
Minnesota Housing Finance Agency: Down Payment Assistance

Project Description

September 2023

BACKGROUND

For many low- and moderate-income households, amassing enough funds for down payment and closing costs can be a significant obstacle to purchasing a home. The Minnesota Housing Finance Agency (Minnesota Housing) provides loans to aid low- and moderate-income households to cover those costs through two programs: Start Up and Step Up.

Start Up participants must be first-time homebuyers, defined as not having owned a home in the previous three years, and meet limits on income and home purchase price. To cover down payment and closing costs, Start Up participants may obtain zero-percent interest loans that need not be paid back until the house is sold, refinanced, or paid off, or the borrower moves out of the home.

Step Up participants may be repeat homebuyers, homeowners wanting to refinance, or first-time homebuyers ineligible for Start Up. Step Up has higher income limits than Start Up, but the same purchase price limits. Step Up (and Start Up) participants may obtain down payment assistance loans that carry the same interest rate as the underlying mortgage and are paid off monthly over a ten-year period.

Borrowers access Start Up and Step Up programs by working with a participating lender. Typically, the lender determines the borrower's eligibility and submits the paperwork to Minnesota Housing. Minnesota Housing staff approve the down payment assistance based on the information provided by the lender.

In federal Fiscal Year 2022, Minnesota Housing provided \$70 million in down payment loans to approximately 5,500 households.

EVALUATION ISSUES

1. What are the goals of Minnesota Housing's down payment assistance programs, and to what extent has the agency met them?
2. How does Minnesota Housing establish requirements for down payment assistance programs, and to what extent has it ensured lenders' compliance?
3. How do Minnesota down payment assistance programs compare to those in other states?

DISCUSSION

The 2023 Minnesota Legislature directed significant additional state funding to down payment assistance. Given this large increase, it is important to assess how well Minnesota Housing has administered its existing programs.

To conduct this evaluation, we will analyze Minnesota Housing's policies and procedures, examine program data, survey loan officers at participating lenders, interview program staff and stakeholders, and research similar programs in other states.

Minnesota Housing's programs are tied to several different federal programs that provide or insure mortgage loans. Participants must buy a home through one of those programs to be eligible for Start Up or Step Up. We will not evaluate these federal mortgage programs.

This evaluation is scheduled to be completed in early 2024. For additional information, contact David Kirchner, evaluation manager, at 651-296-3322 or david.kirchner@state.mn.us.