

Date: January 15, 2025

To: Co-chairs Michael Howard and Spencer Igo, House Housing Finance & Policy
Chair Lindsey Port, Senate Housing and Homeless Prevention
Senator Eric Lucero, Ranking Minority Member, Housing and Homeless Prevention

From: Julia Nelmark, President, Midwest Minnesota Community Development Corporation

Subject: FY24 Annual Report on the First-Generation Homebuyers Community Down Payment Assistance Fund

PROGRAM SUMMARY

The First-Generation Homebuyers Community Down Payment Assistance Fund (Community DPA Fund) was designed to assist homebuyers who have never experienced homeownership, either as owners or as children. The Community DPA Fund uses a three-pronged approach:

1. educating homebuyers early to ensure they understand the process, costs, and steps to becoming a successful homeowner;
2. offering down payment assistance to make homeownership accessible for those who might not otherwise be able to purchase a home; and
3. providing loan forgiveness over a five year period to help build equity and support long-term financial stability.

The Community DPA Fund was established by the Legislature in May 2023 (HF2335), providing for a three-year down payment assistance (DPA) program to be deployed by Community Development Financial Institutions (CDFIs), nonprofits and tribal lending organizations, with a goal of assisting approximately 3,000 households throughout Minnesota. As the designated Administrator of the program, Midwest Minnesota Community Development Corporation (MMCDC) signed a grant agreement with Minnesota Housing for \$95 million on May 1, 2024. The first DPA loan was closed in late June 2024; thus, the program has been operating for six months as of year-end.

As of December 31, 2024, collectively we have closed or committed (loan closing is scheduled or funds are reserved while buyers shop for a home) 29% of the funds to first-generation homebuyers throughout Minnesota.

PROGRAM OBJECTIVES

Based on previous pilot programs, the Community DPA Fund focused on first-generation homebuyers anticipating that the majority of them would be Black, Indigenous, or People of Color (BIPOC), the communities that historically experience greater disparities in family wealth. Studies have shown that homeownership is the key driver of family wealth; this program is designed to help increase homeownership opportunities for those who have faced the greatest barriers to homeownership.

PROGRAM OBJECTIVE *continued*

A key difference from other DPA programs is the requirement for homebuyers to complete Homebuyers Education (HBE) prior to signing a Purchase Agreement (PA). Current industry standard is for HBE to be required prior to closing, so many homebuyers take the course just a week or two before closing on the purchase of their home. By doing so they miss much of the benefit of the HBE course.

The Community DPA Fund intends to change behavior throughout the homebuying industry, so that homebuyers have the HBE information prior to buying—learning how to buy a home, determining how much they can afford to buy and pay monthly, and how to take care of the home afterwards. HBE truly helps homebuyers be successful long-term, which significantly reduces the number of foreclosures among homebuyers.

PROGRAM IMPLEMENTATION

MMCDC worked with a cross-sector of industry experts to design the Community DPA Fund. As the intent was to change industry practices, it was essential that this work was informed by Realtors®, mortgage lenders, HBE providers and others. With that input, we finalized the Program Guide, conducted the RFP process to determine partner lenders to deploy the DPA funds (10 plus MMCDC), established an online portal for applicants, conducted training for the partner lenders as well as training in conjunction with industry experts for related industries—mortgage lenders, Realtors and HBE providers. These training sessions were recorded and posted on www.FirstGenDPA.org for future viewing.

Throughout the implementation process and continuing, information has been maintained at www.FirstGenDPA.org; which provides the application link, information for homebuyers, a page dedicated to industry professionals and a dashboard with key data, including the percentage of funds remaining. Program news has been distributed by email periodically to those indicating an interest in updates.

FY24 HIGHLIGHTS AND SUCCESSES

A total of 10 DPA lenders, plus MMCDC, are providing loans to first-generation homebuyers covering each part of the state. Each of these organizations attended mandatory trainings (virtually) to ensure consistent application processing, funding, compliance work, and reporting. MMCDC's implementation work as well as capacity building grants for the DPA lenders were supported with grant funds from the McKnight Foundation.

MMCDC worked with a technology provider to establish a single application portal for the Community DPA Fund, for applicant intake and upload of eligibility documents. With a single application portal, found at www.FirstGenDPA.org, confusion is minimized, applications are processed equitably on a first come- first served basis, and application intake review is processed in one location. This has worked well, with no application system capacity or processing issues.

Training for first mortgage lenders, Realtors and HBE providers took place in person and virtually. Sessions were recorded to provide additional opportunities for industry professionals to review later. Those sessions were well received, and the industry experts in each course were particularly helpful in relating the information (an MBA member co-trained for lenders, a Realtor co-trained for Realtors, an HBE expert provided that training). While some industry professionals (and applicants) did not initially embrace program requirements, the vast majority of them adjusted after the first few weeks. There have been some new occurrences in December as Minnesota Housing's program funds were fully committed, but we anticipate those will also adjust soon.

LOANS CLOSED

The following data reflects the Community DPA Fund loans closed through December 31, 2024.

LOAN DOLLARS

470 Loans Closed totaling \$14,001,722	\$29,791 Median DPA Loan Amount	\$0.00 Amount Returned to the Fund	29% Funds Committed
---	---------------------------------------	--	------------------------

NEW HOMEOWNERS BY COUNTY

COUNTY	COUNT	AMOUNT	COUNTY	COUNT	AMOUNT
Anoka	68	\$ 2,104,272	Mahnomen	1	\$ 21,600
Carver	5	\$ 158,400	Mower	2	\$ 33,500
Dakota	74	\$ 2,284,188	Olmsted	11	\$ 323,800
Hennepin	124	\$ 3,589,335	Otter Tail	1	\$ 23,050
Ramsey	70	\$ 2,099,070	Renville	1	\$ 27,000
Scott	18	\$ 558,000	Rice	1	\$ 26,000
Washington	33	\$ 1,029,300	Sherburne	9	\$ 286,400
Beltrami	1	\$ 16,000	Sibley	1	\$ 24,000
Benton	4	\$ 112,090	Saint Louis	2	\$ 31,960
Blue Earth	1	\$ 32,000	Stearns	19	\$ 533,670
Crow Wing	1	\$ 30,050	Steele	2	\$ 43,977
Douglas	1	\$ 32,000	Winona	1	\$ 24,500
Fillmore	1	\$ 18,190	Wright	14	\$ 411,370
Isanti	4	\$ 128,000			

83% Metro | 17% Greater MN

NEW HOMEOWNERS BY RACE/ETHNICITY

RACE OR ETHNICITY	PERCENTAGE OF LOANS	NUMBER OF LOANS	AMOUNT OF LOANS
Asian/Pacific Islander	16.0%	75	\$ 2,261,490
Black/African American	46.4%	218	\$ 6,603,601
Hispanic	23.8%	112	\$ 3,317,966
Native American	1.5%	7	\$ 194,640
White (non-Hispanic)	12.3%	58	\$ 1,624,025
Total	100%		

87.7% BIPOC

HOMEBUYER PURCHASE INFORMATION

\$82,208 Median Household Income	722 Median Buyer Credit Score	6.36% Median Interest Rate (range: 4.38% - 8.18%)	\$343,165 Median Home Purchase Price
--	-------------------------------------	---	--

Types of Mortgages

70.4% Conventional	14.9% FHA	1.1% USDA	1.1% VA	7.4% ITIN	5.0% Sharia
-----------------------	--------------	--------------	------------	--------------	----------------

AREAS OF NOTE

The Community DPA Fund has refined the guidelines to ensure the funds are utilized by homebuyers who, without the help of the program, would not be able to achieve homeownership.

- a minimum housing ratio of 20%—meaning the first mortgage payment is at least 20% of the buyers gross monthly income
- buyers liquid assets cannot exceed \$50,000 after closing; excluding retirement accounts, life insurance and college savings accounts
- a maximum purchase price limit, which follows MN Housing Start Up guidelines

RECOMMENDATIONS

Program demand has increased monthly as more homebuyers learn of its availability. With 29 percent of funds already committed and the increased pace we are seeing, we anticipate having all funds closed or committed by the end of 2025. To prevent shutting the program down and losing momentum, we recommend an additional \$25 million be appropriated to the Community DPA Fund in the second half of the biennium (2026), and \$50 million per biennium thereafter.

BACKGROUND INFORMATION

Homeownership helps to stabilize families, improving health, education and economic outcomes. An Urban Institute summary of several studies indicates that homeownership has a strong correlation to short-term and long-term improvements in education, health and economic outcomes for the residents.¹ Another study conducted by the Center for Outcomes Research and Education found that affordable housing reduced health care costs in a group of Medicaid recipients by 12% from the year prior to being in affordable housing, by leading to increased use of primary care and decreased use of more costly emergency services.² A summary of multiple studies by the Center For Housing Policy focused on affordable housing's positive impact on education and improved students achievement.³

¹How Housing Can Determine Educational, Health, and Economic Outcomes; September 19, 2018; Urban Institute; Veronica Gaitán.

²Study Finds Affordable Housing Reduces Health Care Costs; Mar 07, 2016; National Low Income Housing Coalition. Summary of a study conducted by the Center for Outcomes Research and Education (CORE) and sponsored by Enterprise Community Partners.

³The Impacts of Affordable Housing on Education: A Research Summary; The Center For Housing Policy's Housing Policy Research; by Maya Brennan, Patrick Reed, and Lisa A. Sturtevant; November 2014.



This institution is an equal opportunity provider, and employer.

119 Graystone Plaza, Suite 100 • Detroit Lakes, MN 56501
218.847.3191 • Fax 218.844.6345 • www.mmcdc.com

