First-Time Homebuyer Programs, Loans and Grants Explained

If you've never owned a home, you may qualify for special first-time homebuyer programs, loans or grants. Often, this assistance is also available to you if you haven't owned a home within the past three years.

Most first-time homebuyer programs have more flexible eligibility requirements than traditional mortgage loans, making them easier for new prospective homeowners to meet. Some loan programs require a lower credit score and down payment to qualify, while others offer lower interest rates. Grant programs can help with the down payment and closing costs, and some even provide tax incentives.

"These programs are for people who truly need help with the funding to get into a house, whether they have a lower credit score or little to no savings for a down payment," says Aaron Bell, an Arlington-based Guild Mortgage lender. "These aren't great options if you're looking to buy a house to turn it into an investment property or move away in a year or two. They're for people who are buying a house to live in long-term."

He says you need to know two things to pick the right loan:

- **Your ideal cash to close**
  This is the amount of money you'll need to close on your home, including the down payment, closing costs and other associated fees.

- **Your ideal monthly payment**
  This is the monthly mortgage payment you can comfortably afford.

Keep reading to learn what mortgage options are available to first-time buyers nationwide and the eligibility criteria and benefits of each.

First-Time Homebuyer Programs for Conventional Loans

Fannie Mae and Freddie Mac are shareholder-owned companies created by Congress to keep the mortgage market stable and affordable. They offer four conventional loan programs (through participating lenders) you may qualify for as a first-time homebuyer.

Fannie Mae HomeReady®

HomeReady loans have low down payment requirements and flexible financing guidelines. While private mortgage insurance is required if your down payment is less than 20%, HomeReady loans offer reduced premiums.

HomeReady eligibility requirements:

- Income: limited to 80% of the area median income (AMI)
- Credit score minimum: 620
- DTI ratio maximum: 36%
- Down payment minimum: 3%
- Private mortgage insurance: yes

First-time buyers who meet the other eligibility requirements can receive $2,500 in down payment/closing costs assistance if their income is 50% or less of the AMI.

If you meet the credit score and savings requirements outlined in the Fannie May Eligibility Matrix, you may still qualify for a HomeReady loan if your DTI exceeds 36%.

Fannie Mae Standard 97% Loan-to-Value (LTV)

These loans also have low down payment requirements and flexible financing guidelines. However, unlike the HomeReady program, Fannie Mae's Standard 97% LTV program is limited to first-time homebuyers. Eligible borrowers must also pay standard mortgage insurance premiums.

Standard 97% LTV eligibility requirements:

- Income: no limits
- Credit score minimum: 620
- DTI ratio maximum: 45%
- Down payment minimum: 3%
- Private mortgage insurance: yes

To qualify for a mortgage with an LTV greater than 95%, you must also take a homeownership education course. Fannie Mae offers a free one called HomeView® that you can take online to satisfy the requirement.

Freddie Mac Home Possible®

HomePossible loans have low down payment minimums, reduced mortgage insurance premiums and flexible financing guidelines, too.

Home Possible eligibility requirements:

- Income: limited to 80% of the AMI
- Credit score minimum: 660
- DTI ratio maximum: 43%
- Down payment minimum: 3%
- Private mortgage insurance: yes

You don't need to be a first-time buyer to get a Home Possible loan. You're also allowed to have another financed property, meaning you can have another mortgage and still qualify for a Home Possible loan.

Freddie Make HomeOne®

Another program exclusive to first-time homebuyers, HomeOne has a low down payment requirement and flexible financing guidelines.

HomeOne eligibility requirements:

- Income: no limits
- Credit score minimum: 660
- DTI ratio maximum: 45%
- Down payment minimum: 3%
- Private mortgage insurance: yes

Borrowers must pay standard mortgage insurance premiums and take a homeownership education course, like Freddie Mac's free, online CreditSmart® class.

First-Time Homebuyer Programs for Government-Backed Loans

Participating mortgage lenders offer loans backed by federal agencies. One of these programs might be a good option if you're a first-time homebuyer with a lower credit score or limited savings.

FHA loans

Loans insured by the Federal Housing Administration have low credit score minimums and down payment requirements. If your credit score is 580 or higher, you could put as little as 3.5% down. If it's between 500 and 579, you could still qualify for financing with 10% down.

FHA loans don't have income restrictions, but the maximum amount you can borrow will vary depending on your locality and the type of property you're buying. You'll also need to pay FHA mortgage insurance.

FHA 203(k) loans

Also guaranteed by the FHA, these are combination mortgage and renovation loans. They have the same low credit score minimums and down payment requirements as regular FHA loans.

Limited FHA 203(k) loans are for minor repairs and improvements costing under $35,000, while standard FHA 203(k) loans are for bigger projects.

VA loans

Department of Veterans Affairs-backed loans are open to active-duty service members, veterans and their spouses. You'll need to meet minimum service requirements, which vary based on your duty status, to be eligible. VA loans don't require a down payment or mortgage insurance. They also limit lender fees to 1% of the loan amount, which can mean lower closing costs than a conventional loan.

You don't have to be a first-time buyer to qualify for a VA loan, but the property you're financing must be your primary residence. You may also need to pay a one-time funding fee.

Native American Direct and Section 184 loans

A Native American Direct Loan is a VA-backed program open to Native American veterans and their spouses. They're low-interest, 30-year, fixed-rate mortgages, typically with no down payment or PMI requirements and limited closing costs.

Section 184 loans are HUD-backed loans available to Native Americans and Native Alaskans who are members of a federally recognized tribe. Native Hawaiians are eligible for similar loans through the Section 184A program. You can only use a Section 184 or 184A loan for single-family properties. Typically, they're 30-year (or less) fixed-rate mortgages with low down payment requirements and flexible underwriting.

USDA loans

USDA loans, guaranteed by the Department of Agriculture, typically have low, fixed interest rates and don't require down payments. And you don't need to be a first-time buyer to qualify. However, the property must be located in a USDA-approved area.

Good Neighbor Next Door

The Department of Housing & Urban Development offers this mortgage loan program to public service professionals like teachers, police officers, firefighters and emergency medical technicians. You don't need to be a first-time buyer to qualify, but you do need to purchase a HUD-owned property in a designated revitalization area.

If you finance the HUD home with an FHA loan, your down payment requirement is just $100. You'll also receive a 50% discount off the purchase price if you live in the home for at least three years.

Fannie Mae and HUD Real Estate Platforms

Purchasing a Fannie Mae or HUD-owned property is a potential path to homeownership for first-time buyers with tight budgets who aren't afraid of home improvement projects. You can finance the purchase however you'd like, but if you're getting a mortgage, the most fitting loan programs are those designed for fixer-uppers, like FHA 203(k) loans.

Fannie Mae HomePath®

Fannie Mae owns foreclosure, deed-in-lieu of foreclosure, short sale and forfeiture properties. HomePath is the platform on which Fannie Mae sells them. You don't need to be a first-time homebuyer to purchase a HomePath property, but if you are, you could receive up to 3% closing cost assistance.

HUD Homes

Like Fannie Mae, HUD has a portfolio of homes for sale. These are typically foreclosure properties, and you don't have to be a first-time homebuyer to bid on them.

Down payment assistance (DPA) options

Saving for a traditional 20% down payment can hinder homeownership. Here are several down payment assistance options designed to shoulder some of the burden.

Down payment assistance loans

Some lenders have first-time homebuyer programs with double mortgages. The first mortgage helps you buy the property, while the second helps you finance the down payment and closing costs.

Typically, the second mortgage is structured in one of three ways:

- **Low-interest loans**
  A second mortgage that will be paid monthly over several years, usually with a lower interest rate than the first mortgage.

- **Deferred-payment loans**
  This second mortgage will only have to be paid when you sell/refinance the home or when the first mortgage is paid off.

- **Forgivable loans**
  A low- to no-interest second mortgage that will be forgiven if you meet specified conditions, like living in the home for a set length of time.

Down payment grants

First-time homebuyers who make no more than 80% of their area's median income may be eligible for down payment grants. Other qualifications vary depending on the grant; you may also have to meet a minimum credit score. But if you're awarded the grant, you'll get string-free money for the down payment or closing costs.

Down payment savings match

Savings match programs will match funds up to a certain amount to cover your down payment and closing costs.

An Individual Development Account, or IDA, is one such program. If you're eligible to open one, an assigned counselor will deposit money into the IDA over a certain period of time. If you follow the savings plan, you'll get the funds when you close on the home.

First-generation homebuyer help

Your state may have money set aside for first-generation first-time homebuyers. Rhode Island and Minnesota, for example, offer similar forgivable assistance loans to eligible borrowers.

Other options for first-time homebuyers

As a first-time homebuyer, you may qualify for other programs.

Nonprofits offer first-time homebuyer assistance programs to borrowers who make significantly less than the median income in their area.

- **Habitat for Humanity**
  You might qualify for a Habitat House if your annual income is 60% (or under) of your area's median income. You'll also need to put in some sweat equity, meaning you'll need to help build the home or a home for another Habitat applicant.

- **Neighborhood Assistance Corporation of America**
  NACA offers low-rate mortgage loans to low- and moderate-income borrowers. No down payment, closing costs/fees or mortgage insurance is required. And your credit score isn't factored into the qualification criteria.

Employer-assisted housing, or EAH, is a type of down payment assistance program open to employees in certain industries, like teachers, law enforcement officers and other public servants. Usually, the loan is given to the employee at closing, then forgiven after a set period of time if the employee still works for the company.

In some states, **student and recent-grad programs** are available to first-time homebuyers. These loans or grants are given to current students or recent college graduates to help finance a first home purchase and typically require staying in the home for a certain length of time.

Federal tax breaks of up to $2,000 are available to eligible first-time homebuyers through a mortgage credit certificate, or MCC. There's a purchase fee associated with MCCs, but if you're planning to live in your home for a while, it may be worth paying.