



Advances

The Source for Current Housing Trends

Homebuyer's Assistance

Affordable home ownership provides benefits to low income families as well as the communities in which they live. As a personal benefit, home ownership can give families a measure of security and control over their living situation that rental housing typically cannot provide. It can also enhance personal wealth for low-income families through appreciation in property values and gradual accumulation of equity. In addition, mortgage interest of a family's principal residence can result in significant income tax write-offs, thus saving them money.

The community can also benefit by high levels of owner occupancy. Many communities have found that neighborhoods containing a high proportion of owner occupied properties remain more physically stable and attractive than comparable neighborhoods with higher percentages of investor owned properties. The pride of ownership evident among many homeowners can increase neighborhood property values and enhance the local property tax base.

There are many possible methods to encourage home ownership, and the most common is down payment assistance. Saving for down payment and closing costs is one of the biggest barriers to home ownership. Using funds from the Division of Housing, leveraged with other local funds, local or regional agencies can develop a down payment assistance program to offer low interest loans to eligible homeowners. Eligible families must have total household incomes less than 80% of the area median income, must intend to live in the property as their primary residence and must be able to qualify for the first mortgage from a financial institution. The homes they buy can be either existing or newly constructed.

The terms for down payment loans may vary. In some rural areas where 100% permanent mortgages are available from Rural Development, loans are only needed for the closing costs. Since these loans are so small, they generally carry a term of five years, with interest rates ranging from 2-5%, based on what the homebuyer can afford. Some agencies in Colorado offer 3%, 10 year terms for all down payment loans. This is the least flexible, as each homebuyer has a unique financial situation. The Division of Housing recommends that the term as well as the interest rate of the down payment assistance be individually set for each homebuyer. The maximum dollar amount of a down payment assistance loan is 4.5% of the FHA maximum mortgage amount for that area. Homebuyers must provide \$1,000 or 1% of the purchase price, whichever is higher, to pay for part of the closing costs. Finally, the loan must be secured by a second deed of trust.

Another way to help homebuyers is to reduce high monthly carrying costs. Some homebuyers have money saved for a down payment and normal closing costs, but they cannot qualify for a mortgage due to insufficient income to meet the monthly principal and interest payments. In this case, DOH funds can be used to reduce the principal to an amount that is affordable, or to pay extra points on the first mortgage loan in order to reduce the interest rate. DOH funds can also be used to make energy conservation improvements that will reduce the homeowner's monthly utility expenses, which will in turn make the monthly payments more affordable. As in down payment assistance, DOH funds can be provided as loans

with flexible terms to accommodate each homebuyer's individual needs.

The entire process of buying a home can be intimidating. All homebuyer assistance programs will be more effective if they also offer homebuyer counseling. A counseling program can educate potential homebuyers so that the process is not such a mystery.

Counseling sessions should have topics such as:

- How to determine how much home you can afford
- How to choose a Realtor
- How to take advantage of special home buyer assistance programs
- The home buying process (qualifying for and closing a mortgage)
- Budgeting
- Credit counseling
- Home maintenance

The Division of Housing has resource materials available to assist in designing a homebuyer counseling program. A counseling program may be financed by charging an attendance fee for the potential homeowners or through in-kind contributions of the local Realtors and bankers.

The following examples show how home buyer assistance can be used.

Down Payment and Closing Cost Assistance	
Family A, 4 persons - \$54,400 household income	
Down Payment Required - 3% of Sales Price (\$180,000)	\$5,400
1st mortgage P&I - \$174,600 @ 7% for 30 years	\$1,162
Down Payment & Closing Cost loan - \$8,000 @ 2% for 5 years	\$140
Total P and I + DPA loan payments	\$1,302
30% of household income	\$1,360

Interest Rate Subsidy	
Family B, 4 persons - \$54,400 household income	
Down Payment Required - 3% of Sales Price (\$180,000)	\$5,400
1st mortgage P&I - \$174,600 @ 7% for 30 years	\$1,162
2 points (buys interest to 5.5%)	\$3,500
1st mortgage P&I - \$174,600 @ 5.5% for 30 years	\$991
Interest Rate Subsidy loan - \$3,500 @ 2% for 5 years	\$61

Total P and I + Interest Rate Subsidy loan payments	\$1,052
Savings to home buyer	\$110/month \$1,320/year

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