ASSISTANCE PROGRAMS BUYER DECISION GUIDE

Should I Use Down Payment Assistance?

Down payment assistance isn't free money and it isn't a trap - it's a tool with rules, and the rules vary by state, county, and program. For a buyer who is otherwise ready but short on cash, it can move a purchase up by years. For a buyer chasing the lowest possible monthly cost, it can add friction: a slightly higher rate, an income cap, an occupancy requirement, and sometimes a repayment clause you didn't read closely. The decision comes down to matching the program's structure to your actual plans for the home and how long you intend to keep it.

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Key facts at a glance

COMMON STRUCTURES
4 types - Grant, forgivable second, deferred second, repayable second.

FIRST-TIME BUYER TEST
No ownership in 3 years - HUD's standard definition; many state programs match it.

USUALLY REQUIRED
Homebuyer education - A HUD-approved course, often 4-8 hours, online or in person.

PROGRAM TERMS VARY BY
County - Income and price limits differ by area - check the Finder.

The one-minute answer

Down payment assistance isn't free money and it isn't a trap - it's a tool with rules, and the rules vary by state, county, and program. For a buyer who is otherwise ready but short on cash, it can move a purchase up by years. For a buyer chasing the lowest possible monthly cost, it can add friction: a slightly higher rate, an income cap, an occupancy requirement, and sometimes a repayment clause you didn't read closely. The decision comes down to matching the program's structure to your actual plans for the home and how long you intend to keep it.

Buy now if:

You qualify under the program's income and purchase-price limits, you plan to live in the home as your primary residence for the required period, and the assistance closes a real cash gap rather than replacing savings you already have.

Wait if:

You're near the top of the income limit, you might sell or refinance within the recapture period, or the smaller down payment pushes your payment past what you can comfortably carry once mortgage insurance is added.

Consider an alternative if:

A 3% conventional loan or 3.5% FHA loan paid from your own savings, with no income cap and no repayment terms, may be simpler if you can get there within a reasonable timeline. Compare both in the affordability calculator.

KNOW WHAT YOU'RE SIGNING

The four ways assistance is structured

> BRIAN MIX, NMLS #111175
> Ask one question before anything else: does this money ever have to be paid back, and under what conditions? Everything else follows from the answer.

"Down payment assistance" is a category, not a single product. State and local housing finance agencies, cities, counties, and nonprofits all run programs, and each one picks its own structure. Before you compare two programs, find out which bucket each one falls into.

1. Outright grants
Money that doesn't have to be repaid at all, as long as you meet the basic conditions (usually occupying the home as your primary residence for a minimum period). These are the simplest and the most competitive - funding often runs out for the year.

2. Forgivable second mortgages
Structured as a second loan recorded against the home, but the balance forgives gradually or all at once if you stay in the home and don't sell or refinance for a set number of years - commonly five to ten. Leave early and you may owe some or all of it back.

3. Deferred-payment seconds
No monthly payment and often no interest, but the full balance comes due when you sell, refinance, pay off the first mortgage, or stop occupying the home - whichever happens first. This is not free money; it's a loan with a deferred due date.

4. Repayable seconds
A true second mortgage with its own monthly payment, interest rate, and term, running alongside your first mortgage. This raises your total monthly housing cost and your debt-to-income ratio, so it has to be underwritten like any other debt.

Some programs blend these - a grant that converts to a repayable loan if you sell too soon, for example. Read the note or deed of trust, not just the program brochure.

> FAST
> If a program representative can't tell you clearly whether the money is a grant, forgivable, deferred, or repayable, ask for the specific document that defines it - usually a promissory note or program guideline sheet - before you count on it.

WHAT PEOPLE MISS

The tradeoffs that don't show up in the pitch

Assistance programs are usually described in terms of what they give you. Fewer conversations cover what they cost, and the costs are real even when the assistance itself is a grant.

- A slightly higher rate on the first mortgage. Because assistance programs are typically paired with specific loan products, the first mortgage rate offered alongside a DPA program is sometimes a bit higher than the lender's best unassisted rate. Ask for both quotes side by side.
- Income limits. Most programs cap eligibility at a percentage of the area median income - often around 80%-140% depending on the program and household size. Overtime, bonuses, and a co-borrower's income usually count.
- Purchase price limits. Many programs cap the price of the home you can buy, tied to local conforming loan limits or a set dollar ceiling for the county.
- Occupancy requirements. You generally must live in the home as your primary residence, often for a minimum number of years. Buying as a second home or rental almost always disqualifies you.
- Recapture and resale terms. Forgivable and deferred seconds frequently carry a recapture clause: sell, refinance, or move out before the term ends, and you owe some or all of the assistance back, sometimes with a portion of any appreciation.
- Homebuyer education. A required course adds a step to your timeline - plan for it early, not the week before closing.

None of these make assistance a bad idea. They make it a program with terms, the same way a mortgage has terms. The buyers who end up frustrated are usually the ones who treated the assistance as a gift with no fine print.

> WATCH
> Recapture provisions can apply even if you sell for financial hardship, not just profit. Ask specifically what happens if you have to sell in year two versus year six before you assume the money is yours free and clear.

ELIGIBILITY

Who actually qualifies, and what "first-time buyer" means

Most down payment assistance programs target first-time buyers, but the phrase has a specific, forgiving definition - it isn't limited to people who have literally never owned a home.

HUD's standard definition, used by most federal and state programs, counts you as a first-time buyer if you have not owned a principal residence in the three years before your new purchase. That means you can qualify again after a divorce that ended in a home sale, after years of renting following a foreclosure, or if you previously co-owned a home only with a spouse you're no longer married to. Some programs extend an exception to displaced homemakers and single parents whose only prior ownership was with a former spouse.

Beyond the ownership test, programs typically layer on:

- Income limits, based on household size and area median income, verified with pay stubs, W-2s, and tax returns.
- Minimum credit score requirements, often around 620-660, though this varies by program and by the first-mortgage type (FHA, conventional, VA) it's paired with.

- Completion of an approved homebuyer education course, sometimes with a separate one-on-one counseling session for certain loan types.
- Owner-occupancy commitments, generally requiring the home to be your primary residence, not a rental or vacation property.
- Property type limits in some programs - condos, manufactured homes, or multi-unit properties may be excluded or treated differently.

Eligibility rules differ by state and even by county within a state. There is no single national program - state and local housing finance agencies each set their own limits, and a household that doesn't qualify in one county may qualify in the next. The Down Payment Assistance Finder matches you to programs by location and household details rather than relying on national averages.

> LOCAL
> Program income limits, price caps, and even the definition of "first-time buyer" can differ block by block near county lines. Always check your specific county in the Finder rather than assuming a neighboring county's rules apply to you.

HOW IT FITS WITH YOUR MORTGAGE

How assistance interacts with FHA, conventional, and VA loans

Down payment assistance isn't a loan type by itself - it's layered on top of a first mortgage, and the combination has to satisfy that loan program's rules, not just the assistance program's rules.

FHA loans require a minimum 3.5% down payment for most borrowers, and HUD Handbook 4000.1 permits that money to come from an approved government or nonprofit assistance program, a gift from family, or the borrower's own funds, each with its own documentation trail. FHA is one of the most common pairings for assistance because its 3.5% minimum lines up with what many second-mortgage programs are sized to cover.

Conventional loans underwritten to Fannie Mae's Selling Guide (B5-6) allow down payment assistance through Community Seconds and similar structures, subject to combined loan-to-value limits and specific eligibility for the assistance source. Conventional loans starting around 3% down for qualifying first-time buyers can sometimes be paired with a smaller assistance amount than FHA requires.

VA loans, which allow qualified veterans and service members to finance up to 100% of the purchase price with no down payment, generally have less need for down payment assistance - but assistance can still help cover closing costs or the VA funding fee where allowed by the specific program and the lender's overlays.

In every case, the assistance provider and the first-mortgage lender have to agree on lien position, combined loan-to-value, and documentation. Not every assistance program pairs with every loan type - some are FHA-only, some work with conventional loans only, and some exclude condos or manufactured homes regardless of loan type. Compare FHA vs. conventional early so you and your loan officer are matching the assistance to the right first mortgage from the start, not discovering a conflict during underwriting.

TIP

Tell your loan officer you're planning to use assistance before you pick a lender. Not every lender participates in every state or local program, and switching lenders mid-file can cost you weeks.

IN A COMPETITIVE MARKET

Seller and agent friction - and how to handle it

In competitive markets, some sellers and listing agents view offers involving down payment assistance as slower or riskier, whether or not that's actually true for your file. It's worth knowing why the perception exists and how to counter it, because the underlying loan closes the same way any other loan does.

Why the friction exists:

- Assistance layered with a second mortgage or grant can add extra approval steps - a separate underwriting file for the assistance provider, additional signatures, or a slightly longer timeline to clear to close.
- Some assistance programs require the property to pass its own inspection or appraisal condition beyond the first mortgage's requirements.
- A handful of sellers or agents have had a bad experience with a slow-moving program in the past and generalize that to all assistance-backed offers.

How to counter it:

- Get fully underwritten (not just pre-qualified) before you write an offer, so your agent can present a clean, verified file.
- Ask your loan officer for a realistic closing timeline that already accounts for the assistance program's steps, and put that date in the offer - don't promise a timeline the assistance provider can't hit.
- Have your agent include a short letter or summary explaining the assistance structure and confirming it's already been reviewed by the lender, not just applied for.
- If the market is genuinely tight, consider whether the assistance is worth a slightly less competitive negotiating position, or whether it's better used on a less contested listing.

Assistance shouldn't disqualify you from competing for a home. It does mean your agent needs to manage the narrative around your offer a little more actively than a buyer paying 20% down in cash.

WATCH

Never let a tight closing deadline in a purchase contract outrun what your assistance provider has confirmed in writing. A missed date because of assistance-program processing can jeopardize your earnest money.

THE HONEST EXCEPTIONS

When down payment assistance is probably not the right move

Assistance helps a specific kind of buyer: ready in every other way, but short on cash. It's not automatically the right choice just because it's available. A few situations where skipping it, or using less of it, tends to work out better:

- You could reach the down payment on your own within a few months. If saving the gap yourself avoids an income cap, a recapture clause, or a second monthly payment, and your timeline can absorb a short delay, self-funding may be simpler and cheaper long-term.
- You expect to sell or refinance before the recapture period ends. If a program requires five to ten years of occupancy to fully forgive the assistance and you already know you're likely to relocate for a job or family reason sooner than that, you may end up repaying money you thought was free.
- The paired first-mortgage rate is meaningfully higher. If the rate premium attached to the assistance program costs you more over the years you'll keep the loan than the assistance itself was worth, run both scenarios in the mortgage payment calculator before choosing.
- You're right at the income or price limit and any bonus, raise, or overtime could push you over. Programs typically verify income again close to closing; a raise between application and closing can disqualify you mid-transaction.
- You plan to rent out the home or use it as a second residence. Nearly every program requires owner-occupancy, and violating that after closing can trigger full repayment plus potential legal exposure.
- A repayable second mortgage would push your total housing payment past what you can comfortably carry. Run the combined payment through the debt-to-income calculator before assuming a lower down payment automatically means a lower total cost.

Assistance is a bridge, not a subsidy you're entitled to use just because it exists. The right test is the same one that applies to any other financing decision: does this specific structure fit your specific plans for this specific home?

> **FAST**
> If you're unsure whether assistance helps or complicates your file, start with the Readiness Score - it flags whether cash-to-close or payment comfort is your real constraint before you commit to a program.

Your options, compared

Use a grant or forgivable second

Take assistance that never has to be repaid, or forgives over time if you stay put.

Pros

- Reduces or eliminates the cash needed to close
- No added monthly payment in most cases
- Can shorten the path to ownership by years
- Often pairable with FHA or conventional financing

Cons

- Income and purchase-price limits apply
- Occupancy and minimum-stay requirements are common
- Selling or refinancing early can trigger partial or full repayment
- Funding can run out for the program year

Best for: First-time buyers who plan to stay in the home well past the program's minimum occupancy period.

Avoid if: You expect to move or refinance before the forgiveness period ends.

Use a deferred or repayable second

Cover the down payment gap with a second loan that's paid back later or monthly.

Pros

- Preserves your own savings for reserves and moving costs
- Deferred versions add no monthly payment now
- Can bridge a gap larger than a grant alone would cover

Cons

- Deferred balance comes due on sale, refinance, or payoff of the first mortgage
- Repayable versions raise your monthly debt-to-income ratio
- Combined loan-to-value limits from the first mortgage still apply

Best for: Buyers confident in a long hold period who want to keep more cash in reserve at closing.

Avoid if: You may need to sell or refinance in the near term and can't plan around a lump-sum payoff.

Save your own down payment instead

Skip assistance and fund the down payment from your own savings on a normal timeline.

Pros

- No income cap, occupancy clause, or recapture terms to track
- Often qualifies for the lender's best available rate
- Simpler file with one loan instead of a paired first and second

Cons

- Delays your purchase until the cash is saved
- Rent and prices may move against you while you wait
- No help with closing costs unless negotiated separately

Best for: Buyers close to their savings goal, or those whose income puts them over most program limits.

Avoid if: Saving the gap yourself would take years you don't want to spend renting.

Combine assistance with seller or lender credits

Layer a smaller assistance amount with negotiated seller concessions or lender credits.

Pros

- Reduces reliance on any single source

- Can cover closing costs while assistance covers the down payment
- Keeps more of your own cash in reserve

Cons

- Requires more coordination between agent, lender, and assistance provider
- Seller concessions are capped by loan program and harder to negotiate in a hot market
- More moving pieces to track before closing

Best for: Buyers working with an experienced agent and loan officer who can structure multiple sources cleanly.

Avoid if: You want the simplest possible file with the fewest closing conditions.

Decision tree

1. Have you owned a home in the last three years?

Most programs use HUD's first-time buyer definition - no ownership of a principal residence in the prior three years, with some exceptions for divorced spouses and displaced homemakers.

Verdict: Yes check for exceptions before ruling assistance out

2. Is your household income within the program's limit for your county?

Income limits are set locally and vary by household size. Check the Down Payment Assistance Finder for your specific county.

Verdict: No assistance likely unavailable; save your own down payment

3. Is the home's price within the program's cap?

Price limits are often tied to local conforming loan limits. A home slightly over the cap may not disqualify a lower offer if it appraises differently.

Verdict: No look at a lower price range or a different program

4. Do you plan to occupy the home as your primary residence for the required period?

Recapture and forgiveness clauses are built around a minimum stay, often five to ten years. Selling or renting it out earlier can trigger repayment.

Verdict: No skip a forgivable/deferred second, or expect repayment

5. Have you completed (or scheduled) the required homebuyer education course?

Most programs require a HUD-approved course before closing. Schedule it as soon as you start shopping - it can take a week or two to complete.

Verdict: No build extra time into your contract timeline

6. Does the paired first-mortgage rate still make sense compared to an unassisted loan?

Compare the assisted and unassisted quotes side by side in the mortgage payment calculator before assuming assistance is the cheaper path.

Verdict: No weigh a smaller assistance amount or self-funding

7. Does the combined payment (first mortgage plus any repayable second) fit your budget?

Run the full combined payment through the debt-to-income calculator, not just the first mortgage alone.

Verdict: Yes to all assistance is likely a good fit

Cost examples

Jordan - $310,000 home, FHA loan with a forgivable second

A first-time buyer pairs an FHA loan with a local forgivable second mortgage covering the 3.5% down payment. Illustrative numbers based on round figures, not a quote for any specific program.

	Self-funded 3.5% down	Forgivable second
Down payment due at closing	~$10,850	~$0 (covered by second)
Cash needed at closing (incl. closing costs)	~$18,000	~$7,000
Monthly payment (P&I + MI)	~$2,050	~$2,070 (slightly higher rate)
Second mortgage monthly payment	$0	$0 (forgives over time)
Repayment if sold in year 2	N/A	Full second balance may be due
Repayment if sold in year 8 (past forgiveness term)	N/A	$0 owed

> TAKEAWAY
> The forgivable second gets Jordan into the home years sooner, but it only pays off fully if the home stays a primary residence past the forgiveness period. If a move within two years is even possible, the math shifts.

Priya and Sam - $260,000 home, conventional loan with a repayable second

A couple qualifies for a conventional 3% down loan and layers a repayable second mortgage to cover part of the remaining down payment and closing costs. Illustrative figures only.

	Self-funded 5% down	3% down + repayable second
Down payment due at closing	~$13,000	~$7,800
Second mortgage amount	$0	~$5,200
Second mortgage monthly payment	$0	~$45/month
Total monthly housing payment	~$1,780	~$1,830
Combined debt-to-income ratio	34%	37%
Cash remaining after closing	~$3,500	~$8,700

> TAKEAWAY
> The repayable second raises the monthly payment and DTI slightly but leaves far more cash in reserve after closing - a meaningful cushion if a repair or income gap hits in year one.

Timeline

Research & prequalify

Confirm income, price, and credit eligibility for programs in your county using the Finder.

Homebuyer education

Complete the required HUD-approved course, often 4-8 hours; some programs also require one-on-one counseling.

Lender & program pairing

Choose a lender that participates in the program and can pair it with FHA, conventional, or VA financing.

Full underwriting

Both the first mortgage and the assistance file go through verification of income, assets, and occupancy intent.

Offer & appraisal

Write offers with a realistic timeline; some programs require their own inspection or appraisal condition.

Closing & recording

The assistance is disbursed at closing; forgivable or deferred terms are recorded against the property as a lien.

Common mistakes

Assuming all assistance is free money

Grants usually are. Forgivable, deferred, and repayable seconds are loans with conditions. Confirm which type you're getting before you count on never repaying it.

Not reading the recapture clause

Selling or refinancing before the minimum occupancy period ends can trigger repayment of a forgivable or deferred second, sometimes with a share of appreciation added.

Applying with income that's about to change

A raise, new overtime, or a bonus between application and closing can push you over the income limit and disqualify the file mid-transaction.

Skipping the rate comparison

Some paired first mortgages carry a slightly higher rate than the lender's best unassisted option. Always ask for both quotes.

Waiting until the last minute for homebuyer education

The required course can take a week or two to complete and is sometimes needed before your loan can be approved. Schedule it as soon as you start shopping.

Assuming national program terms apply everywhere

Income limits, price caps, and even the first-time-buyer definition vary by state and county. Always check the specific area in the Finder.

Choosing a lender who doesn't participate in the program

Not every lender works with every state or local assistance program. Confirm participation before you get attached to a loan officer or rate quote.

Ignoring how a repayable second affects your offer's competitiveness

A second mortgage adds a step to underwriting. In a tight market, get fully underwritten before writing offers so your file looks as strong as any other buyer's.

Planning to rent the home out later

Nearly every program requires owner-occupancy for a minimum period. Renting the home out early can trigger full repayment and potential penalties.

Expert tips

- Ask for the assistance program's term sheet or promissory note, not just the marketing summary - the repayment terms live in that document.
- Get quotes for the assisted loan and an unassisted loan side by side so you can see the rate difference in dollars, not just percentage points.
- Start homebuyer education the same week you start house hunting, not after you're under contract.
- If you're near an income or price limit, ask your loan officer to run the numbers with and without an expected raise or bonus before you count on it.
- Tell your agent up front that you're using assistance so they can frame the offer clearly for the seller's side.
- Check whether your state's assistance program can be combined with a separate closing-cost credit - some allow layering, others cap total assistance.

Decision checklist

- [ ] Confirm you meet the three-year first-time-buyer test or an applicable exception
- [ ] Check your household income against the program's area median income limit
- [ ] Check the home's price against the program's purchase-price cap
- [ ] Ask whether the assistance is a grant, forgivable second, deferred second, or repayable second

- [ ] Get the exact recapture or forgiveness terms in writing, including the minimum occupancy period
- [ ] Confirm your lender participates in the specific program and can pair it with your loan type
- [ ] Schedule and complete the required homebuyer education course early
- [ ] Compare the paired first-mortgage rate against an unassisted quote
- [ ] Run the combined monthly payment through the debt-to-income calculator
- [ ] Confirm the property type (condo, manufactured home, multi-unit) is eligible under the program

Frequently asked questions

Do I have to pay back down payment assistance?

It depends on the structure. Outright grants generally don't have to be repaid. Forgivable seconds forgive over a set number of years if you keep occupying the home. Deferred seconds come due when you sell, refinance, or pay off the first mortgage. Repayable seconds have their own monthly payment from day one. Always confirm which type you're getting.

What counts as a first-time homebuyer for assistance programs?

Most programs use HUD's standard definition: someone who hasn't owned a principal residence in the previous three years. This means people who've owned a home before but not recently can still qualify, and exceptions often exist for displaced homemakers and single parents whose only prior ownership was with a former spouse.

Are there income limits for down payment assistance?

Yes, nearly every program sets an income limit based on area median income and household size, and the limit varies by state and county. Check your specific county through the Down Payment Assistance Finder rather than assuming a national threshold.

Does down payment assistance work with an FHA loan?

Yes. HUD Handbook 4000.1 permits down payment assistance from approved government or nonprofit sources to be used toward FHA's minimum 3.5% down payment, subject to documentation requirements. FHA is one of the most commonly paired loan types with assistance programs.

Can I use down payment assistance with a conventional loan?

In many cases, yes. Fannie Mae's Selling Guide (B5-6) allows structures like Community Seconds to be used alongside conventional financing, subject to combined loan-to-value limits and eligibility requirements for the assistance source. Not every assistance program pairs with conventional loans, so confirm with your lender.

Will down payment assistance raise my interest rate?

Sometimes. Because assistance is often paired with a specific first-mortgage product, the rate offered alongside that product can be slightly higher than the lender's best unassisted rate. Ask for both quotes so you can compare the actual dollar difference over time.

What is a recapture provision?

A recapture provision requires you to repay some or all of the assistance if you sell, refinance, or stop occupying the home before a set period ends - often five to ten years. Some recapture terms also claim a share of any appreciation. Get the exact terms in writing before closing.

Is homebuyer education really required?

For most down payment assistance programs, yes. A HUD-approved homebuyer education course, sometimes paired with one-on-one counseling, is a standard eligibility requirement. Courses typically take a few hours and can often be completed online.

Can I use down payment assistance on a condo or manufactured home?

It depends on the specific program. Some assistance programs exclude condos, manufactured homes, or multi-unit properties, or apply different terms to them. Confirm property eligibility with the program administrator before you make an offer.

Does using assistance make my offer less competitive?

It can, in perception more than in fact, because some assistance structures add an extra approval step. Getting fully underwritten before you offer, and having your agent explain the structure clearly to the listing side, usually resolves most of that concern.

What happens if my income changes after I apply for assistance?

Programs typically re-verify income close to closing. A raise, new bonus, or added overtime between application and closing can push your household over the income limit and jeopardize the assistance, so it's worth discussing timing with your loan officer if a raise is expected.

Can down payment assistance cover closing costs too, not just the down payment?

Some programs allow the funds to be used for closing costs in addition to or instead of the down payment, while others restrict the money strictly to the down payment. Ask the program administrator how the funds can be applied before you plan your total cash-to-close.

Is down payment assistance only for first-time buyers?

Most programs target first-time buyers under HUD's three-year definition, but some state and local programs extend eligibility to repeat buyers in specific situations, such as buying in a targeted revitalization area or being a teacher, first responder, or healthcare worker under a dedicated program.

How do I find down payment assistance programs in my area?

Start with the Down Payment Assistance Finder, which matches programs by location and household details, and cross-check with your state housing finance agency, since local programs sometimes aren't listed in national databases.

Should I use assistance if I could save the down payment myself in a year?

It depends on your timeline tolerance and the specific program's terms. If the assistance carries a higher paired rate or a long recapture period and you could reasonably save the gap within a year without missing out on housing you need now, self-funding may end up simpler and cheaper. Run both scenarios before deciding.

Sources

HUD Handbook 4000.1 - FHA down payment sources, including government and nonprofit assistance programs. - www.hud.gov/program_offices/administration/hudclips/handbooks/hsgh

Fannie Mae Selling Guide, B5-6 - Community Seconds and other down payment assistance structures for conventional loans.

HUD first-time homebuyer definition - The standard three-year no-ownership test used by most federal and state programs. - www.hud.gov

CFPB - Down payment assistance programs - Consumer guidance on how assistance programs are structured and what to ask before accepting funds. - www.consumerfinance.gov

State and local housing finance agencies - Income limits, price caps, and program-specific terms, which vary by state and county.

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