

**Idaho Housing and Finance Association's**  
***Empowering New Buyers***

**Jumping the Hurdle to Homeownership**

**Entry Description**

As the lead entity in Idaho for affordable housing, Idaho Housing and Finance Association recognized a growing need to reach out to homebuyers statewide with down payment and closing costs assistance programs. IHFA's HOME down payment assistance program serves the community of homebuyers with incomes below 80% of area median income (AMI), funded through HUD grants. This past two years IHFA loaned more than \$4.7 million in HOME funds reaching 568 homebuyers statewide. This met the need for lower income Idahoans, but those prospective homebuyers over 80% AMI were left with few alternatives. IHFA answered this need and created two additional down payment and closing costs (DPCC) programs for first-time homeowners to jump start their entry to homeownership.

**The Need**

Down payment assistance has become less available for homebuyers. Many families find it difficult to save the larger down payments now required to qualify for a loan, plus closing costs the total averaging over \$6000. IHFA recognized that a gap in the source of funds for DPCC had broadened. The HOME grant program is sufficient to meet the needs of lower income buyers, but moderate income buyers with incomes between 80% and 140% of AMI have fewer opportunities to obtain down payment assistance. In addition, HUD updated their guidelines on October 1, 2008 no longer allowing seller funded down payment assistance used in conjunction with an FHA loan. This action by HUD took the most popular programs like AmeriDream and Nehemiah out of the market.

**The Plan**

IHFA continues to be innovative in looking for ways to identify and solve housing needs in Idaho. We determined that the availability of DPCC is critical to low and moderate income families' ability to purchase homes. We developed a plan to fill this gap in resources. First, to fund down payment programs we needed to find a secondary market for second mortgage loans. And to ensure these second mortgages are marketable, they had to have a low risk factor and a high yield.

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**Solution #1**

Housing Finance Agencies have the unique ability to offer DPCC loans in conjunction with FHA insured mortgages, and also with many conventional first mortgages. These second mortgage loans are considered *community seconds*. Community second programs assist low and moderate income homebuyers in qualifying for the first mortgage because this loan is a deferred payment or a very low repayment of a small loan, or only due on the sale of the property. By not requiring that the second mortgage loan payment be included in the total debt ratio for the homebuyer, this helps the homebuyer qualify for the first mortgage. This past two years FHA loans have been gaining popularity. With no seller-funded down payment programs available, IHFA announced a community second loan program entitled the *Good Credit Rewards* (GCR) second mortgage DPCC program. This program provides up to 3.5% down payment and closing cost assistance for creditworthy homebuyers who qualify for one of IHFA's first mortgage loans:

*The borrowers' credit scores must be above 700. Homebuyer education is required for buyers with credit scores lower than 720. The interest rate is 1% higher than the first mortgage for buyers with credit scores of 720+ and is 2% higher for buyers with 700-720 credit scores. The buyers must have a minimum of \$500 of their own funds to contribute at closing. And the combined loan to the value of the property is no greater than 100%.*

The Good Credit Rewards (GCR) second mortgage program has become widely popular. Since late 2008 the conventional loan programs have required more down payment and the GCR seconds met the broader need for many low to moderate income homebuyers assisting almost 1400 first time homebuyers with excellent credit in obtaining a home.

**As of June 30, 2010 IHFA has assisted 1,411 homebuyers with Good Credit Rewards down payment assistance loans in the amount of \$ 6.8 million in second mortgage loans.**

This portfolio of second mortgage loans is funded through IHFA resources authorized from IHFA's Affordable Housing Investment Trust Fund. This fund is limited therefore source of funding is an issue to continue the program. The higher interest rates, combined loan to value ratio of not more than 100%, and the borrower's excellent credit make these second mortgage loans an attractive investment for the secondary market. In most cases these loans meet the community reinvestment (CRA) requirements. We began marketing to community banks in an effort to help them invest in these excellent performing community second mortgages.

**In July 2009 IHFA sold approximately \$1 million of the Good Credit Rewards second mortgage loans to an Idaho community bank. These funds can now be used to fund new loans under the new tax credit down payment assistance program described below.**

**Solution # 2**

In September 2008, Idaho, as was experienced across the nation, saw a decline in lending activities. Interest rates were at historic low levels but the lending community was reluctant to lend due to an

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increasing number of loan losses, declines in market values, and homebuyers, especially first-time homebuyers, were afraid to buy. Job losses became a concern and loan underwriting guidelines became tighter making credit approvals more difficult.

The Treasury enacted the homebuyer tax credit to help stimulate home buying, however without being able to use it to buy the home, most first time homebuyers were not able to buy and wait for the tax return. When it was announced that the 2009 homebuyer tax credit would no longer require repayment to the IRS, IHFA developed a program to advance this tax credit as a DPCC loan for first time homebuyers. First time homebuyers are able to obtain a full tax credit on their federal income taxes up to \$8000 with no repayment required when purchasing a home by April 30, 2010 and closing on the loan by September 30, 2010:

Used in conjunction with an IHFA first mortgage loan, a down payment assistance second mortgage is loaned to qualified first time homebuyers for a maximum of 5% of the sales price up to \$7,000, not to exceed 100% combined loan to the value of the property. A fee is charged of \$250 with \$150 refunded upon repayment of the loan on or before the deferred loan due date. The deferred payment will accrue interest at 3.0% with a due date of July 1, 2010. The ***Tax Credit Second Loan*** is expected to be paid off from the borrower's tax refund obtained through the application of the federal tax credit. If the loan is not paid off by that time, it automatically becomes a 30-year amortizing second mortgage for the remaining term at an interest rate of 3% above the first mortgage rate. Homebuyer education is required.

**As of July 31, 2010 the Tax Credit Second Loans have assisted 1,130 homebuyers for a total of \$5.3 million in down payment assistance and closing costs.**

**IHFA reminds the new homeowners about their tax refund at year end sending a tax form along with their 1098 tax information to help ensure the tax credit is used as well as a reminder of the savings if they pay the loan off by July 1, 2010. 539 new homeowners have paid off this second mortgage to date in the amount of \$2.2 million.**

**An Additional Partnership with Idaho Association of Realtors® is Born**

The Idaho Association of Realtors® was thrilled to see IHFA develop the Tax Credit Second Loan program. Their excitement spurred them to prepare a grant application through the National Association of Realtors® Foundation to reimburse first-time homebuyers the costs associated with the tax credit loan used as an advance of their federal tax refund. Therefore, the 3% interest and the remaining \$100 fee would be reimbursed to the homebuyer if the loan was paid off before July 1, 2010. This is a great partnership with the Realtors®, and this empowers the homebuyer to obtain this Tax Credit Second Loan with all interest charges and loan fees reimbursed to the homebuyer.

**DPCC empowers homebuyers to purchase their first homes, especially important while prices and interest rates are low, and an \$8000 federal tax credit is available for them. This tax credit was used to advance a *free* down payment assistance and closing cost loan when paid in full by July 1, 2010. IHFA received \$2.2 million in paid off tax credit loans, almost half of the funds expended by July 1, 2010. These funds will be used to fund DPCC loans for IHFA's Good Credit Rewards down payment assistance program.**