

Minnesota Home Improvement Loan Program Revitalization

Minnesota Housing

Homeownership: Home Improvement and Rehabilitation

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Executive Summary

Over the past three years Minnesota Housing has overhauled its Home Improvement Loan Program (HI Program) and transformed it from a \$11 million program in decline into a growing program on track to reach \$40 million in production in 2021. By streamlining processes to make the program easier for lenders, updating program features to attract more borrowers, and strategically increasing our outreach efforts to promote the program, the HI Program now effectively helps borrowers throughout the state invest in their homes and stabilize the housing stock in Minnesota.

Program Overview

Minnesota Housing's HI Program offers affordable home improvement loans to low- and moderate-income homeowners¹ who are not well served by the private market and allows them to finance a variety of permanent improvements to their homes with affordable repayment terms. The program helps homeowners statewide live in safe, accessible, and energy-efficient homes, as well as encourages and supports the preservation of existing housing stock.

The HI Program offers a variety of loan options:

- Secured and unsecured Fix Up loans
- Secured and unsecured Energy loans
- Secured Accessibility loans
- Community Fix Up loans

A statewide network of lenders consisting of private sector banks, credit unions, non-profit organizations, and units of local government originate, underwrite, fund, and close HI Program loans.

Program Features

The HI Program includes key features that set it apart from traditional home improvement products and makes financing home improvements or necessary repairs more affordable and accessible (See Figure 1.).

For secured loans, program guidelines allow borrowers to go up to 110% of the after-improved value of their home, defined as the current market value plus half the cost of the proposed improvements. Our unsecured loan option and our high LTV limit allow borrowers with little to no equity in their homes the opportunity to improve their property.

The Turnaround

While the HI Program provides loans not offered elsewhere in the market and serves a group of homeowners who might not otherwise qualify for a home improvement loan, the long-standing program had become greatly underutilized, falling from \$45 million in production in 2005 to just more than \$11 million in 2017 (See Table 1).

Program staff sought to permanently turn the program around by overhauling the program instead of relying on a piecemeal approach.² We initiated a full program review, which included analyzing loan and

¹ The Energy and Accessibility loans do not have income limits.

² Minnesota Housing offered short-term special incentives in 2010, 2013 and 2014, which raised production temporarily.

borrower data, setting production goals, and conducting lender surveys and interviews. We proposed a long list of changes to the HI Program that would better meet the needs of homeowners, make it easier for lenders to offer the program by streamlining processes and policies, and expand borrower and improvement eligibility.

Due to these changes, loan production has steadily increased since 2018, resulting in a 51% increase in loan volume in 2019 and a nearly 30% increase in 2020. We continue to see strong program utilization with loan volume 34% higher in the first two months of 2021 than the same timeframe in 2020. Current models predict that we will see \$40 million in production in 2021, which would be a 53% increase from 2020.

Program Updates

The initial program changes highlighted the need for an annual program analysis. Yearly, we form a work group to brainstorm ideas, talk to lenders, analyze loan data and loan performance, and conduct a lender satisfaction survey. While production increased with the changes made in 2018, we have built on that growth by continuing to make program updates each year to meet our lenders' and borrowers' needs. As a result, over the past three years Minnesota Housing has dramatically transformed the HI Program with the following changes:

Higher Income Limits: To better serve current homeowners we increased the income limits to 130% of Area Median Income, tying the program's income limits to those of our repeat homebuyer program. Previously the HI Program income limits were tied to the income limits for our first-time homebuyer program, which did not work well because HI Program borrowers are no longer first-time homebuyers and typically have higher incomes. This change increased the number of eligible households to include those with incomes higher than a typical first-time homebuyer, but who still have budget constraints. The Energy and Accessibility loan options do not have income limits, and never have.

Use of Qualifying Income: The HI Program had previously required lenders to use Mortgage Revenue Bond rules to calculate income. Allowing lenders to use qualifying income when underwriting the loans has resulted in expanded borrower eligibility as well as less lender frustration.

Streamlined Process for Lenders: Lenders can now use their own application, instead of the six-page application Minnesota Housing previously required. We also no longer require a copy of the deed to prove ownership on unsecured transactions, further streamlining paperwork requirements.

Competitive Interest Rates: For years the interest rates for the HI Program remained the same, regardless of market fluctuations. Teaser rates for HELOCs and other traditional home improvement products looked better in comparison with a Minnesota Housing home improvement loan. To remain competitive with other loan products we now review and adjust interest rates on a quarterly basis and provide lower interest rates for loans with shorter terms.

Increased Loan Limits: We increased the maximum loan limits across all program options – increasing from \$15,000 to \$25,000 for unsecured, Energy, and Accessibility loans and from \$50,000 to \$75,000 for secured loans (See Table 2.). Lenders told us they needed increased loan limits across all loan options due to rapidly rising material and labor costs.

Increased Lender Compensation: We raised lender compensation by \$100 for both secured and unsecured loans. Though a smaller change, lenders appreciate that we also modestly increased the maximum document preparation fee allowed and now allow lenders to pass along the cost of the credit report to the borrower.

Increased Maximum Garage Size: In response to feedback from lenders, we increased the maximum size of garages from 800 square feet to 1,000 square feet. This change was especially welcomed by lenders working with rural homeowners who need extra storage – Minnesotans want a place to store their boats, snowmobiles, and other outdoor recreational vehicles.

Keeping the Momentum

To increase awareness of the program and further borrower usage, we hired a dedicated Business Develop Representative to strengthen current lender relationships and cultivate new ones. In April 2019 our Communications department worked with a lender and homeowner to create [a video](#) of their success with the HI program. The video is the most popular on Minnesota Housing’s YouTube channel, with more than 21,000 views. We continue to examine other methods of outreach to ensure Minnesotans who need the program are aware of it, and to maintain a robust network of lenders. This spring we plan to launch a direct-to-consumer marketing campaign—including marketing the HI Program to our current first mortgage borrowers—and we look forward to getting back out into the community in-person once it is safe to do so. In the meantime, we always have [brochures](#) available for lender partners or to send out to consumers by request.

Moving forward, we will continue to seek to make the program more attractive and useable to borrowers and lenders alike and find new ways to increase awareness of the program. We are dedicated to continuous program improvement to keep the program relevant in changing market environments and to help ensure Minnesotans can stay safe and comfortable in their homes while preserving affordable housing stock.

Tables and Figures

Figure 1. HI Program Key Features

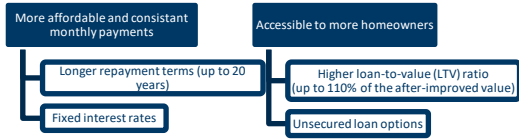


Table 1. Home Improvement Loan Volume, 2005-2021

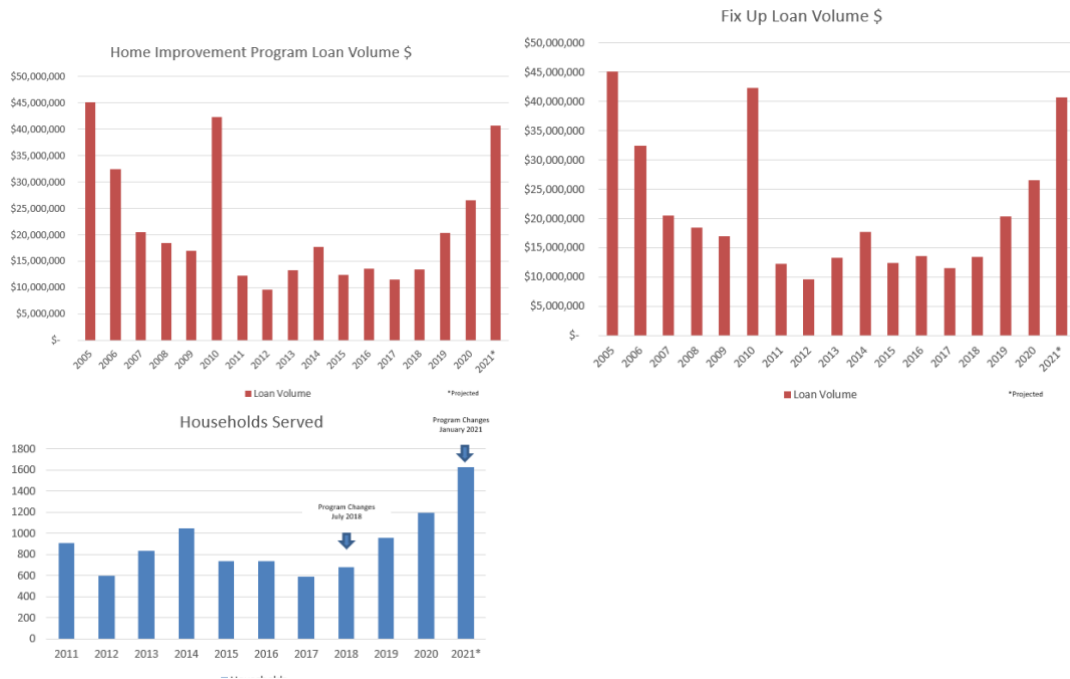


Table 2: Loan Limits

Loan Program	Previous Maximum Loan Amount	Maximum Loan Amount after 1/8/2021
Regular Secured	\$50,000	\$75,000
Regular Unsecured	\$15,000	\$25,000
Energy Incentive (secured & unsecured)	\$15,000	\$25,000
Accessibility (secured)	\$15,000	\$25,000