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Down Payment Assistance (DPA) Program Guidelines

Effective: July.01.2025

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1. INTRODUCTION

Down Payment Assistance (DPA) refers to financial support provided to homebuyers to help reduce the upfront costs of purchasing a home. These programs are designed to assist borrowers in covering expenses such as the down payment, closing costs, and/or prepaid items. DPA can be offered in several forms, including gift funds, grants, secured subordinate financing (commonly referred to as Community Seconds), and unsecured loans.

This guideline outlines the procedures for:

- Differentiating between Community Second programs and gift/grant programs;
- Registering loans that include a Community Second or gift/grant;
- Addressing DPA programs appropriately when submitting loans through an automated underwriting system (AUS); and
- Conditioning for applicable program requirements at loan closing.

It is important to note that while DPA programs are often broadly referred to as “grants,” the majority are structured as secured subordinate loans. Unsecured loans are outside the scope of this guideline and must be reviewed by the underwriter in accordance with applicable investor-specific criteria.

2. PROGRAM PROVIDERS

A&D Mortgage will accept Down Payment Assistance (DPA) programs provided they are sourced from an eligible provider and fully comply with the applicable product guidelines, investor requirements, and underwriting criteria.

Note: Inclusion of a program on either of the lists below does not override the requirements outlined in the applicable product description or underwriting guidelines. All DPA programs must be evaluated for compliance with agency and investor rules.

2.1. Eligible Program Providers

DPA may be accepted from the following sources:

- Government entities, such as states, counties, or municipalities
- Government agencies or instrumentalities of government
- Verified nonprofit organizations, with documentation confirming 501(c)(3) tax-exempt status
- Employers, through an established employer-assisted housing program

2.2. Ineligible Program Providers

DPA programs funded by the following sources are not eligible:

- Seller-funded assistance
- Broker-funded assistance
- Realtor-funded assistance
- Builder-funded assistance
- Any for-profit entity

3. DETERMINING COMMUNITY SECONDS OR GIFTS AND GRANTS

To determine whether a DPA program should be classified as a Community Second or a Gift/Grant, the way the assistance is structured and documented must be evaluated.

If a lien is to be filed in connection with the assistance, the program must be treated as a Community Second, as it represents secured subordinate financing.

In addition, examine the program documentation to determine whether the assistance is referred to as a loan, or if a retention agreement is required. Either of these characteristics—regardless of whether a lien is recorded—also indicate the program is a Community Second.

If no lien is filed, and the documentation does not characterize the assistance as a loan or involve a retention agreement, the program may be classified as a Gift or Grant.

When a DPA program is identified as a Community Second, the following underwriting requirements apply:

- The loan amount must be included in the Combined Loan-to-Value (CLTV) calculation.
- If the Community Second requires repayment within **the first five years** — or within **three years for FHA loans** — the monthly payment obligation must be factored into the borrower's debt-to-income (DTI) ratio.

These classifications must be applied consistently to ensure accurate risk assessment and compliance with investor guidelines.

3.1. Community Seconds Programs

Community Seconds are subordinate financing programs that are secured by the subject property and treated as loans, regardless of whether they are eventually forgiven.

These loans may have varying terms, including:

- full repayment,
- deferred repayment, or
- forgiveness after a retention period.

Regardless of the structure, the presence of a Note (also referred to as a Loan Agreement or other title) executed at closing, along with a Deed of Trust, Mortgage, or Deed Restriction, confirms the existence of a secured loan.

All repayment terms associated with Community Seconds must be reviewed by A&D Mortgage to ensure compliance with Fannie Mae, Freddie Mac, and HUD guidelines.

The assistance provider is required to issue an award or approval letter, clearly stating the exact amount of assistance and the applicable repayment terms.

While some Community Seconds may be forgiven after a specified retention period, others may require full repayment upon sale of the property or may include scheduled payments during the loan term. If any repayment is required within the first five years—or within three years for FHA loans — the payment must be included in the borrower's debt-to-income (DTI) ratio during underwriting.

A&D Mortgage permits the use of multiple Community Second loans in combination with an A&D Mortgage first lien, provided that the Combined Loan-to-Value (CLTV) does not exceed the maximum allowed under the applicable first mortgage loan program.

Note: Cashback to the borrower is not permitted in any Community Seconds transaction.

3.1.1. Community Seconds Requiring Lender Participation

Certain DPA programs—particularly those offered through government entities, housing authorities, or nonprofit organizations—require lenders to obtain formal approval in order to participate. Lender participation requirements may vary by program and can include, but are not limited to, the following:

- Execution of a participation agreement, which may contain specific operational or compliance obligations that the lender must be prepared to meet;
- Completion of mandatory training provided by the DPA organization;
- Adherence to the DPA program's underwriting guidelines, which may differ from the first mortgage investor's guidelines;
- Submission of a financial contribution, such as an annual membership fee or a per-loan commitment fee.

Per A&D Mortgage policy, any lender participation required by a DPA provider must be initiated and managed by the broker or correspondent partner. The broker/correspondent partner is fully responsible for establishing and maintaining the relationship with the DPA provider, including meeting all associated requirements.

A&D Mortgage will not obtain lender approval with any DPA provider on behalf of the broker/correspondent partner. A&D Mortgage role is limited to reviewing DPA programs solely to determine whether they comply with first mortgage investor guidelines.

Note: Broker and correspondent partners must ensure they are fully informed of, and capable of meeting, all DPA program-specific participation requirements prior to offering the program in connection with an A&D Mortgage first lien.

3.2. Below Market Rate (BMR) Programs

Below Market Rate (BMR) programs must be reviewed in the same manner as Community Seconds, as they typically involve legal encumbrances on the property. While no direct funds are provided to the borrower, BMR programs usually include a non-monetary Note, Mortgage or Deed of Trust, and a Restrictive Covenant.

Note: The presence of a non-monetary lien or restrictive agreement may impact resale, refinance, or occupancy, and will be reviewed to confirm there is no conflict with the first mortgage terms and that they meet applicable agency requirements.

3.3. Gift/Grant Programs

Gift or Grant programs do not require repayment, and no lien is filed in the property records. These funds are typically provided by a government agency, verified nonprofit, or the borrower's employer. Since there is no secured interest in the property, they are classified as non-repayable assistance.

However, if the award or approval letter indicates that a lien will be placed on the property—even if all payments are deferred—the program must be treated as a Community Second.

Gift or Grant funds should be entered as an asset on the loan application (1003) in the system.

An additional form of grant assistance is the Individual Development Account (IDA). These programs generally do not include a recapture provision and are treated as grants. If a recapture clause is present, the program must be classified as a Community Second due to repayment risk.

4. ELIGIBLE FIRST MORTGAGE PROGRAMS

Community Second programs may be used in conjunction with A&D Mortgage first mortgage products, subject to the eligibility criteria established by the applicable investor or guarantor.

Note: Due to system limitations, only Desktop Underwriter (DU) Findings are accepted when the transaction includes a Community Second DPA.

4.1. Conventional

- Fixed Rate
- ARMs with an initial-fixed rate of 5 years or more
- Fannie Mae HomeReady
- Freddie Mac Home Possible

All closing documents for the second lien program should be submitted to AD Mortgage with first mortgage closing package.

4.2. Federal Housing Administration (FHA)

Refer to the applicable HUD Handbook based on the case assignment date, as well as the LTV/CLTV and Subordinate Financing sections in the A&D Mortgage FHA Underwriting Guidelines. All DPA programs will be evaluated in accordance with current FHA requirements.

Down Payment Assistance provided by nonprofit entities must come from organizations approved by HUD.

All closing documents related to the second lien program must be included with the first mortgage closing package submitted to A&D Mortgage.

4.3. Non-QM Products

Non-QM Products are not eligible for DPA.

5. REFINANCE TRANSACTIONS

When a Down Payment Assistance (DPA) program is being re-subordinated as part of a refinance transaction, the following documents must be submitted to DPA@admortgage.com for review:

- The loan number for the refinance transaction
- A copy of the original DPA Note
- The proposed Subordination Agreement for the existing DPA lien

6. REGISTRATION AND UNDERWRITING GUIDELINES

The appropriate Affordable Community Seconds repayment type must be selected based on whether the loan is forgivable or repayable. If repayment is required, payments must be deferred for at least five years for conventional loans or three years for FHA loans; otherwise, any required payment must be included in the borrower's debt-to-income (DTI) ratio.

The approval letter from the DPA provider must be submitted to the underwriter and must clearly state the precise dollar amount of assistance and the repayment terms of the Community Second.

Underwriting must include a condition for the secondary lien to be recorded at closing. If multiple Community

Seconds are being used on a single loan, each subordinate lien must be conditioned individually, specifying both the lien holder's name and the loan amount.

Note: Conditions for Community Second liens should be treated as the same as any other form of subordinate financing.

7. Exhibit 1: DPA Program Types and 1003 Classification Guide

Program Type	Repayment Required	Lien Filed	Classification	Entry on 1003	Special Notes
Gift/Grant	No	No	Gift/Grant	Asset	Provided by government, nonprofit, or employer
Community Second	Yes/No or deferred	Yes	Community Second	Liability (subordinate)	Requires full review of repayment terms and CLTV impact
BMR Program	No funds to borrower	Yes (non-monetary)	Community Second (for review purposes)	N/A	Includes deed restrictions; treated like Community Seconds for compliance review
IDA (no recapture)	No	No	Grant	Asset	Typically treated as a grant unless otherwise stated
IDA (with recapture)	Conditional	Yes	Community Second	Liability (if applicable)	Recapture triggers Community Second classification