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DOWNPAYMENT ASSISTANCE PROGRAM (DPA) GUIDELINES

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1. INTRODUCTION

Down payment assistance (DPA) can take a variety of forms: gift funds, grant money, secured loans (hereinafter referred to as Community Seconds) and unsecured loans. Down payment assistance programs are used to provide funds for down payment, closing costs and/or prepaids. The information below will:

- Differentiating between a Community Second program and a Gift/Grant program.
- Describe how to register loans with a Community Second or Gift/Grant
- Describe how the underwriter needs to address the different types of programs when running through the automated underwriting system
- Describe how the underwriter is to condition for particular programs at loan closing.

Many in the industry refer to all down payment assistance programs as grants when in fact the vast majority of DPA programs are structured as secured loans. Unsecured loans are not addressed within these guidelines and should be reviewed by the underwriter according to the applicable investor criteria.

2. PROGRAM PROVIDERS

NOTE: The listing of a program on either of the below lists does not override the requirements of the product description or underwriting guidelines.

2.1. ELIGIBLE PROGRAM PROVIDERS

- Government entities (states, counties, cities, etc.), government agencies, or instrumentalities of government
- Verifiable non-profit agencies (a 501(c)3 letter is required for verification)
- Employers (through an established employer-assisted housing program)

2.2. INELIGIBLE PROGRAM PROVIDERS

- Seller funded
- Broker funded
- Realtor funded
- Builder funded
- For profit entities

3. DETERMINING COMMUNITY SECONDS OR GIFTS AND GRANTS

How to determine if a program is a Community Second or a Gift/Grant:

- Is a lien filed in the property records?
- Do the guidelines mention that the transaction is a “loan” or that a “retention agreement” is filed?

If any type of lien is filed, the DPA program is considered a Community Second loan and not a Gift/Grant. The loan amount must be considered in the CLTV, and if any payments are required in the first five years (three years for FHA) the payment must be included in the borrower's debt-to-income (DTI) ratio.

3.1. COMMUNITY SECONDS PROGRAMS

Community Seconds programs are loans secured by the subject property. The loan may or may not be forgiven at the end of the loan term. A Note (sometimes referred to as a Loan Agreement or other name) is signed at closing, and a Deed of Trust/Mortgage or a Deed Restriction is filed to secure the loan. Repayment terms must always be reviewed by AD Mortgage for compliance with Fannie Mae, Freddie Mac and HUD guidelines. The agency providing the assistance must provide an award/approval letter to the underwriter, outlining the exact amount of the assistance and the repayment terms. While the loan may be forgiven after a specified retention period, some programs require the loan to be paid off upon sale of the property, and in some instances, payments are required during the term of the loan. If a payment is required within the first five years (three years for FHA) the payment must be considered in the borrower's DTI.

AD Mortgage will allow more than one Community Seconds loan to be used with an AD Mortgage first lien as long as the CLTV does not exceed the maximum allowed by the first mortgage loan program.

NOTE: Cashback to the borrower is prohibited on a Community Seconds transaction

3.1.1. COMMUNITY SECONDS REQUIRING LENDER PARTICIPATION

Many organizations offering down payment assistance require lenders to become approved with them to participate in the DPA program. Lender participation can include, but is not limited to:

- An agreement must be signed (agreements have requirements that must be able to be met)
- Training for the program must take place
- The program underwriting guidelines must be followed (even if different than the first mortgage program guidelines).
- A financial contribution may be required (whether it is an annual fee or a commitment fee)

AD Mortgage guidelines state, "Any lender participation required by the program would require the broker's/correspondent's approval for participation." In essence this means, the broker or correspondent is responsible for the relationship and whatever it entails with the DPA provider. AD Mortgage will not itself become approved with any DPA provider.

AD Mortgage reviews programs to determine if we can comply with the first mortgage investor guidelines for compliance purposes only.

3.2. BELOW MARKET RATE PROGRAMS (BMR)

Below market rate programs are reviewed in the same manner as a Community Second. BMR programs generally have a non-monetary Note, Mortgage and Restrictive Covenant associated.

3.3. GIFT/GRANT PROGRAMS

Gift or Grant programs require no repayment and no lien is filed in the property records. These types of funds are provided by a government agency, a verified nonprofit agency or the borrower's employer. If the award/approval letter states a lien will be taken on the property (even if all payments are deferred) the program is considered a Community Second. Gift/Grant assistance is entered as an asset on the 1003 in the system.

Another type of grant program is an Individual Development Account (IDA). In most cases these programs do not have any recapture provision. When they do have a recapture provision, they are considered Community Seconds.

4. ELIGIBLE FIRST MORTGAGE PROGRAMS

Community Second programs are eligible for use with AD Mortgage first mortgage products as outlined below by the investor/guarantor.

Note: Due to system constraints, only DU Findings can be used when utilizing 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. FHA

Refer to the appropriate HUD Handbook based on the agency case date as well as the LTV/CLTV and Subordinate Financing sections in AD Mortgage FHA Underwriting Guidelines. All programs will be reviewed according to the appropriate FHA guidelines. Non-profit entities must be approved by HUD to provide down payment assistance.

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

4.3. NON-QM PRODUCTS

Non-QM Products are not eligible for DPA.

5. REGISTRATION AND UNDERWRITING GUIDELINES

The Affordable Community Seconds Repayment Type is then chosen based on whether the payments are forgiven or not. Payments must be deferred for a minimum of five years (conventional) or three years (FHA) or the payment, if required, must be included in the DTI. The approval letter from the DPA provider must be provided to the Underwriter outlining the exact dollar amount and the repayment terms of the Community Second. Underwriting must include an “at close” condition for the secondary lien. If more than one Community Second is to be used on an individual loan, each subordinate lien must be conditioned separately with the name of the lien holder and the dollar amount of the Community Second lien. (Conditions should be the same for a Community Second lien as it would be for any subordinate financing).

6. REFINANCE TRANSACTIONS

If a DPA program is being re-subordinated, we require only the following information be submitted to DPA@admortgage.com for review:

- The loan number of the refinance loan
- A copy of the original DPA note, and
- The subordination agreement for the DPA lien.