Interested Party Contributions (IPCs)

What are Interested Party Contributions (IPCs)?

IPCs are either financing concessions or sales concessions

IPCs are costs that are normally the responsibility of the property purchaser that are paid directly or indirectly by someone else who has a financial interest in or can influence the terms and the sale or transfer of the subject property.

Fannie Mae considers the following to be IPCs (B3-4.1-02):

- Funds that are paid directly from the interested party to the borrower;
- Funds that flow from an interested party through a third-party organization, including nonprofit entities, to the borrower;
- Funds that flow to the transaction on the borrower's behalf from an interested party, including a third-party organization or nonprofit agency; and
- Funds that are donated to a third party, which then provides the money to pay some or all the closing costs for a specific transaction
- Fannie Mae does not permit IPCs to be used to make the borrower's down payment, meet financial reserve requirements, or meet minimum borrower contribution requirements

→ B3-4.1-02, Interested Party Contributions (IPCs)

Freddie Mac considers the following to be IPCs (5501.5):

- Funds from the Seller, originating lender, an employer, a municipality, a non-profit organization and a Related Person, are subject to the interested party contributions requirements if the contributing party is affiliated with any of the interested parties, except for gifts from a Related Person and lender credit if certain conditions are met.
- Funds from an interested party that flow through a third-party organization or a non-profit agency to the Borrower
- Funds from an interested party, including a third-party organization or a non-profit agency, used to pay costs associated with the Mortgage transaction on the Borrower's behalf
- Funds that are donated to a third party, which in turn provides the funds to pay some or all of the Borrower's Closing Costs

Additionally, Freddie Mac does not consider the payment of HOA fees to be an abatement unless the payment of the fee extends for more than 12 months. The payment of HOA fees for 12 months or less is considered an interested party contribution.

For Freddie Mac's guidelines on Financing Concessions, Sales Concessions, Unplanned Buydowns, and Special Documentation Requirements, please see their Selling Guide.

→ 5501.6 Interested party contributions

Who may be an Interested Party?

Interested parties may include:

- Property Seller
- Builder
- Developer
- Real Estate Agent
- Real Estate Broker
- Other affiliate of transaction who may benefit from sale of property

Who is not an interested party*:

** Unless one of these individuals is the property seller or affiliated with the property seller or another interested party to the transaction*

- Lender
- Mortgage broker
- Borrower's employer

Limits to IPCs

Both Fannie Mae and Freddie Mac place limits on IPCs:

Occupancy Type	LTV / CLTV Ratio	Maximum IPC
Principal (Primary) Residence or Second Home	>90%	3%
	75.01% - 90%	6%
	<75%	9%
Investment Property	All CLTV Ratios	2%

Loan Scenarios

Scenario 1

Sarah is buying a new home and was able to negotiate with the seller to pay 3% of her closing costs. Sarah will put 5% down but needs additional funds for the remaining closing costs.

- All required documents show seller to pay $9,000
- Purchase price = $320k
- Loan amount = $304k
- LTV = 95%

Would this work?

YES! The LTV at 95% for the primary residence purchase would cap the IPC at 3% of the purchase price, or $9,120. Since the seller is contributing $9,000, this would be allowed per the GSE guidelines.

Scenario 2

Harold is buying a new home, and his real estate agent has offered a $15,000 contribution to assist with the move and purchase of the home.

- Purchase price = $400k
- Loan Amount = $368k
- LTV = 92%

Would this work?

NO! While the real estate agent is a valid contributor, the contribution of $15,000 = 4.1% of the loan amount and would exceed the GSE limitation of 3% with an LTV greater than 90%.

Scenario 3

Seller, who is also the builder, is offering to pay for borrower's temporary buydown.

Is this allowed?

According to Fannie Mae: If a temporary or permanent interest rate buydown is being offered to the borrower, the cost of the fund for that buydown must be included in the IPC calculation, if received from an interested party or a lender affiliated with an interested party. So this would need to meet the same IPC maximum limits based on the LTV.

The lender must determine if the cost of the funding meets allowable IPC limits. This can be accomplished by confirming the current market interest rate—in other words, the rate that is offered without the payment of any discount points—and the discount points being charged to obtain the interest rate being offered with the buydown.

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