

# Covenant Homeownership Program

**Washington State Housing Finance Commission**

Homeownership: Empowering New Buyers

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## The Covenant Homeownership Program

As a result of state legislation passed in 2023, the Washington State Housing Finance Commission moved quickly to implement a groundbreaking downpayment-assistance program aiming to address more than 100 years of housing discrimination. In less than a year, the Covenant Homeownership Program has helped more than 367 families affected by housing discrimination to buy their first home. Thanks to its success, the program was also significantly expanded by a second state law.

### Background

In 2023, the Washington State Housing Finance Commission and a group of legislative champions, housing leaders, and community organizers succeeded in passing the nation's first state legislation aimed at specifically undoing the effects of systemic racism in homeownership.

The Covenant Homeownership Act, House Bill 1474, provided not only an ongoing source of funding for downpayment assistance, but also a path to a Special Purpose Credit Program under the Equal Credit Opportunity Act that could specifically benefit those whose families have been harmed by historic state-sanctioned discrimination.

The law required:

1. A **research study** to investigate housing discrimination against marginalized communities in Washington State, what role government institutions have had in the discrimination, the impacts of the discrimination, and potential remedies for the impacts. These findings helped determine who will be eligible for assistance and established the framework for creation of a.
2. A **new, ongoing source of funding** for homebuyer assistance from a new \$100 document recording assessment collected on every real-estate transaction, starting January 1, 2024.
3. A **homebuyer assistance program** to begin by July 1, 2024.

After helping to develop the bill itself, the Housing Finance Commission remained a lead advocate to help it become law. The bill passed with strong majorities in both houses in April 2023 and was signed into law by Governor Jay Inslee on May 8, 2023.

### Research Study

To provide a solid legal foundation for the downpayment assistance program, the Covenant Homeownership Act authorized and funded a research study as the first, crucial step in the development of Covenant Homeownership Act assistance. The study would investigate housing discrimination in Washington State, what role government institutions have had in the discrimination, the impacts of the discrimination, and what specific assistance would be likely to remedy these impacts.

The Housing Finance Commission was tasked with competitively procuring and hiring a research partner and overseeing the work. But this work had to move quickly, as the law required that the Covenant program open to homebuyers by July 1, 2024. As soon as the Covenant Act passed the state legislature, the Commission was ready to release a request for proposals for the research study.

The competition resulted in the hiring of the [National Fair Housing Alliance](#), supported by [Abt Associates](#), the key research partner in the study. The team was rounded out by two Washington state groups, the [Northwest Fair Housing Alliance \(NWFHA\)](#) and the [Fair Housing Center of Washington \(FHCW\)](#), to assist in documenting specific historical discrimination and ensuring community input.

By July 2023, just two months after the Covenant Act was signed, the researchers had begun their work of collecting and analyzing existing data, documentation, reports, and analysis, as well as seeking new information. This painstaking and thorough work required the regular engagement of the Housing Finance Commission staff and legal counsel. In March 2024, the completed study was published.

First of all, the study confirmed that state institutions played both active and passive roles in perpetuating housing discrimination against a range of marginalized groups. Secondly, it found that impacts of that discrimination are still felt today in the lower homeownership rates and net worth of many of those groups. Third, the research shows that without specifically aiming to help these groups that were excluded for so long, a program would be ineffective in remedying the disparities.

Further, to implement the intent of the Covenant Homeownership Act, the study recommended a race-conscious Special Purpose Credit Program with a customized approach to downpayment assistance.

### **Crafting a Program**

In early 2024, as the study results began to become clear, the Commission began the work of developing a new downpayment assistance program unlike any we had ever offered before, using only our existing staff and resources.

To determine the amount of downpayment assistance, the Commission used the study's modeling of different approaches that could bring buying a modest-priced home within reach in Washington, where almost all housing markets have high home prices and low inventory. In consultation with lending partners, community stakeholders, legislative champions and others, the maximum amount of downpayment assistance was set at 20% of the cost of the home, or \$150,000, plus closing costs. The assistance is provided in the form of a 0% interest loan, paid back on the sale or refinancing of the home.

When it came to eligibility, although the law had specified several criteria (including an income limit of the area median, first-time homeownership, and pre-1968 roots in the state), the Housing Finance Commission had to rely on the research study for more specific eligibility guidelines that would carry out the purpose of the law. Eligible racial groups were recommended in the study based not just on past unjust and egregious housing discrimination, but also on continuing homeownership disparities in the form of lower homeownership rates.

With eligibility criteria and the amount of downpayment assistance determined, the Commission turned to the task of establishing policies and procedures for the new program and training hundreds of lenders in how to use it in just a few months. Documenting eligibility added a significant challenge to the program: Before loan closing, it must be clearly documented that either the homebuyer or their parent or grandparent lived in Washington state before April 1968 and that the pre-1968 resident belonged to one of the eligible racial groups. The homebuyer must also show documents of their family ties. All of these requirements meant extensive guidance, training and instructions for lenders.

Thanks to the extraordinary efforts of the Commission's Homeownership division, the program launched on July 1, 2024. Just three weeks later, the first Covenant homebuyer closed on her new home.

## **Opening Doors Statewide**

In just nine months, 367 homebuyers have closed on their loans using the Covenant Homeownership Program. Thanks to our statewide training and wide lender network, the new homebuyers are located in 21 counties across the state, from the metro areas of Seattle and Tacoma, to small cities such as Yakima, Bellingham and Vancouver, to rural areas in eastern Washington.

The program has grown exponentially, from 3 loans closed in its first month to 58 closed in the most recent. The number of lenders using the program also continues to grow – 36 banks and mortgage companies, and counting. Each week, the Commission’s homeownership staff receive 20 to 25 packets of homebuyer eligibility documents to review.

These documents tell the stories of opportunities denied to Washington families, and sometimes their hopes for the future. One homebuyer shared: “I know my dad would be so proud to know that the racism and discrimination he experienced was not completely in vain, but instead, is now being acknowledged in ways that are going to assist his daughter to become a first-time, first-generation homeowner.”

Another homebuyer, a member of the Spokane Tribe of Indians, described how her grandmother as a very young girl was forced to attend a boarding school with the expectation that she would leave her culture behind forever. Now the homebuyer and her husband can look forward to having their 20-month-old son grow up in a neighborhood where his mom went to school, and their family resides.

## **Expanding the Program: A New Chapter**

Thanks to the program’s success, in early 2025 the original sponsors of the Covenant Homeownership Act introduced a trailer bill in the state legislature that would expand it.

The bill offered two significant amendments. The first was increasing the income limit from 100% of area median income to 120%. As shown in the Covenant Homeownership Study, homebuyers earning above 100% of AMI includes many households within the racial and ethnic groups impacted by housing discrimination. In Washington, those of this income still have a substantial need for downpayment assistance to afford a modest-cost home in the county where they live.

The second was to make Covenant loans forgivable for lower-income homebuyers – those earning no more than 80% of area median income – after five years of homeownership. Loan forgiveness or downpayment assistance grants were also recommended by the Covenant Homeownership Study as a significant path to both wealth-building for families and narrowing our state’s racial homeownership gap. Also, for lower income homeowners, loan forgiveness can ensure that they are not trapped in their first home, but rather can adjust if their circumstances change– for example, a change in employment that requires them to move to a different area.

The trailer bill’s path to adoption was significantly more difficult than the Covenant Homeownership Act’s in 2023, but with the steady support of legislative champions (especially Rep. Jamilia Taylor) and advocates, it passed both chambers of the legislature and was signed into law on April 22, 2025.

The Commission is again gearing up for the program expansion, which takes effect shortly after the program’s one-year milestone in July 2025.