MORTGAGE FINANCING

Seller-Funded Down-Payment Assistance Changes the Structure of the Purchase Transaction and Negatively Affects Loan Performance

What GAO Found

The proportion of FHA-insured purchase loans that were financed in part by down-payment assistance increased from 35 percent to nearly 50 percent from 2000 through 2004. Assistance from nonprofit organizations that received at least part of their funding from property sellers accounted for much of this increase, growing from about 6 percent of FHA-insured purchase loans in 2000 to approximately 30 percent in 2004. More recent data indicate that in 2005 and 2006, the percentages of FHA-insured loans with down-payment assistance from all sources and from seller-funded nonprofits were roughly equivalent to 2004 levels.

Assistance from seller-funded nonprofits alters the structure of the purchase transaction in important ways. First, because many seller-funded nonprofits require property sellers to make a payment to their organization, assistance from these nonprofits creates an indirect funding stream from property sellers to homebuyers. Second, GAO analysis indicated that FHA-insured homes bought with seller-funded nonprofit assistance were appraised at and sold for about 2 to 3 percent more than comparable homes bought without such assistance.

Regardless of the source of assistance and holding other variables constant, GAO analysis indicated that FHA-insured loans with down-payment assistance have higher delinquency and insurance claim rates than do similar loans without such assistance. Furthermore, loans with assistance from seller-funded nonprofits do not perform as well as loans with assistance from other sources (see fig.). This difference may be explained, in part, by the higher sales prices of comparable homes bought with seller-funded assistance and the homebuyers having less equity in the transaction.

Effect of Down-Payment Assistance on the Probability of Delinquency and Claim

![Effect of Down-Payment Assistance on the Probability of Delinquency and Claim](image)

**Source:** GAO.

Note: Loans without assistance are set at 100 percent. Data are from a national sample of FHA-insured loans from 2000, 2001, and 2002; and the analysis controlled for selected variables.