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Free Educational Resources for Homebuyers

Down Payment Assistance Booklet

The four types of assistance, how they work with each loan program, and where to find legitimate programs.

In this guide you'll learn:

- What "Down Payment Assistance" Actually Means
- The Four Main Types of DPA
- How DPA Interacts With Each Major Loan Program
- Typical Eligibility Mechanics
- How to Find Legitimate DPA Programs
- Questions to Ask About Any DPA Program

Understanding Down Payment Assistance

The down payment is the single biggest cash barrier between most renters and a first home. It is also the piece of the transaction that is most surrounded by misinformation, marketing pitches, and outdated rules of thumb (like "you need 20% down"). This booklet explains, in plain language, what down payment assistance (DPA) actually is, the main forms it takes, how it interacts with the major loan programs, who is generally eligible, and -- most importantly -- where to find legitimate programs administered by government agencies and HUD-approved counselors instead of by marketers.

MortEdu is an educational publisher. We do not offer loans, take applications, or steer readers to any specific lender. Every rule and figure below is drawn from primary federal sources, which are cited at the end.

What "Down Payment Assistance" Actually Means

"Down payment assistance" is an umbrella term for programs -- usually run by a state Housing Finance Agency (HFA), a county or city government, or a HUD-approved nonprofit -- that help a buyer cover some or all of the cash needed at closing. The Consumer Financial Protection Bureau (CFPB) notes that these programs are often structured as a second mortgage on special terms that layers on top of a standard FHA, VA, USDA, or conventional first mortgage, and can be used to replace or reduce the buyer's own cash contribution.

DPA is not free money in a bag. It is a defined program with income limits, occupancy rules, education requirements, and -- depending on the type -- repayment or forgiveness terms. Understanding which type of DPA a program uses is the first step to comparing offers.

The Four Main Types of DPA

Almost every DPA program in the country falls into one of four buckets. Programs sometimes combine features, but these are the building blocks.

1. Grants (never repaid)

A grant is a one-time contribution toward the down payment or closing costs with no repayment obligation and no lien on the property. Grants are the simplest form of DPA from the borrower's perspective, but they are also the least common because the funding source has to permanently absorb the cost. Grants are typically small and narrowly targeted (for example, to a specific profession, income band, or neighborhood).

2. Forgivable Second Mortgages

A forgivable second is recorded as a lien against the property, but the balance is forgiven -- reduced to zero -- if the borrower meets defined conditions, most commonly keeping the home as their principal residence for a set number of years. CFPB's Regulation Z (Truth in Lending) specifically contemplates subordinate-lien DPA that is "forgivable in whole or in part on a date certain," typically tied to an occupancy requirement such as maintaining the property as the borrower's principal dwelling for a stated period.

If the borrower sells, refinances, or moves out before the forgiveness period is complete, some or all of the balance usually becomes due.

3. Deferred Second Mortgages (Payment Deferred)

A deferred second is also a recorded lien, but the borrower makes no monthly payments. The full balance sits behind the first mortgage and becomes due at a defined trigger event. Regulation Z recognizes subordinate DPA that is "deferred at least 20 years after consummation" or "deferred until sale of the property." In practice, many state and local programs make the deferred second due on sale, refinance, or when the home stops being the borrower's principal residence.

Deferred seconds are especially common because they preserve the buyer's monthly cash flow while still recovering public dollars when the home is sold.

4. Repayable Second Mortgages

A repayable second is a subordinate loan the borrower actually pays back on a monthly schedule, usually at a below-market interest rate and often with a longer term. It behaves like a small second mortgage layered onto the first. The upside is access to more assistance dollars; the trade-off is a second monthly payment that must be counted in the borrower's debt-to-income ratio when qualifying.

How the Mortgage Process Works, Step by Step