Downpayment Toward Equity Act
2022 FAQs

What is the Downpayment Toward Equity Act?

The Downpayment Toward Equity Act is legislation that would establish a grant program to provide down payment and other home purchase assistance to underserved home buyers. The House bill (H.R. 4495) has been introduced by House Financial Services Committee Chair Maxine Waters (D-CA) and the Senate version (S. 2920) was introduced by Senate Banking Committee member Raphael Warnock (D-GA).

Why is this legislation necessary?

A healthy and equitable home purchase market is crucial for economic growth and to address our nation's affordable housing crisis. Expanding access to down payment assistance is the single biggest step Congress can take to building such a market, expanding homeownership opportunities for working families, and addressing the racial homeownership gap.

Saving for a down payment is perhaps the primary barrier to affordable homeownership for low- and moderate-income families and people of color. More than two-thirds of renters cited saving for a down payment as an obstacle to homeownership, according to the Urban Institute. Many of these households are otherwise able to afford a home mortgage but are finding it increasingly difficult to amass the requisite savings for a down payment.

The Downpayment Toward Equity Act addresses this issue head on by providing working families who can otherwise purchase a home the assistance they need to afford the down payment and/or other upfront costs. It also will help traditionally underserved households build equity in their homes faster, increasing the amount of savings and wealth available to them.

The legislation uses state housing finance agencies (HFAs) to deliver the down payment assistance. HFAs have decades of experience responsibly lending to low- and moderate-income home buyers. Down payment assistance has been a key part of these efforts in the last 10 years. In 2020 alone, HFAs provided down payment assistance to more than 122,000 borrowers, accounting for 82 percent of all HFA program loans that year.

How would the program be administered?

The U.S. Department of Housing and Urban Development (HUD) would administer the program at the federal level. State agencies, Community Development Financial Institutions (CDFIs), and other nonprofits would provide the assistance to home buyers.

States would receive 75 percent of the funds each year based on a formula HUD would develop that takes into account each state's population, median area home prices, and racial disparities in homeownership. HUD would reallocate any unused funding at the end of each fiscal year to states that demonstrate the capacity to use the money and that HUD determines are meeting the program's goals.

HUD would award the remaining 25 percent competitively to CDFIs, Minority Depository Institutions, and other nonprofit, mission-driven entities that target services to minority and low-income populations and provide services in neighborhoods having high concentrations of minority and low-income populations.

How would states run the program?

State HFAs or other state housing agencies would run this program. States may contract with nonprofit entities to help administer the funds, if they so choose. To receive funding, each state's administering entity must have adopted a plan for affirmatively further fair housing that HUD determines is in compliance with its 2015 Affirmatively Furthering Fair Housing rule.

When awarding grants to home buyers, state agencies would be prohibited from giving priority to buyers purchasing their homes through HFAs or other state agency lending programs.

Whom would the program serve?

The legislation is targeted to help those buyers who historically struggle to accumulate the savings needed for a down payment and other upfront costs associated with purchasing a home. To be eligible for assistance under the act, the home buyer must:

- Be a *first-time home buyer* who hasn't owned a home in the last three years.
- Be a *first-generation home buyer* whose parents or guardians never owned a home during the buyer's lifetime and whose spouse has not owned a home in the last three years. Any individual who lived in foster care also qualifies as a first-generation home buyer.
- Have an income at or below 120 percent of area median income (AMI) for either the area where the home being purchased is located or the area where the home buyer's place of residence is located (the limit is 180 percent of AMI for buyers purchasing homes in high-cost areas).

A home buyer receiving assistance must complete a home purchase counseling program provided by a HUD-approved housing counseling agency. If such a program is unavailable to the home buyer within 30 days, they may complete their home purchase education online or through an alternative channel.

What kind of assistance would the program provide home buyers?

Funds may be used for:

- Assistance to help eligible buyers purchase a home, either through down payment or closing costs assistance or payments to reduce the interest rate on the mortgage.
- Subsidies to make shared equity homes affordable to eligible buyers by discounting the sales price.
- Funding for pre-occupation home modifications to accommodate eligible buyers or members of their household with disabilities.

Home buyers must be purchasing a one- to four-unit home that will serve as their primary residence with a mortgage that is either eligible for purchase by Fannie Mae or Freddie Mac; is insured by either the Federal Housing Administration, Department of Veterans Affairs, or Department of Agriculture; meets the definition of a *qualified mortgage* as defined by the Consumer Financial Protection Bureau; or is guaranteed under the Section 184 Indian Home Loan Guarantee Program.

Assistance may be provided to home buyers receiving assistance from other sources, including other federal, state, and local programs and private and nonprofit entities.

How much assistance could home buyers receive?

The maximum amount of assistance most home buyers could receive is $20,000; HUD could increase this amount for qualified home buyers purchasing residences in high-cost areas.

Home buyers who qualify as socially disadvantaged would be eligible to receive up to $25,000 in assistance. *Socially disadvantaged individuals* are defined as "those who have been subjected to racial or ethnic prejudice or cultural bias because of their identity as a member of a group without regard to their individual qualities." Any individual identifying as Black, Hispanic, Asian American, Native American, or any combination thereof will be presumed to meet this definition. Those who do not identify with the above groups would have to prove with a preponderance of evidence that they are socially disadvantaged to qualify for the increased benefits.

Who supports the Downpayment Toward Equity Act?

The Downpayment Toward Equity Act is supported by a broad array of more than 100 national, state, and local civil rights; housing industry; and advocacy organizations, including NCSHA. Supporters include the Association of Affordable Housing Lenders, Center for Responsible Lending, Leadership Conference on Civil and Human Rights, Mortgage Bankers Association, National Association of REALTORS, National Consumer Law Center, National Fair Housing Alliance, National Housing Conference, National Housing Resource Center, National Urban League, Prosperity Now, and UnidosUS.