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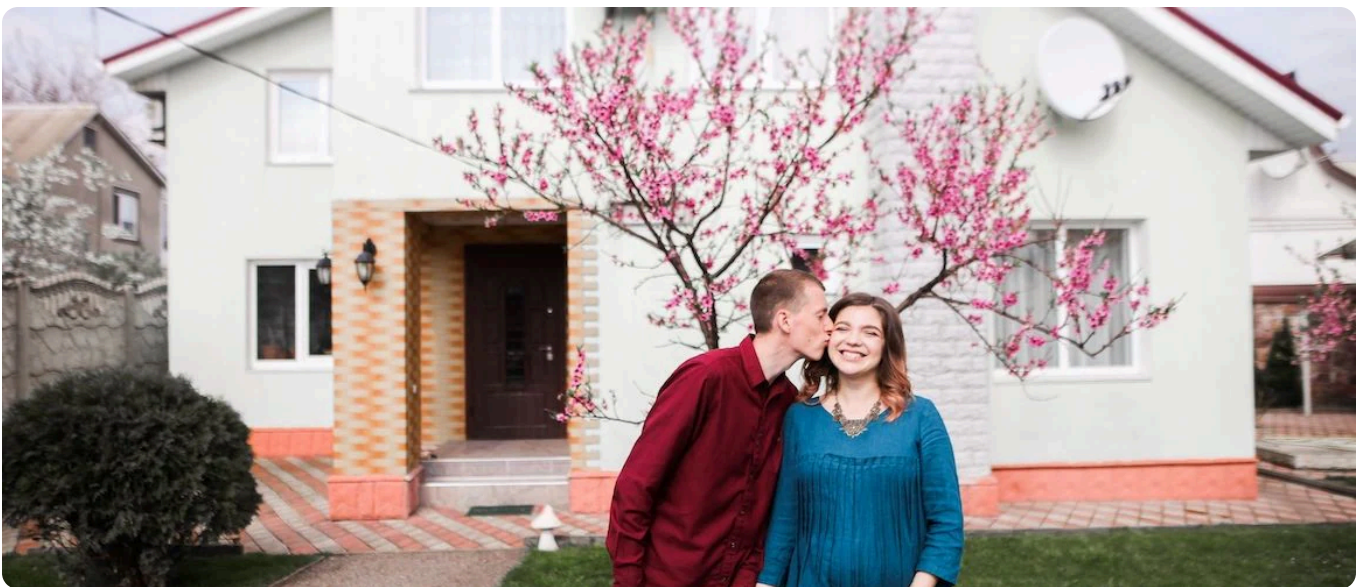
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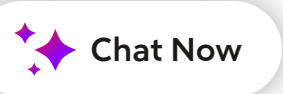
Down Payment Assistance Programs And Grants: What They Are And How They Work

APRIL 10, 2024 | 6-MINUTE READ

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Worried that you can't afford a down payment on a home? Here's some good news: if you're a first-time home buyer, you might qualify for down payment assistance.



through a government agency or private organization.

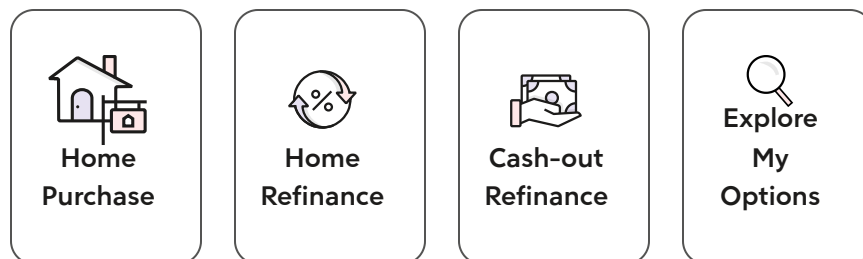
Let's look at what home down payment assistance is and how it works, plus some different down payment assistance programs to consider when [buying a house](#).

What Is Down Payment Assistance?

Down payment assistance helps you cover your down payment as a [first-time home buyer](#). When you buy a home, you'll usually have to put money down that's equal to a percentage of your home's final purchase price. This is called your [down payment](#).

The amount you'll need will vary, and some [mortgage](#) programs don't require a down payment at all. Coming up with this upfront cash may not be super-easy for everyone, which is why down payment assistance grants, loans and programs were created to help first-time buyers.

See What You Qualify For



Get Started

Who Qualifies As A First-Time Home Buyer?

Most government and charity programs have strict definitions for who qualifies as a first-time home buyer. If you haven't had any kind of homeownership in the last 3 years, most state, federal, local government and nonprofit programs consider you a first-time home buyer, even if you owned a home before that 3-year period.

You can't own any form of rental or [investment property](#) either, even if you don't occupy the property.

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How Does Down Payment Assistance Work?

As already noted, down payment assistance comes in the form of grants, loans and other programs, and it's typically reserved only for borrowers who qualify as first-time home buyers. Down payment assistance programs can be run by a variety of organizations, including the U.S. Department of Housing and Urban Development (HUD), your local or state housing authority, or a nonprofit.

Eligibility is determined by your household income and credit history, and it varies by state and program. You'll typically need to apply for assistance by submitting a formal application, and sometimes you're also required to attend training or home buyer education on the [mortgage process](#) and maintaining finances.

How much money you're awarded differs depending on the program. Some programs offer a percentage based on the home's sale price, while others cap assistance at a certain dollar amount. When looking at programs to apply for, research their requirements, whether it's a grant or a loan, and how much assistance you can receive.

In addition, you should look to make sure the [down payment assistance](#) you're applying for will be acceptable to your lender.

Find out how much you can afford.

Your approval amount will give you an idea of the closing costs you'll pay.

[See What I Can Afford](#)

Types Of Down Payment Assistance Loans And Programs

Most assistance comes in the form of first-time home buyer grants and loans offered at the state and local levels. Funds may even be available from the private sector and nonprofits where you live.

Grants

The most valuable form of down payment assistance is the grant. That's because grants provide money that homeowners never have to repay – it's considered a gift.

An important word of warning here: Some programs that are labeled grants by the organization doing the funding may actually create a second [lien](#) on your home. While nothing is inherently wrong with this as long as you know what you're getting into, make sure to carefully read the terms associated with any agreement for down payment assistance before signing on the dotted line.

You'll also want to ensure your lender is aware of the grant – otherwise, you might end up with a ["silent" second mortgage](#).

Forgivable Loans (At 0% Interest)

Forgivable mortgage loans are [second mortgages](#) you won't have to pay back as long as you stay in a home for a set number of years.

These loans come with an interest rate of 0%. Participating lenders will forgive them – meaning that owners won't have to pay them back – after a certain number of years. Often, lenders will forgive the loan after 5 years, but they do have the option of making the forgiveness period as long as 15 or 20 years.

You'll have to repay these loans if you move before the forgiveness period ends. For instance, if your lender says they'll forgive your loan after 5 years but you move, [refinance your mortgage loan](#) or sell your home in 4 years, you'll have to pay back all or a portion of your forgivable loan.

This second mortgage will usually be large enough to cover your entire d

Deferred-Payment Loans (At 0% Interest)

You might also qualify for a second mortgage with a deferred payment. These second mortgages are typically for a loan amount large enough to [cover your down payment](#) – and you don't have to repay these second loans until you move, sell, [refinance your first mortgage](#) or pay down your first loan.

Deferred-payment loans are never forgiven, so you'll have to repay them if you ever leave your home. You'll usually cover the repayment of the loan through the proceeds from the sale of your residence.

Low-Interest Loans

Your lender or another organization might offer you the opportunity to take out a second mortgage loan at the same time your first mortgage is finalized. You can use the funds from this loan to cover your down payment. You'll have to repay this loan in installments, usually when you make your monthly payments on your first loan. This means you'll be making two [mortgage payments](#) each month.

The goal is to [get a low interest rate](#) on these loans. Some lenders or organizations might even offer such loans with no interest at all.

Matched Savings Programs

Matched savings programs – otherwise known as individual development accounts – are another way for homeowners to get help on their down payment. With these home buyer programs, prospective home buyers deposit money into an account with a bank, government agency or community organization. That institution agrees to match however much the buyers deposit. Buyers can then use the total amount of funds to help cover their down payments.

For instance, buyers might deposit \$5,000 into an account. The bank, government agency or community organization they're working with will then add \$5,000 more into the account. The buyers can use this \$10,000 to cover the cost of their down payment.

Take the first step toward buying a house.

Get approved to see what you qualify for.

[Start My Approval](#)

Down Payment Assistance FAQs

Let's look at some frequently asked questions concerning down payment assistance.

How long does it take to get down payment assistance?

The amount of time it takes to get down payment assistance depends on the program and the type of assistance. Each state offers its own programs, as do cities and organizations. These programs move at different speeds depending on their size and the demand for them.

Will down payment assistance affect my closing timeline?

It's important to know that it may take longer to [close on your home](#) if you apply for down payment assistance. The assistance program must work with your lender to secure the loan and the down payment funds. This can add time to the closing process, depending on how quickly the down payment assistance program acts.

What do I need to qualify for down payment assistance?

The two most common down payment assistance qualifications are a minimum [credit score](#) of 620 and an income limit that satisfies the program's requirements, according to . Many programs also consider your [debt-to-income ratio \(DTI\)](#).

Other common requirements vary by program but may include the following:

- The home must be in a specific locale or county.
- You must be a first-time home buyer.
- You must attend a [class on home buying and finances](#).
- You must live in the home for a certain number of years (often 3 – 10).

How can I apply for down payment assistance?

Start by researching the programs available in your area, if any. HUD has a list of [local home buying programs by state](#). Check with your city and county to see if they offer any grants or loan programs. Search their websites for information on how to apply. Reach out to them via email or phone for specific answers you can't find online. Make sure your mortgage lender works with the program.

Can I get additional down payment assistance with an FHA loan?

While the Federal Housing Administration (FHA) doesn't offer its own down payment assistance, you may still be able to get [help with your down payment](#) through a program. Take note: Assistance with [closing costs](#) on FHA loans is capped at 6%. For an [FHA loan](#), you must put up some of your own money, but most down payment programs will work with FHA loans.

The Bottom Line

Before considering how much money you need for a down payment and whether you'll need assistance to cover it, start the process of getting preapproved for your mortgage. That way, you know how much house you can afford before saving for a down payment and closing on a property.

It's possible to qualify for a conventional mortgage with a down payment as low as 3% of the final home purchase price. However, if you still need help coming up with the money, the down payment assistance programs offered by community organizations, government agencies and local lenders could help you clear this financial hurdle.

Are you ready to embark on the home buying process? Take action and [start your mortgage application](#) with the Home Loan Experts at Rocket Mortgage®.



Miranda Crace

Miranda Crace is a Senior Section Editor for the Rocket Companies, bringing a wealth of knowledge about mortgages, personal finance, real estate, and personal loans for over 10 years. Miranda is dedicated to advancing financial literacy and empow
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graduated from Wayne State University where she studied PR Writing, Film Production, and Film Editing. Her creative talents shine through her contributions to the popular video series "Home Lore" and "The Red Desk," which were nominated for the prestigious Shorty Awards. In her spare time, Miranda enjoys traveling, actively engages in the entrepreneurial community, and savors a perfectly brewed cup of coffee.

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