

Breaking Barriers: Down-Payment  
Assistance Paves Path for  
First-Generation Homebuyers  
**New Jersey Housing and Mortgage Finance Agency**  
Homeownership: Empowering New Buyers

**HFA Staff Contact**

Chris Ryan

[cryan@njhmfa.gov](mailto:cryan@njhmfa.gov)

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**Entry Title:** Breaking Barriers: Down-Payment Assistance Paves Path for First-Generation Homebuyers

**Category:** Homeownership

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**Summary:** To enhance the Down-Payment Assistance (DPA) Program which has aided more than 10,000 first-time homebuyers since its creation in 2017, last year NJHMFA launched a new initiative targeted to first-generation buyers. The additional aid will help close racial wealth gaps, stabilize communities, and promote intergenerational wealth.

**Entry Description:**

*Background:*

Owning a home is more than a roof over one's head – it's a key source of economic security and intergenerational wealth. It is often the most financially prudent decision, as monthly mortgage payments can be less than rents. However, saving up for the down-payment and closing costs often poses the steepest challenge for prospective first-time homebuyers, particularly those who are low- or moderate-income. New Jersey has a particularly challenging housing market, with some of the highest sale prices in the nation. Approximately 52% of tenant households statewide are cost-burdened per the most recent Census data, reducing these families' ability to save and threatening to put homeownership out of reach.

In 2017, NJHMFA launched the Down-Payment Assistance (DPA) Program to facilitate access to homeownership for first-time buyers. In the years since, the Agency has disbursed \$122 million in aid, assisting more than 11,000 first-time homebuyers. Functioning as zero-interest loans of up to \$10,000, or up to \$15,000 in certain costlier counties, DPA assistance is forgiven after five years as long as the recipient continuously resides in their home. The program has steadily ramped up thanks to greater awareness and additional funding in the state budget; last year was the strongest year ever for the DPA, distributing a total of \$27 million to 2,313 households.

Particularly as mortgage interest rates and home prices have continued to rise, the DPA Program serves as a critical lifeline. Compared to New Jersey's homebuying market overall, DPA recipients have lower incomes on average and are more likely to be Black or Hispanic. A full 90% of beneficiaries earn below the state's median income. These figures demonstrate that NJHMFA is directing state resources effectively and efficiently to those most in need, at a time when market forces are making it more difficult for these prospective buyers to secure homeownership opportunities.

*Breaking barriers:*

Within the population of homebuyers, first-generation homebuyers are particularly in need of assistance. An individual is more likely to own a home if their parents also did. In part, this is because roughly one third of first-time buyers are able to rely on equity from their families, a form of family capital unavailable to first-generation buyers, a situation that unfortunately reflects past generation policies, such as redlining and exclusionary zoning. As a result, New Jersey experiences massive disparities in homeownership, household wealth, and home equity, with a 2022 report from the NJ Institute for Social

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Justice calculating the median white household owns \$132,000 in home equity compared to \$0 among the median Black household, which rents rather than owns. Research from the Urban Institute demonstrates that expanding down-payment assistance programs to offer more focused and targeted programs for first-generation homebuyers can break barriers to homeownership, promote the building of intergenerational wealth, and close the wealth gaps.

As rising home prices become an increasingly salient issue, policymakers have sought to respond with effective, data-driven solutions to foster affordable paths to homeownership. In recognition of this great need, Governor Murphy and the State Legislature enacted within the FY 2024 budget a \$40 million allocation for the DPA Program. Beyond codifying the core program, the increase in funds enabled NJHMFA to expand its mission with a significant portion of the allocation focused on first-generation buyers. This major influx of funds reflected in many ways the confidence that the Legislature and Governor have in NJHMFA's ability to ably and fairly administer these programs, as evidenced by its past successes with the DPA program.

In September 2023, the NJHMFA Board adopted program guidelines for Smart Start Plus, the Agency's official first-generation homebuying assistance program. Providing an additional \$7,000 in forgivable interest-free loans on top of existing DPA assistance, first-generation homebuyers are eligible for up to \$22,000 to purchase a home. In line with burgeoning national industry standards, an individual is defined as a first-generation homebuyer if neither they, their parents, their spouse, nor any member of their household have owned a home within the past three years.

In just a few short months since the opening of the program in October 2023, NJHMFA has disbursed over \$1.4 million in assistance, allowing 100 first-generation homebuyers to benefit. Recipients have a median household income of \$86,000, below the statewide median income, and Black and Hispanic homebuyers make up nearly two-thirds of recipients.

### *Discussion*

Across the country, housing agencies are debating how best to bolster first-generation homeownership. New Jersey is a relatively early adopter of first-generation homebuyer incentives, being only the eighth state in the union to implement this through a state housing finance agency. NJHMFA's implementation of Smart Start Plus offers several important lessons for these efforts:

**Build on past success.** NJHMFA's existing DPA Program has already aided more than 10,000 first-time homebuyers since its creation in 2017, earning broad-based support within the State Legislature. Just six years later, the State Legislature voted to permanently codify the program. NJHMFA proved to be an efficient and effective steward of this program, which benefited residents in all state legislative districts.

**Address unmet needs.** Over the past few years, it had become increasingly clear that first-generation homebuyers have unique and higher needs for assistance that the existing DPA Program could not provide. For example, the importance of family capital in fostering intergenerational homeownership-driven wealth, and the role of discriminatory policies in preventing many residents from benefiting from this family capital, made a targeted program for first-generation homeowners necessary.

**Find champions.** Without support from key allies in the state government, this remarkable progress would not be possible. NJHMFA was able to establish this program thanks to the passage of

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S3780/A5415 through the State Legislature. This bill was sponsored by a coalition of influential policymakers with long track records working in housing issues, including most notably Senate Majority Leader Teresa Ruiz. Notably, the establishment of a program for first-generation homebuyers formed a critical element of Governor Murphy's Wealth Disparity Task Force established in 2021. Shared agreement between the State Legislature and the Administration, coupled with broad support for NJHMFA and its proven success in the existing DPA Program, made the first-generation program a natural next step.