

Habitat For Humanity

Minnesota Housing

Homeownership: Encouraging New Construction

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Over the past 20+ years, Minnesota Housing has partnered extensively with Habitat for Humanity of Minnesota to assist in the creation of Habitat for Humanity units throughout the state, particularly new construction units with its two-dozen affiliates in the Twin Cities metro area and around the state.

Both Minnesota Housing and Habitat for Humanity of Minnesota have similar home ownership missions and goals; Affordable home ownership for low- and moderate-income Minnesotans, Home ownership opportunities in all parts of the state: urban, suburban, exurban, and rural, Strong emphasis reaching Black, Indigenous, and people of color (BIPOC) households: Minnesota has one of the largest home ownership gaps between BIPOC and white/non-LatinX households in the country.

Over the past 20+ years, Minnesota Housing has supported Habitat for Humanity of Minnesota's new production in several ways:

Secondary Market Funding - Statewide

What began as initial funding from the Minnesota State Legislature in 2000 and supplemented by Minnesota Housing for an additional 15 years, Habitat for Humanity now has approximately \$68 million serving as a secondary market for Habitat for Humanity of Minnesota loans.

Funds provide a strong, long-standing secondary market for first and second mortgages originated by local Habitat affiliates in the state. Similar to other secondary markets, liquidity is afforded to local affiliates, allowing them to move quickly towards producing additional units, particularly new construction.

Historically, funds were used only for first mortgages. However, as some local affiliates developed other outlets for loan production, Habitat developed and implemented a second mortgage option to assist borrowers with their down payment, closing costs and additional affordability, even if their first mortgage will be sold to another investor.

In addition to the statewide secondary market pool, a local affiliate identified a need to develop a new funding model with a goal to double production over several years. The model would move them away from interest-free purchase loans to Habitat households but provide larger levels of interest-free down payment assistance, enabling the household monthly mortgage payment to remain the same as under the previous model.

It was also designed to attract private, interest-bearing capital more effectively, because discussions around both the demand for loans and the ability to provide financing were greater than what was currently available with interest-free loans.

A private lender made the first \$25 million commitment along with Minnesota Housing. As discussions continued with additional lenders, one made the decision to purchase the entire pool of loans – almost \$100 million over a five-year period. This not only allowed the model to move forward without Minnesota Housing funding but has also seen it replicated in other Habitat markets around the country, including larger communities such as Chicago, Dallas, Denver and Omaha as well as smaller markets like Essex, Massachusetts.

The success of this new model has allowed the local affiliate to more than double their new loan production over a five-year period.

Credit Line – Local Affiliate

Because the new secondary market model with the local Habitat affiliate was ultimately implemented without Minnesota Housing funding, we were able to work with them to address other ways to support the model. The local Habitat affiliate covers the largest and most competitive housing market in the state and needed the ability to provide financing quickly when acquiring properties for future Habitat homes. Minnesota Housing and the affiliate established a \$20 million line of credit that would allow buyers to better offer competitive bids and complete fast purchases in an extremely competitive market. The line of credit provided to the borrower is paid in full when they close on their Habitat home with permanent financing, allowing the funds to be circulated back for another credit transaction and another buyer.

Gap Financing

For both new construction and acquisition-rehabilitation activities, Minnesota Housing provides gap financing through our Impact Fund. This program, funded primarily by the Minnesota State Legislature, is a competitive, once-per-year request for proposal (RFP) for eligible applicant organizations. Currently, Minnesota Housing awards approximately \$12 million per year for this program.

Value gap fills the amount between the unit's total development cost (TDC) and appraised value. Given market dynamics, it is impossible to re-capture these funds within the parameters of a standard transaction, while also allowing for household wealth-building. As a result, these funds are provided as grants to developers and other applicants.

Affordability gap covers the difference between the amount a borrower can afford when buying a home (first mortgage plus down payment assistance programs) and the purchase price of the home. The borrower receives the gap financing as an interest-free, deferred 30-year loan that is repaid when the property is sold. Upon sale, funds can be used to assist new buyers.

The partnership between Minnesota Housing and Habitat for Humanity Minnesota illustrates the areas of interest for this award:

Innovative

While many housing finance agencies (HFAs) have helped Habitat for Humanity in their states on a financial level, Minnesota Housing has worked closely with Habitat for Humanity of Minnesota to identify specific areas of need unique to their program, making resources available in ways that were successful for the borrower, Minnesota Housing and Habitat for Humanity. As a result, our support has been more comprehensive and on a much larger scale. They estimate 40% of their activity since 1997 has included Minnesota Housing financing.

Replicable

While this extensive and compromise strategy has achieved great results, individual components of the assistance could be replicated elsewhere, depending on the funding source, timeframe, and rate of return needed.

Addresses Need

Habitat buyers are among the lowest-income new homeowners in Minnesota, and possibly other states around the county. Last year, the statewide median income for an average Habitat for Humanity Minnesota purchaser was at 36%. In addition, many are low-wage, first-generation home buyers who need flexible and low-cost mortgage financing. The set of financial tools available to Habitat for Humanity Minnesota provides these borrowers with the choices and opportunities they need to have in these very competitive markets

Data Analysis and Results

Throughout the partnership, Minnesota Housing and Habitat for Humanity of Minnesota have used data analysis to justify funding being provided, as well as to ensure programming is successful and desired outcomes are met. In addition, 47.8% of new buyers were BIPOC, more than double the overall percentage of BIPOC residents in Minnesota.

Effectiveness and Benefits of Partnership

One item of note regarding the effective use of resources is the use of revolving funds within Habitat for Humanity Minnesota. Most of the funds are recycled within Habitat for Humanity of Minnesota. This allows them to more effectively budget and plan and has also allowed them the flexibility to make program changes as needed over time to respond to the market. For example, it was only after some local affiliates started using other secondary markets that the second mortgage (down payment assistance) program was developed.

Partnerships

These efforts would not be possible if not for the strong relationship between Minnesota Housing and Habitat for Humanity Minnesota, and between Habitat Minnesota and its two-dozen affiliates.

Strategic Objectives

As noted earlier, our organizations have similar home ownership missions and goals; Affordable home ownership for low- and moderate-income Minnesotans, and Homeownership opportunities in all parts of the state: urban, suburban, exurban, and rural.

Strong emphasis on reaching BIPOC households: Minnesota has one of the largest home ownership gaps between BIPOC and white/non-LatinX households in the country

With Habitat for Humanity Minnesota reaching 36% of median income for its typical household, and BIPOC lending that is more than twice per capita in Minnesota, these core strategic objectives of Minnesota Housing and Habitat for Humanity have been met and exceeded.