

Closing Cost Grant
Kentucky Housing Corporation
Homeownership: Empowering New Buyers

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Summary

New programs equal new marketing opportunities. They give lending and real estate partners something to sell to potential homebuyers who may be on the fence and jumpstart the market coming out of the winter months.

That was the rationale Jaime Rice, Kentucky Housing Corporation's (KHC) managing director of Single Family Programs, gave in February for creating a closing cost grant program. The Corporation set aside \$1 million to help 500 families each with a \$2,000 grant. It can be used on top of KHC's down payment assistance or along with any KHC programs or Federal Home Loan Bank programs.

In 2020, KHC launched a similar program, offering 700 families each a \$1,500 grant. In addition to enabling more families to purchase a home, it doubled KHC's average weekly reservation volume, increasing it from \$12.3 million before the closing cost grant launch to \$20.2 million after the launch. Even after the closing cost grant money was exhausted, business stayed strong.

Jaime anticipated 2024 would follow a similar path, despite the tighter mortgage market. After KHC announced the closing cost grant at its 19th annual Lender Recognition Awards on March 11, 2024, KHC began to see an uptick in business. The average weekly reservation volume before the Lender Awards was \$14.9 million. It is now, \$16.4 million, which is roughly a 10 percent increase.

After the first six weeks following the announcement, less than \$200,000 of the initial \$1 million remains. KHC's lenders have secured this grant for 492 households.

Innovative

KHC used a creative solution to finance the closing cost grant, recycling funds from the Neighborhood Downpayment Assistance Program. In 2012, 49 state attorneys general reached a settlement with the nation's five largest banks. Then-Kentucky Attorney General Jack Conway allocated a portion of those funds to KHC to address the foreclosure/housing crisis.

KHC used \$3 million to fund the Neighborhood DAP Program, which provided up to \$10,000 in down payment assistance, amortized for 10 years at a 1 percent interest rate, that could be used for the:

- purchase of vacant or foreclosed properties.
- purchase of new or existing properties that had been on the market for six months or more.
- purchase transactions for former homeowners who had experienced a foreclosure but re-established credit and were trying to purchase again.

The program ended once fully allocated, but KHC has been collecting repayments on some of the last outstanding loans from that time and had more than \$2 million in the fund.

By using the Neighborhood DAP funds, KHC could stimulate the market and meet the needs of its lending and real estate partners without pulling funding from other programs.

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Measurable Results to Target Customers

The most immediate result is 500 new families will become homeowners this spring thanks in part to the closing cost grant. While it may not have been the deciding factor in their loan package, it gave them more financial flexibility pre- and post-closing and helped some clients reach their loan threshold.

Long-term, the closing cost grant will provide more Kentuckians access to affordable homes. KHC recently released the phase one results of the Kentucky Housing Supply Gap Analysis, which showed that currently, the state has a gap of more than 104,000 for-sale units. In every county, there are homeowners who want to purchase a home but cannot find one or cannot afford the homes that are available.

The underlying thought is that the state overall needs to increase housing production of for-sale and rental units, but the gap impacts those in lower income brackets disproportionately. It drives up housing costs, pricing many families out of the market. They in turn stay in rental units, which limits the availability for families that rely on available rental stock.

The \$2,000 closing cost grant is a small step to bridging that gap and making homes more affordable. When paired with KHC's up to \$10,000 in down payment assistance, it allows those who can make the monthly payment but who do not have the money saved for closing costs, down payments, prepaids and other final costs to purchase a home.

Replicable

KHC's closing cost grant program is easily replicable. The benefits are it is time- and fund-limited. It is a quick infusion into the market to encourage buyers to contact lenders and to make a commitment. It also helps lenders and real estate agents to generate leads, close deals and create awareness about KHC programs.

While all housing finance agencies may not have funds left from the 2012 settlement, they could carve out a portion of their revenue or operating dollars to create a grant program on top of their down payment assistance.

Beyond the initial funding, it took little to market or manage the program. KHC announced the program at its Lender Awards, and the loan officers spread the word that night and the next day on social media. Our Lender Awards gathers the top 20 percent of our partners who produce 80 percent of our annual volume. One of the perks of being a KHC top producer, is they get to hear these announcements first. We put a flier out on social media and on our website. We also pushed it out on eGram (weekly newsletter). Those without a similar lender recognition event would need to make a more concerted effort to market the closing cost grant via e-newsletter, social media, or word of mouth. However, as we saw, word traveled fast among our partners, and many prospective buyers shared the social post, tagging their families, friends, real estate agents and loan officers.

Loan officers reserve the grant in the loan origination system, which also keeps a running tally of how much money is left in the pool. When a loan officer reserves the closing cost grant, it generates a gift/grant letter for the borrower to sign. None of those systems required additional effort or cost.



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Conclusion

KHC was created to give more residents a pathway to homeownership. Through programs like the closing cost grant, we are accomplishing our mission. We are providing more Kentuckians access to qualify, affordable housing solutions and empowering them to become homeowners.

The program addresses an important state need. We need more housing supply and more affordable housing supply. By making homeownership more affordable and accessible for more Kentuckians, we can help address the housing gaps, move moderate income renters out of units and move more people up the pipeline to free up affordable rental stock for those in need.

Programs like this also strengthen our partner network and show that we realize their challenges and are equipping them with as many tools as possible so they can be successful.

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Visual Aids and Resources

E-Gram

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KHC's source for news and information.

Update on KHC Closing Cost Grant

Kentucky Housing Corporation (KHC) has a total of \$414,000 left in funding for the closing cost grant as of Thursday, April 18, 2024.

The \$2,000 grant is available for purchase loans only and can be used with the KHC Down payment Assistance Program (DAP) and/or Federal Home Loan Bank (FHLB) funds. The funds should be listed as a grant in Desktop Underwriter (DU) and Loan Product Advisor (LPA) and as a gift in Guaranteed Underwriting System (GUS). A KHC grant/gift letter will be available at time of reservation.

Check the PowerLender portal for updates on funds remaining.

Funds Remaining:	
Mortgage Revenue Bond Funds	\$127,618,813
Mortgage Credit Certificate (MCC)/Homebuyer Tax Credit Funds	\$0
Closing Cost Grant	\$414,000

Seller Paid Commissions Clarifications

The National Association of REALTORS (NAR) announced a proposed settlement agreement, which is subject to court approval, on **March 15, 2024**. NAR agreed to enact a new rule, effective mid-July 2024, that will impact real estate commissions paid by buyers and sellers. This announcement has raised many questions, causing the Federal Housing Administration (FHA), Fannie Mae, and Freddie Mac to comment on Seller-Paid Commissions. Below are excerpts from their statements.

FHA published a [Frequently Asked Question \(FAQ\)](#) on March 28, 2024.

- "Under existing FHA policy, if sellers continue to pay buyer-side real estate agent commissions and fees as a manner of state and local law or custom, and if the commissions and fees are reasonable in amount, existing policy would not treat those payments as interested party contributions provided all other requirements are met."

Freddie Mac published an [Industry Letter](#) on April 15, 2024.

- "In Guide Section 5501.5, property sellers are permitted to make financing concessions toward the Borrower's Closing Costs in maximum amounts between 2% and 9% of the property value. Fees or costs customarily paid by the property seller according to local convention are not subject to these financing concessions limits. Buyer agent fees have historically been fees customarily paid by the property seller or property seller's real estate agent, and, as such, they are currently excluded from these financing concession limits. If these fees continue to be customarily paid by the property seller according to local convention, they will not be subject to financing concessions"

We ran advertisements in our weekly eGrams and tracked the amount left in the pool:
<https://us2.campaign-archive.com/?u=3829d29f9e95f6aa657f1c290&id=80b8562b53>.

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Social Shares



We initially put out the fliers on March 11 at our Lender Awards, and that night, the lenders were taking pictures and sharing it online. The next day, we posted the image on our social accounts, and on Facebook alone, we got 183 shares. By stacking the \$2,000 grant on top of KHC's down payment assistance, borrowers could bring next to no money to closing or save money they planned to use for closing costs for moving and other related expenses.

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Lender Portal Funds Remaining



Currently logged in as:
 jrice@kyhousing.org
 Kentucky Housing Corporation

KHC Website

Search Rate Locks by SSN

Document Upload

Closing Agent Document Upload

New Reservation

Enter New Loan Manually

Import New Loan

Loan Pipeline

Open an Existing Loan

Pipeline Report

Incomplete Rate Locks

Lock Extensions/Cancellations

TPO Early CD Report

Missing Closed Loan Files Report

Rate Change 5/1/2024

Please note, as of today, 408 families have reserved the KHC Closing Cost Grant. Funds remain for an additional 92 families.

Funds Remaining:

Mortgage Revenue Bond Funds	\$114,519,469
Mortgage Credit Certificate (MCC)/Homebuyer Tax Credit Funds	\$0
Closing Cost Grant	\$184,000

There are currently 1 incomplete locks.

There are currently 26 locks expiring in the next 7 days.

Conditions

We update our funds remaining weekly. Once the funds remaining goes below \$100,000, we will update the figure daily. Our lending partners see this screen first when they log into our portal.



CLOSING COST GRANT

Beginning Tuesday, March 12, 2024, KHC's Closing Cost Grant is available to help homebuyers with their purchase.

Details

- \$2,000 Closing Cost Grant - no repayment required.
- Can be used for down payment, closing costs, and prepaids.
- Can be combined with any of KHC's other programs - DAP, MCC.
- Can be added directly in PowerLender.
- Limited availability - \$1 million available for the first 500 homebuyers.