

From Challenge to Opportunity—Reaching Households of Color or Hispanic Ethnicity

Minnesota Housing

Homeownership: Empowering New Buyers

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From challenge to opportunity—reaching Households of Color or Hispanic Ethnicity

With home prices rising far faster than income, homeownership can seem out of reach for lower-income borrowers. For households of color, who on average have significantly less wealth than white households, the barriers to homeownership are even steeper. Minnesota has one of the largest homeownership gaps in the country, with 76% of white households owning a home compared to only 24% of black households.¹ Yet by zeroing in on the barriers underserved populations face, Minnesota Housing has created pathways to successful homeownership for households of color, including many low-income and very-low-income borrowers.

Minnesota Housing is currently outpacing the broader Minnesota mortgage market by more than a 2:1 ratio in service to households of color. We are proud that our mortgage loans to households of color accounted for nearly 35% of our first-time homebuyer loans in the 2018 program year, as compared to just 14% service to households of color within the lending market in Minnesota. More importantly, when you look at homes purchased within our home price limits, our service to households of color account for more than 25% of total mortgages in Minnesota in that price range .

A Multi-Faceted Approach to Tackling Barriers**BARRIER:**

High entry costs to buy a home

- **Intentional program design** to align resources with borrowers' need.
- **Creating sustainable funding model** for Downpayment Assistance.

INTENTIONAL PROGRAM DESIGN:

The wealth gap between households of color and their white counterparts makes it more difficult to have sufficient funds to cover the upfront costs of purchasing a home. To meet this higher level of need without over-subsidizing other borrowers, we carefully examine how much cash to close a typical lower-income borrower and a moderate-income borrower need. We offer deferred loans to support lower-income borrowers and fully amortizing loans to support moderate-income borrowers. Three levels of assistance meet the different borrowers' level of need:

- **Deferred Payment Loan**

The Deferred Payment Loan provides first-time homebuyers a deferred loan of up to \$8,000 for borrowers at or below 90% of the area median income (AMI). Borrowers are subject to asset limits in order to make sure these funds go to borrowers who need these more scarce resources.

- **Deferred Payment Loan Plus**

This option within the Deferred Payment Loan helps borrowers who face additional barriers to homeownership by offering a higher loan amount of \$10,000 if they meet two or more targeting criteria (proxies for need):

- Household of four or more people
- Sole head of household with at least one eligible dependent residing in the household
- Disabled household
- Front-end ratio of 28% or higher

- **Monthly Payment Loan**

The Monthly Payment Loan offers a fully amortizing loan of up to \$15,000 with a 10 year repayment term to first-time homebuyers and repeat homebuyers. The income limits match our first mortgage income limits, allowing any Minnesota Housing first mortgage borrower who can afford the additional monthly payment to access this loan.

The Deferred Payment Loan Plus reaches borrowers with high needs and households of color. In Federal Fiscal Year (FFY) 2018, the average Deferred Payment Loan Plus borrower's income was under 60% AMI

and the percentage of households of color was more than double that of our other downpayment and closing cost loans.

SUSTAINABLE FUNDING MODEL

In addition to designing the program to align program resources with borrower need, Minnesota Housing created a strategic funding pool structure to generate ongoing income to fund mission-rich programs like the Deferred Payment Loan and Deferred Payment Loan Plus. To achieve this sustainability, Agency generated income is allocated into two separate pools:

- **Pool 2:** Programs funded by Pool 2 must earn a rate of return established annually by the finance team to support the financial goals of the Agency. While these programs align with our mission goals and fill a gap in the marketplace, the borrowers served are more moderate income and can afford to pay the interest rate on their loan. The Monthly Payment Loan is funded through Pool 2.
- **Pool 3:** Programs funded by Pool 3 may be interest free or grants and must serve higher needs populations. Programs funded by Pool 3 include the Deferred Payment Loan and Deferred Payment Loan Plusⁱⁱ as well as our Rehabilitation Loan for low-income homeowners to make health and safety home repairs.

Income generated from Pool 2 funded programs ensures a healthy stream of income to regenerate Pool 3 funds. As a result, Minnesota Housing maintains stable funding for our programs.

BARRIER:
Difficulty qualifying for a mortgage

- Homebuyer Counseling & Education
- Homeownership Capacity program – homebuyer **financial wellness education and coaching**

HOMEBUYER COUNSELING AND FINANCIAL EDUCATION

To increase the number of low-income renters and households of color that can qualify for a mortgage, we support counseling and education services for borrowers with different levels of need.

- **Standard homebuyer counseling and education services:** We partner with local housing partners, including the Greater Minnesota Housing Fund, the Family Fund, and the Minnesota Homeownership Center to fund homebuyer education and counseling, as well as financial wellness services to support homeowner success with our Homeownership Education, Counseling and Training (HECAT) program. During the 2018 program year, this program served more than 20,000 households (52.5% households of color), with a median income of 45% AMI.
- **Intensive homebuyer education and counseling program:** Our Enhanced Homeownership Capacity Initiative (Homeownership Capacity) provides intensive financial coaching to underserved populations (currently 87% households of color) through local non-profit service providers. This program recently graduated from a pilot to a statewide program after demonstrating success improving median participant credit scores from 611 to 658 and improving participants' financial picture by \$3,600 on average through increased savings and reduced debt collections. Nearly 60% of participants with a reported outcome bought a home within a year of completing the program, and another 19% were still pursuing homeownership after one year.

BARRIER:
Knowledge gap amongst potential borrowers and industry professionals

- **Outreach efforts** to raise awareness that homeownership is possible.
- Funding and promoting **homebuyer education** (see above)
- **Industry-wide effort raising awareness about market opportunity** to serve households of color or Hispanic ethnicity

Due to the low homeownership rates for households of color in Minnesota, potential homebuyers in this population are often first-generation homebuyers. They often lack the awareness that homeownership could be possible for them or the knowledge about how to make it happen. Furthermore, when industry professionals who work in diverse communities are not aware of Minnesota Housing downpayment and closing cost loans, they could mistakenly close the door to potential homebuyers who could qualify if they had access to a downpayment and closing cost loan.

OUTREACH EFFORTS

To increase awareness about downpayment and closing cost resources and promote homebuyer education, we reach out to consumers and the business community in a number of ways.

Direct outreach to potential buyers:

- Booths at community events that are well-attended by households of color
- Videos, [posts](#), and ads on Social Media
- [Targeted marketing and public relations efforts](#), including interviews on community radio shows

Business-to business outreach:

- Cultivating relationships with lenders and real estate agents who serve households of color
- Strategic Partnerships with Real Estate Associations (e.g. NAHREP, NAREB, AREAA, etc.)
- Partnership with non-profit homeownership advisors who work in diverse communities
- Use production data to show lenders that they are missing a market opportunity by not serving more households of color
- Realtor education offering continuing education credits

INDUSTRY-WIDE OUTREACH EFFORT

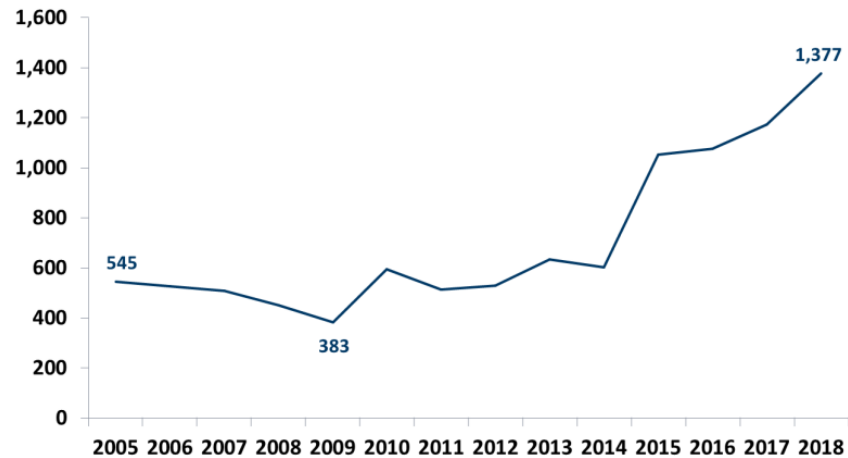
When industry professionals discover the untapped market of potential homebuyers in diverse communities who could afford to be successful homeowners, both the industry professionals and the homebuyers who gain access to homeownership win. Minnesota Housing is leading an industry-wide coalition to expand homeownership for households of color. [The Homeownership Opportunity Alliance](#) works to address barriers to homeownership, educates the industry on the market opportunity to serve households of color, and has launched a [campaign called “Get Ready. Be Ready!”](#) to connect households of color with [homebuyer education services and build awareness that homeownership is possible](#).

By tackling many of the barriers households of color face, Minnesota Housing has successfully increased service to households of color and helped open the door to homeownership to more people, strengthening communities, as well as our performance, maintaining our strong financial position, and ultimately helping more Minnesotans build wealth and financial security.

¹ Allison Liuzzi and Jacob Wascalus, It’s been a decade since the Great Recession ended. How has Minnesota recovered? Minnesota Compass (January 2019) www.mncompass.org

¹¹ The Deferred Payment is largely funded by Pool 3 funds but also receives some state appropriated funds and repayments as borrowers pay off their loans.

Minnesota Housing Results: Number of Loans to First-Time Homebuyers of Color



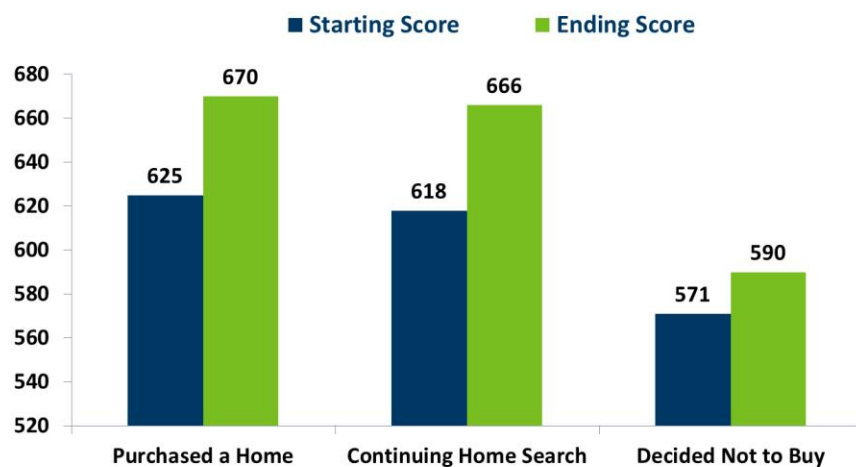
Source: Minnesota Housing Start Up Program data.

Homebuyer Education and Counseling: 2018 Work Funded by Minnesota Housing

	Funding	Households Assisted	Funding per Household	Share Households of Color
Homebuyer/owner Education, Counseling & Training (Traditional)	\$1,591,500	20,046	\$182	52.5%
Homeownership Capacity Program (Intensive Financial Coaching)	\$1,172,140	997	\$1,176	84.9%

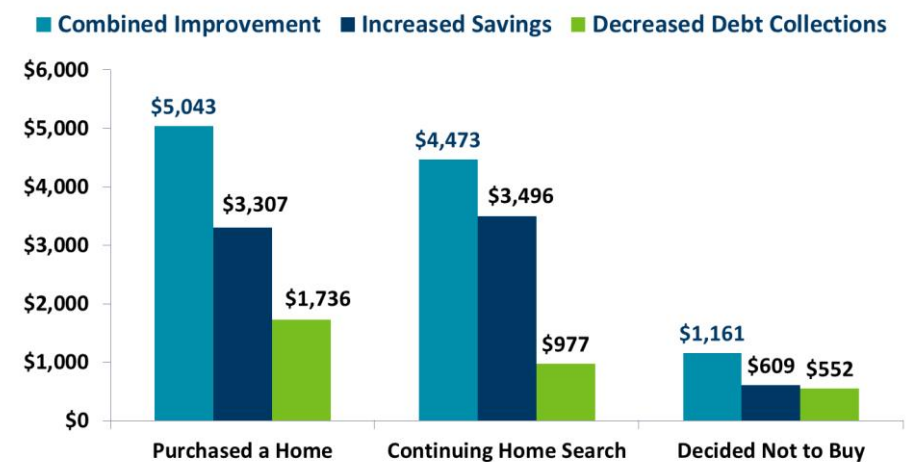
Source: Minnesota Housing

Homeownership Capacity: Change in Median Credits Scores for Program Completers



Source: Minnesota Housing, Homeownership Capacity Evaluation (2018), which covered August 1, 2014 to December 31, 2017.

Homeownership Capacity: Improvement in Average Wealth Level



Source: Minnesota Housing, Homeownership Capacity Evaluation (2018), which covered August 1, 2014 to December 31, 2017.



The Homeownership Opportunity Alliance sponsored a Sister Spokesman event (pictured above and to the right) in April 2019 to share the word that homeownership can be more than a dream—with a bit of planning.

HOMEOWNERSHIP CAN BE YOURS!

#heysista
#soulستا

f t

Meetup

SATURDAY APR 6 12-4

Meet experts who will help guide you through the home buying process and discuss resources to help you finance your home.

LIFESOURCE
2225 WEST RIVER RD N.
MPLS., MN 55411

FOR MORE INFORMATION CALL 612-827-4021

ONLY \$5 BRING A SISTA!

Sponsored by

Homeownership Opportunity Alliance

WELLS FARGO

In 2018 Minnesota Housing staff participated in 59 community events and festivals to talk directly with potential borrowers about how our programs can make homeownership possible for them, often connecting them with a lender partner volunteering at the event with us.

Pictured to the right: North Side Housing Fair and the Hmong Resource Fair.



We are partnering with 89.9 KMOJ "The Peoples Station" on a financial fitness series. The program has featured our Single Family Assistant Commissioner, Kasey Kier (pictured above) and a number of our lenders and non-profit partners.

We engage with professional associations, such as the National Association of Hispanic Real Estate Brokers, pictured below at their swearing in ceremony for their Board and new members. Governor Walz and Lt. Governor Patti Flanagan (pictured below) attended the event to show their support for the Association's work to promote homeownership in the Hispanic community.

