

# Bridge Loans: Using the Home Buyer Tax Credit Up-Front

In mid-May 2009, the U.S. Department of Housing and Urban Development (HUD) launched a program that would allow federally approved lenders to offer bridge loans to cover closing costs for borrowers who take the 2009 First-Time Homebuyer Tax Credit and who use financing backed by the Federal Housing Administration (FHA). These loans allow buyers who are eligible for the credit to apply those funds towards their downpayments and closing costs, using the credit as collateral. Once buyers receive the credit after filing their 2009 tax returns, the money will then be used to repay the bridge loan.

Due to considerable challenges in making these loans widely available, few lenders are currently offering these bridge loans. However, there are still many other funding sources to explore, including:

1. State Housing Finance Agencies
2. Local Governments and Nonprofit Agencies

## State Housing Finance Agencies

### Determining whether your state has a program

As of mid-2009, more than a dozen state housing finance agencies (HFAs) were offering bridge loans to prospective buyers, and many more were planning to do so. Currently, the following states have programs in place: Colorado, Delaware, Idaho, Illinois, Kentucky, Missouri, Nebraska, New Jersey, New Mexico, Ohio, Pennsylvania, Tennessee, Texas, and Virginia.

To determine whether or not your state has begun offering these loans, you can:

- Find your state's HFA phone number on the [National Council of State Housing Agencies' \(NCSHA\) member list](#).
- Consult the NCSHA's [list of HFA's offering bridge loans](#).

If your state offers these loans, information should be available on the state's HFA web site, which should be listed on one of the pages above.

### Things you should expect from a state HFA advance loan

Although state HFA bridge loans differ from state to state, here are some typical characteristics

- Buyers will need to make a minimum down payment from their own funds—probably approximately \$1,000.
- A local lender approved by the HFA will need to originate the loan, since HFAs themselves do not originate loans.
- Buyers will use HFA-backed financing for their mortgages.

### Other things to note about HFA bridge loans

- Some are interest-free, others are not. So be sure to check with your lender.

- HFAs have limited funds to devote to these bridge loans, so they are often made on a first-come, first-served basis.

## Applying for an HFA loan

Since this financing often includes a below-market interest rate, it requires borrowers to meet eligibility criteria—often these include being a first-time buyer, and meeting income requirements. For the bridge loans, there's a good chance the criteria will be similar to what's required for the tax credit.

## Local Government/Non-Profit Associations

If your state HFA does not offer loans, the staff may be able to direct you to local nonprofit organizations that do have programs—if any exist.

Another good place to start a search is [NeighborWorks](#), a national nonprofit which maintains a list of more than 200 local affiliates that provide housing assistance. Each affiliates' loan program will be different, so buyers should be sure that the organization offers bridge loans repayable with the tax credit, and that they understand the underwriting standards and loan terms.

## FHA-Approved Lenders

If you are unable to identify other sources of funding, you may be able to obtain loans from FHA-approved lenders. Although as of mid-2009 many lenders had not yet begun offering these loans, it is possible that more will launch bridge loan programs before the credit expires.

Unlike loans from state and local agencies or nonprofits, the bridge loans provided by private, for-profit FHA-approved lenders must be structured in the form of a personal loan or line of credit. These loans are collateralized by the tax credit and cannot be structured as a second mortgage.

Also, although FHA allows you to use the bridge loan to cover closing costs or to buy down your interest rates, you can put it towards the down payment only after you've covered the 3.5 percent minimum that is required on any FHA loan. Therefore buyers will need to contribute the 3.5 percent minimum down payment themselves or find another funding source to cover it. However, buyers should be aware that seller-funded down-payment programs are not permitted to be used.

HUD provides complete details in [Mortgagee Letter on "Using First-Time Homebuyer Tax Credits"](#). However, since individual FHA-approved lenders will be making the loan, actual loan terms will vary. At a minimum, though, the bridge loan must meet certain restrictions, which are intended to eliminate fraud or ensure that borrowers do not get in over their heads. Restrictions include:

- a. Loans can not result in cash back to the borrower
- b. The amount can't exceed the amount required for the down payment, closing costs, and prepaid expenses
- c. Monthly repayments must be included within the qualifying ratios and, when combined with the first mortgage, cannot

exceed the borrower's reasonable ability to pay.

d. Payments must be deferred for at least 36 months to not be included in the qualifying ratios.

e. There can be no balloon payment required before ten years.