Home Advantage or House Key manual for all other program guidelines, terms and conditions. The Covenant first mortgage program follows the underwriting guidelines as the Home Advantage first mortgage, except for the income limits and requirements as stated in this manual.***

**IN ORDER TO ORIGINATE THIS DPA, LOAN OFFICERS MUST COMPLETE THE ADVANCED DOWNPAYMENT ASSISTANCE TRAINING WHICH INCLUDES COVENANT HOMEOWNERSHIP DPA. THIS TRAINING IS IN ADDITION TO THE COMMISSION HOME LOAN PROGRAMS TRAINING. LINK TO TRAINING IS [HERE](#).**

### **INTRODUCTION**

The Commission thanks the Washington Legislature for its bipartisan support for the [Covenant Homeownership Act](#), HB 1474, with special appreciation to the leadership of Rep. Jamila Taylor, Sen. John Lovick, and Rep. Frank Chopp. This landmark legislation makes Washington the first state to acknowledge and address the role of governments as both active and passive participants in discriminatory policies and practices that created barriers to credit and homeownership for historically marginalized communities in Washington.

The term “covenant” in the name of the Act refers to the racially restrictive clauses used in deeds and other property records in neighborhoods throughout the state of Washington in order to keep people out based on their race, ethnicity or other characteristics. The Covenant Homeownership Act represents a new commitment to correct this injustice, and other housing discrimination, such as redlining and exclusionary zoning, and to help impacted families begin building wealth through homeownership.

### **The new law has two important parts:**

1. [A research study](#) to investigate housing discrimination against marginalized communities in Washington, the role government institutions had in the discrimination, the ongoing impacts of the discrimination, and potential remedies for the impacts. These findings helped determine who is eligible for assistance and establish the framework for creation of a Special Purpose Credit Program under the Equal Credit Opportunity Act of 1974.
2. **A new source of funding** for homebuyer assistance from a \$100 document recording assessment on every real-estate transaction. These fees will be deposited into the Covenant Homeownership Account and fund this Special Purpose Credit Program, which was designed and implemented based on the findings of the research study.

## **PROGRAM PER LEGISLATION:**

- This program is a downpayment assistance loan program (not a grant).
- This program must work in conjunction with the Covenant Homeownership First mortgage program.  
-OR-  
Homebuyers can use a Home Advantage or House Key first mortgage. Further restrictions apply.
- Homebuyers using a Home Advantage or House Key first mortgage may add another Commission downpayment program. Further restrictions apply.
- Homebuyers may add other Community Second downpayment programs outside of those offered at the Commission.

### ***Homebuyer(s) must be:***

- A Washington Resident who either (1) was a resident on or prior to April 11, 1968 and was or would have been excluded from homeownership by a racially restrictive covenant on or prior to April 11, 1968, or (2) is a descendent of a person described in clause (1)
- A first-time homebuyer
- At or below program income limit
- Purchasing a home for owner occupancy

Other requirements to work with Commission's programs:

- Must attend a Commission-sponsored homebuyer education class.
- Must have a home inspection.

## **MORTGAGE DETAILS**

Interest Rate - 0% simple interest, payment deferred.

Loan Term/Repayment – Due at the time of sale, transfer, refinance, payoff of 1<sup>st</sup> mortgage, no longer occupying as primary residence, or 30 years (whichever comes first). Upon refinance the Covenant DPA mortgage may be continued and subordinated if, and only when, refinancing with a Home Advantage first mortgage. Further restrictions apply.

Further details regarding loan forgiveness can be found in the loan forgiveness section below.

Maximum Loan Amount – Up to 20% down not to exceed \$150,000, plus applicable and customary closing costs (per Community Second guidelines) paid by homebuyer.

Example:

\$400,000 purchase price with \$12,000 in traditional homebuyer closing costs.

$20\% \times \$400,000 = \$80,000$ . Max Loan amount would be \$92,000 (\$80k + \$12k).

The amount of downpayment assistance is based on the purchase price or appraised value of the property, whichever is less. Closing costs are based upon exact costs paid by the homebuyer. In no event will the loan amount exceed \$150,000 plus allowable closing costs. If the buyer's closing costs are decreased at closing, the Covenant DPA amount may also need to be reduced, or the DPA loan may be subject to principal reduction after closing.

The amount of downpayment assistance also is based on need and is dependent upon the homebuyer's income as determined using the Covenant Needs Assessment Form. On the Covenant Needs Assessment Form, if the borrowers front-end DTI ratio is less than 25% based on the appropriate income for the downpayment assistance program, the underwriter will decrease amount of subsidy to bring the front-end DTI ratio to acceptable assistance base levels for gap financing. The borrowers must qualify with the 25% ratio test in order to be eligible for gap financing.

There is no assessment of the homebuyer's *assets* under this program. The homebuyer may use their own assets in combination with this downpayment assistance program with no restrictions. The homebuyer is not required to use their own cash for closing.

This Covenant Homeownership Downpayment Assistance Program uses "Credit Underwriting Income" for income calculation. Please see Home Advantage and House Key manuals for further details regarding the Credit Underwriting Income. The lender should refer to the table below for the Maximum Income Limits applicable to this program.

Further restrictions may apply if layered with other Commission downpayment programs.

### ***MAXIMUM INCOME LIMIT (Revised 7/28/2025)***

Eligible homebuyers must be at or below qualifying program income for the county in which they are purchasing a home. Income is calculated per the lender's AUS and underwriting approval must be at or below income limit for the county as set forth in the table below. Further restrictions apply if using the House Key program.

Adams County	\$ 113,750
Asotin County	\$ 104,500
Benton County	\$ 126,700
Chelan County	\$ 115,800
Clallam County	\$ 113,750

Clark County	\$ 148,900
Columbia County	\$ 120,250
Cowlitz County	\$ 113,750
Douglas County	\$ 115,800
Ferry County	\$ 113,750
Franklin County	\$ 126,700
Garfield County	\$ 113,750
Grant County	\$ 113,750
Grays Harbor County	\$ 113,750
Island County	\$ 133,700
Jefferson County	\$ 117,950
King County	\$ 188,500
Kitsap County	\$ 149,150
Kittitas County	\$ 129,250
Klickitat County	\$ 113,750
Lewis County	\$ 113,750
Lincoln County	\$ 113,750
Mason County	\$ 120,250
Okanogan County	\$ 113,750
Pacific County	\$ 113,750
Pend Oreille County	\$ 113,750
Pierce County	\$ 144,950
San Juan County	\$ 132,950
Skagit County	\$ 131,300
Skamania County	\$ 148,900
Snohomish County	\$ 188,500
Spokane County	\$ 120,950
Stevens County	\$ 113,750
Thurston County	\$ 140,050
Wahkiakum County	\$ 113,750
Walla Walla County	\$ 117,500
Whatcom County	\$ 130,100
Whitman County	\$ 117,950
Yakima County	\$ 113,750

## **ASSUMPTIONS**

Covenant Homeownership DPA second loans are not assumable.

-unless-

Upon death of homebuyer, a qualifying descendant of the original qualifying homebuyer who meets all program guidelines for the Covenant DPA second may assume the Covenant DPA second loan if the first mortgage loan is also assumable. The Commission **at its discretion may** allow a qualifying descendant per above to refinance the first mortgage on the Home Advantage Program upon the death of the borrower.

### **Removal of Homebuyer:**

In the case of an FHA first mortgage when there is more than one occupying and qualifying homebuyer on the loan, a homebuyer can be removed from the Covenant DPA second loan following all normal guidelines. All other terms and conditions apply.

## **WHO WAS IMPACTED BY HOUSING DISCRIMINATION PER STUDY?**

At least one homebuyer on the note and deed of trust must occupy the home and have been (or have a parent or grandparent who was) a Washington resident before April 11, 1968. The pre-1968 resident must be in one of the categories identified in the study: Black, Hispanic, Native American(tribe)\*, Alaska Native(tribe)\*, Native Hawaiian, Pacific Islander\*\*, Korean, or Asian Indian.

The U.S. Census follows the U.S. Office of Management and Budget definitions for these categories:

**\*American Indian/Alaska Native:** Individuals with origins in any of the original peoples of North, Central, and South America, including, for example, Navajo Nation, Blackfeet Tribe of the Blackfeet Indian Reservation of Montana, Native Village of Barrow Inupiat Traditional Government, Nome Eskimo Community, Aztec, and Maya.

**\*\*Pacific Islanders:** Individuals with origins in any of the original peoples of Hawaii, Guam, Samoa, or other Pacific Islands, including, for example, Native Hawaiian, Samoan, Chamorro, Tongan, Fijian, and Marshallese.

As required by the Act, the Commission will rely on records to confirm both race and residency in Washington prior to April 11, 1968. The homebuyer will need to provide documentation showing they qualify for the program.

Per the Act at least one of the homebuyers must be a Washington resident who:

*Was a Washington state resident on or before the enactment of the federal fair housing act (Title VIII of the civil rights act of 1968; P.L. 90-284; 82 Stat. 73) on April 11, 1968, and was or would have been excluded from homeownership in*

*Washington state by a racially restrictive real estate covenant on or before April 11, 1968; or is a descendant of a person who meets the criteria.*

*The borrower is required to show records that show a person's address on or about a specific date or include a reference indicating that a person is a resident of a specific city or area on or about a specific date may be used to provide proof that a person satisfies the criteria in such as genealogical records, vital records, church records, military records, probate records, public records, census data, newspaper clippings, and other similar documents.*

## **DOCUMENTATION OF RESIDENCY AND ETHNICITY**

The lender must submit the family history documentation to the Commission at the time of loan reservation of funds if not sooner. It is highly recommended the lender submit documents to the Commission **prior** to the homebuyer(s) making an offer on a property. A letter of explanation should also accompany the documents to the Commission clarifying the family history and relationships of descendants.

The Commission intends to be as flexible as possible in accepting documentation and will refer to the statutory description of acceptable documents for guidance. Any unclear or inconclusive documentation will be reviewed by an internal committee.

Documents to be submitted with the pre-closing compliance file should be for:

- Either homebuyer themselves
- Or direct ancestor – usually parent or grandparent

The Department of Health [Vital Records Department](#) is a good source for official records

Free resources for research can be found here:

[Legacy Washington](#)  
[Family Search Genealogy](#)

Local public libraries are a useful resource. You can often access Ancestry.com for free.  
[Seattle Public Library](#)  
[King County Library Research](#)  
[Tacoma Public Library](#)

Paid services such as [Ancestry.com](#), [MyHeritage.com](#) and [Newspapers.com](#) are also useful resources.

The Commission will continue to add resources to this section known sources and document types to assist homebuyers with compiling documents. Acceptable non-photo documents include, but are not limited to:

- Birth certificates
- School records

- Death certificates
- Probate Records
- Marriage certificates
- Military records
- Tribal membership records
- Draft Card
- Social Security Claims & Applications
- WA State Concealed Weapon License
- Church records
- Newspaper clippings
- Employer records
- Genealogical records from reliable sources
- Census data
- Obituaries
- Historical Societies

### ***WASHINGTON RESIDENT***

The homebuyer must be a Washington Resident as evidenced by a Washington Driver's License or State ID. The Washington Driver's License or State ID must be submitted with the pre-closing file review package.

### ***FIRST TIME HOMEBUYER***

All borrowers on the Note & DOT must be a first-time homebuyer.

Further restrictions apply when using the House Key program.

First time homebuyers include:

- (a) An individual and the individual's spouse who has had no ownership in a principal residence\*\* during the three-year period ending on the date of purchase of the property. \*\*Principal residence is defined as any residential property, whether or not owner occupied.
- (b) A single parent who has only owned a home with a former spouse while married.
- (c) An individual who is a displaced homemaker as defined in 24 C.F.R. Sec. 93.2 as it exists on July 23, 2023, or such subsequent date as may be provided by the department by rule, consistent with the purposes of this section, and has only owned a home with a spouse.
- (d) An individual who has only owned a principal residence not permanently affixed to a permanent foundation in accordance with applicable regulations;
- (e) An individual who has only owned a property that is determined by a licensed building inspector as being uninhabitable.

## ***NON-OCCUPANT CO-BORROWERS AND CO-SIGNERS***

Non occupant co-borrowers who are on both the Note and Deed of Trust are allowed under the program and must meet first-time homebuyer requirements.\*

Non occupant co-signer(s) are allowed under the program. The co-signer is only guaranteeing the Note and are not on title or deed of trust.\*

The Commission does not allow title only borrowers under the program. If the borrowers would like to add someone to title after closing, they may do so at their own discretion. However, it cannot be done at the time of loan closing with the Commission.\*

\*Further restrictions apply if using House Key program.

## ***HOMEBUYER EDUCATION & COUNSELING***

The Homebuyer(s) are required to attend a Commission-approved Homebuyer Education Seminar. One-on-one pre-purchase counseling is highly recommended, in addition to attendance at a Commission-sponsored free Homebuyer Education Seminar.

One-on-one post-purchase counseling for the Homebuyer is also encouraged within 30 days of closing, with the same agency that conducted the pre-purchase one-on-one counseling.

## ***PURCHASE PRICE LIMITS***

There are no purchase price limits. However, further restrictions apply when using the House Key program and specialty downpayment assistance programs.

## ***PROPERTY TYPE***

One-unit single-family detached, attached, condos, manufactured homes and PUD's that are acceptable to Fannie Mae, Freddie Mac, FHA, VA, or USDA Rural Development requirements and the approved Fannie Mae or Freddie Mac PMI provider, as applicable, are acceptable under the Program.

Duplexes (2-unit) properties that are acceptable to FHA, VA, Fannie Mae or Freddie Mac and approved PMI provider, as applicable, are eligible under the Program unless using the House Key program or specialty downpayment assistance programs. Please follow agency guidelines. Triplexes or Fourplexes are not permitted under the Program.

For FHA: Single-unit condo property is permitted under the Program. Please follow agency guidelines, including the Case Number Assignment process outlined in the FHA handbook 4000.1.



## **LOAN FORGIVENESS**

*Covenant Homeownership Down Payment Assistance Program Loan Forgiveness Policies.*

**Lenders should not and will not be able to provide the borrowers with a prediction if their Covenant DPA loan will be forgiven.**

*The legislation states:*

*For a program participant who has a household income at or below 80 percent of the area median income for the county where the home is located at the time that the loan is made, a special purpose credit program authorized under this section may fully forgive a loan entered into at any time after enactment of the special purpose credit program once the loan has been outstanding for at least five years.*

*The Commission's intent is to keep the benefit of loan forgiveness of the subordinate Covenant DPA mortgage to the parties that were intended. Further restrictions may apply and sets policy as follows:*

*All criteria must be met in order for the loan to be forgiven:*

- *The Borrower(s) income needs to be at or below [the loan forgiveness income threshold](#) at the time of loan purchase per the signed underwriter's loan approval as submitted to the loan servicer for loan pooling. Each year's [loan forgiveness income thresholds](#) will be posted on the Commission's website.*
- *The Commission and its loan servicer must retain the loan for a minimum of 5 years and one month after loan closing. If the loan is not in the Commission's portfolio for any reason when the loan is ready to be forgiven, then loan forgiveness is null and void.*
- *The Borrower who met Covenant program eligibility requirements (for race and family history in Washington prior to 1968) must owner occupy the property as their principal residence at the time of loan forgiveness.*
- *The first mortgage loan needs to be in good standing at the time of forgiveness. If the first mortgage is delinquent, the Commission will not forgive the subordinate Covenant DPA mortgage until a future time when the first mortgage is current as applicable.*
- *To be forgiven on the loan, the homeowner needs to be a Borrower on the original loan or inherit the home through the original Borrower's passing and be a descendant or immediate family member (including spouse). Documents will need to be submitted to the Commission verifying death and proof of inheritance as applicable.*

## DOCUMENTS REQUIRED

A checklist of items below in **bold** should be sent by the lender to the Commission via [homedocs@wshfc.org](mailto:homedocs@wshfc.org) for review PRIOR to homebuyers going into contract and prior to reservation of funds.

- Fully completed **Covenant DPA Eligibility Document Checklist.**
- **Washington Driver's License or Washington ID to document residency.**
- **Documents to show Washington residency of homebuyer or homebuyer's parent or grandparent prior to April 11, 1968 along with letter of explanation.**
- **Document(s) to evidence the race of the person who meets the pre-1968 Washington residency requirement (homebuyer or homebuyer's parent or grandparent). Use of a photo to document race is not acceptable.**
- **If using documentation for a parent or grandparent, documents and letter of explanation to show relationship to homebuyer.**
- **Brief statement describing homebuyer's or homebuyer's parent's or grandparent's experience of housing discrimination (for instance through redlining, loan denial based on race, exclusionary zoning, restrictive covenants, etc.)**
- **Proof of first-time homebuyer status for borrowers on the note & DOT to include copy of credit report for all borrower(s) and spouse as applicable, copy of divorce decree; -or- evidence that the property is not permanently affixed or uninhabitable as applicable.**
- **A Commission sponsored Homebuyer Education Certificate for all homebuyers on both the Note and Deed of Trust**
- **Home Inspection Receipt.**
- **Covenant DPA loan Forgiveness Disclosure, signed & dated.**
- **DNA tests, attestations and photographs alone are not adequate documentation.**
- **AUS and Underwriter approval to document income.**
- **If manually underwritten, provide a second signature or written email approval from a supervisor.**

## FAQs

**Q: I've locked my loan in LenderOnline using the Covenant First Mortgage program, with a Covenant DPA 2<sup>nd</sup>. The Reservation Lock Confirmation is showing the Covenant DPA in 3<sup>rd</sup> lien position, is that ok?**

**A:** The Covenant DPA program can be used as 2<sup>nd</sup> or 3<sup>rd</sup> lien, to accommodate this in our system, the Covenant DPA will always show on the Reservation Lock Confirmation in the THIRD MORTGAGE section.

**Q: Can this program be combined with other Commission downpayment programs?**

**A:** Yes. However, the first mortgage program must be Home Advantage or House Key.

**Q: If using other Commission downpayment programs, how should the documents be recorded?**

**A:** The Covenant Homeownership downpayment program should be recorded in third

lien position behind another Commission downpayment program. Other community second programs can be recorded in fourth position.

**Q: What about adopted children born after 1968? Do they qualify?**

**A:** If the adopting parents were harmed by housing discrimination prior to 1968 and there is clear documentation showing a link to the homebuyer, we can assist.

**Q: My homebuyer has lived in Washington all of their life but does not have roots in Washington prior to the passage of the Fair Housing Act. What about them?**

**A:** The Commission offers other programs that may assist them in purchasing a home. The homebuyer should also call the Washington Homeownership Resource Center at 1-877-994-4663 for other types of assistance that may be available.

**Q: How will loan forgiveness be determined and how will the Borrower know their loan is forgiven?**

**A:** Within 12 months of loan purchase, the Commission and our loan servicer will notify the Borrower their loan may be potentially forgiven if they meet the criteria after 5 years. No letter will be sent to the Borrower if the income does not meet the criteria.

Annual notifications will be sent out to the Borrower if the Commission still owns the Borrower's loan.

At the five year plus one month after the loan closing date, the loan will be automatically forgiven if all criteria are met and the Borrower will be notified by the loan servicer.

**Q: What happens if the first mortgage loan is not current when the subordinate Covenant DPA mortgage is eligible for forgiveness?**

**A:** The subordinate Covenant DPA mortgage will not be forgiven at the time. If the first mortgage is brought current at a future date and prior to the payoff of the first, the subordinate Covenant DPA mortgage will be forgiven by the loan servicer at that time.

**Q: What happens if the Borrower no longer occupies the property?**

**A:** If the Borrower who met Covenant program eligibility requirements (for race and family history in Washington prior to 1968) no longer occupies the residence at the time the loan is eligible for loan forgiveness, the Borrower's subordinate Covenant DPA mortgage will not be forgiven at that time. If the Borrower who met Covenant program eligibility requirements (for race and family history in Washington prior to 1968) subsequently moves back into the property, documentation will need to be provided to the Commission to verify. The Borrower must document four months of seasoning to show they moved permanently into the property. Utility bills, driver's license and other documentation will be required.

**Q: What happens in the event of divorce prior to when the home is eligible for loan forgiveness and the Borrower who met Covenant program eligibility**

**requirements (for race and family history in Washington prior to 1968) no longer occupies the property or the property was awarded to the spouse?**

**A:** If the home is awarded to the spouse, the Covenant DPA mortgage will not be forgiven.

**Q: What happens if the Borrower who met Covenant program eligibility requirements (for race and family history in Washington prior to 1968) dies before year 5?**

**A:** If the Borrower dies, the descendant or immediate family member (including spouse) needs to assume or refinance the first mortgage through the Commission and will need to provide documents to show their relation to the original qualifying Borrower. Then five years from the original loan closing, if the first mortgage is current and the home is owner occupied by the descendant or immediate family member (including spouse), the loan servicer will forgive the subordinate Covenant DPA mortgage.

**Q: What happens if the home is in probate at the time of loan forgiveness?**

**A:** If at the eligible time for loan forgiveness, the home is in probate per provided documentation and has been completed, the Commission can forgive the loan as long as the above criteria is met and the property is going to be inherited by a descendant or immediate family member (including spouse). Probate must be complete and the loan transferred prior to loan forgiveness. The Commission reserves the right to ask for additional confirming information.

**Q: What happens if the Borrower passes away and the spouse was not originally on the loan or on title?**

**A:** In the event of the Borrower's death and the Borrower is married and the spouse is not on the loan or title, the Commission may forgive the subordinate Covenant DPA mortgage if spouse takes over the payments, the first mortgage is current, and they occupy the property regardless if they were the Qualifying Borrower. The spouse must take the steps to be on the Note and Title for the property.

**Q: What happens if the upon the Borrower's death, the property goes to someone who is not an immediate family member (including spouse)?**

**A:** In the event of the Borrower's death and the property goes to someone who is not either married, a descendant, or immediate family member, the subordinate Covenant DPA mortgage will not be forgiven.