

# *First-time homebuyer Q&A: How do down payment assistance programs work?*

## **Down payment assistance can make home buying affordable — so why don't more people use it?**

When surveyed, nearly half of Americans say that saving for a down payment is their biggest roadblock to buying a home.

However, many of these people don't know that there are monetary aid programs available for qualified home buyers — if they know where to look.

This money comes in the form of “down payment assistance” or DPA.

DPA programs offer grants and low-interest loans to help home buyers (especially first-time home buyers) afford a place of their own.

There are more than 2,500 DPA programs spread across all 50 states. On average, they save buyers **more than \$17,000** over the life of their loan. And yet, only **about 10%** of home buyers use them.

So, how does DPA work? Are you qualified? And are the programs easy to access, or is there a catch?

TheMortgageReport.com spoke with Tom Pessemier, Vice President of mortgage lending at GuaranteedRate, to get some answers.

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## **Where to find down payment assistance programs**

**Q:** Down payment assistance programs went away post-housing crash. Are they becoming widely available again? If so, where can I find one?

**A:** “DPA programs are much more widely known and available now,” says Pessemier. “Not every lender can or will offer these programs, but DPAs do seem to be catching more wind”

If you're looking for down payment assistance programs, start locally. Many of these programs are offered at the state, county, or city level.

“Most states have some sort of DPA available — or multiple,” Pessemier points out. “In the four states that I’m licensed in, there are multiple good-to-reasonably good options available.”

Pessemier also recommends avoiding mortgage brokers if you’re hoping to find a down payment assistance program.

“Brokers aren’t typically eligible to offer DPAs in my experience. Only banks or direct lenders are typically able to offer them.”

## **Types of down payment assistance programs**

### **Q: What are some of the most common down payment assistance programs?**

**A:** “I find that most people opt to go with 4-5% down payment assistance,” says Pessemier.

This type of down payment assistance is generally given as a loan, which is either paid back over the course of the mortgage or at the time the owner moves, sells, or refinances.

“That down payment assistance loan can come with a 0% interest rate option,” adds Pessemier, “while the main mortgage loan itself comes with a regular interest rate very close to market rates.”

Some DPA loans will simply be forgiven if the buyer stays in the house for a certain amount of time — meaning you might never have to pay the money back. The same goes for DPA given in the form of a grant.

## **What down payment assistance covers**

### **Q: Does DPA just cover the down payment, or can it be used for closing costs too?**

**A:** “DPA can be applied toward both down payment and closing costs,” says Pessemier, “but always keep in mind there may be overlaying conditions from the first mortgage such as minimum buyer investments.”

Pessemier also points out that a down payment assistance loan or grant might not be enough to cover both the down payment and closing costs.

“In those cases, if the buyer can’t cover the difference, we recommend asking the seller for a small **concession** to bridge the gap. This is a very good question to get figured out with your lender — before putting down an offer on the home.”

## **Qualifying for down payment assistance**

**Q: What are the general guidelines to qualify for a DPA? Are there typically income limits? What else do DPA organizations want to see in candidates?**

**A:** “There are limits and conditions to qualifying for DPA in every state,” says Pessemier.

“Generally speaking, the funds are there for people that need assistance — so if you earn income at a high level... and have a lot of money in the bank, this isn’t the program for you. That said, it’s not entirely difficult to qualify either.”

Pessemier points out that in some parts of the country, where home prices are exceptionally high, buyers could qualify for DPA with even an annual income of up to \$100,000.

He adds, “Each county and area have different income limits, so I find it’s best to check the available maps on each state’s website to be best prepared for the house hunt — or ask your lender to clarify your eligibility by county.”

Many down payment assistance programs also have an education requirement, meaning you’ll have to take a homeownership course either in person or online in order to qualify.

## **Paying back the loan**

**Q: Down payment assistance seems too good to be true. What’s the catch?**

**A:** “Down payment assistance loans, despite having zero percent interest rate options, generally aren’t fully forgiven,” Pessemier reminds us.

That means they often need to be repaid in full at the time of sale, transfer, early pay off, or refinance.

In addition, he says, there are scenarios where a buyer might have to pay “recapture tax” if they sell the home within a certain number of years (usually up to 9 years after the time of purchase).

Recapture tax can also apply if the buyer starts earning a lot more income, and no longer falls within their program’s income limit.

In these scenarios, the person selling the home might have to pay back 50% of their gains or 6.25% of the original loan amount — whichever is lower.

## **Your next steps**

Only about 10 percent of home buyers use down payment assistance to help pay for their home. Odds are many more people are qualified — they simply don't know it.

Use the [HUD's state sheets](#) or our own **guide to DPA programs** to find out more about down payment assistance in your area.

Then be sure to compare rates and closing costs from a few different lenders. You'll save the most by shopping around and finding a lender that's competitive for you.