

Idaho Housing and Finance Association's
Empowering New Buyers

The Big Step Toward 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 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 year IHFA loaned more than \$3.4 million in down payment assistance reaching 485 homebuyers statewide. This met the need for lower income Idahoans, but those prospective homebuyers over 80% AMI were left with few alternatives for down payment assistance. IHFA answered this need and created two new down payment assistance programs.

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 down payment assistance 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 FHA down payment assistance 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 down payment assistance is critical to low and moderate income families ability to purchase homes. We developed a plan to fill this gap in resources. In order 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.

Solution #1

Housing Agencies have the unique ability to offer down payment assistance loans in conjunction with FHA first mortgages, and can offer them with many conventional first mortgages. These second mortgage loans are considered *community seconds*. Fannie Mae's Community Seconds program assists low and moderate income homebuyers in qualifying for the first mortgage 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. In addition, this past year FHA loans have been gaining popularity. With no seller-funded down payment programs available, IHFA announced a new program entitled the *Good Credit Rewards (GCR)* second mortgage down payment assistance program. This program provides up to 3.5% down payment and closing cost assistance for homebuyers who qualify for one of IHFA's first mortgage loans along with the following program guidelines:

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 second mortgage program has become widely popular. When the program was first announced in March 2007 it was used at about \$100,000 per month. After April 1, 2008 when the mortgage insurance for conventional loans began requiring more down payment, the 100% loan was no longer available. The GCR seconds meets the broader need for many low to moderate income homebuyers, now used frequently as much as \$600,000 per month during the summer of 2008.

As of June 30, 2009 IHFA has assisted over 1,000 homebuyers with Good Credit Rewards down payment assistance loans in the amount of \$ 5,350,000.

This portfolio of second mortgage loans is funded through IHFA resources authorized from IHFA's Affordable Housing Investment trust fund. This fund is limited and another source of funding is necessary to keep the program growing. 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 June 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 the state and the nation experienced a decline in lending activities. Interest rates were at historic low levels but the lending community was reluctant to lend due to an 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 Good Credit Rewards second mortgage program continued to provide financing for down payment assistance for low risk homebuyers at low interest rates. When it was announced that the 2009 tax credit created for first time homebuyers would not have repayment guidelines to the IRS, IHFA developed a program to advance this tax credit as a 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*. With that in mind, IHFA developed another down payment assistance solution for first-time homebuyers entitled *The Tax Credit Second Loan Program*, described as follows:

In conjunction with an IHFA first mortgage loan, a second loan is made to qualified first time homebuyers for a maximum of 5% of the sales price up to \$7,000 to be used for down payment and closing costs, 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 loan due date. The deferred payment loan 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 June 30, 2009 \$525,000 of Tax Credit Second Loans have been made reaching 110 homebuyers. Another 100 loans are reserved to be closed for an additional \$440,000, and we project to use another \$500,000 by the end of the program December 1, 2009, a total of \$1,465,000 for approximately 320 homebuyers.

IHFA will remind these new borrowers about their tax refund at year end by sending them a tax form along with their 1098 tax information to help ensure the tax credit is applied as well as a reminder of the savings if they pay the loan off by July 1, 2010.

An Additional Partnership with 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 for use in the repayment to first-time homebuyers the costs associated with the Tax Credit Second loan used as an advance of their federal tax refund. Therefore, the 3% interest and the \$100 fee would be reimbursed to the homebuyer for their Tax Credit Second Loan if the loan is 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.

This program empowers homebuyers to purchase their first homes now while prices and interest rates are low, and an \$8000 federal tax credit is available for them. This tax credit can be used in advance as a *free* down payment assistance and closing cost loan when paid in full by July 1, 2010. IHFA projects that 75% of the expended funds for this program will be returned by July 1, 2010, which will be used to fund new loans for IHFA's Good Credit Rewards down payment assistance program.