



Minnesota Housing Finance Agency: Down Payment Assistance

The Minnesota Housing Finance Agency (Minnesota Housing) has generally performed well in implementing its down payment assistance programs, but some improvements can be made.

Report Summary

Implementation

Home buyers access Minnesota Housing down payment assistance by working with private lending institutions that participate in the agency's programs. The agency sets rules and guidelines that lenders must follow.

- Statutes give Minnesota Housing broad discretion to set policy and priorities regarding down payment assistance. The agency could change or even eliminate its programs at any time. (pp. 17-18)

Recommendation ► The Legislature should consider establishing priorities in statute for Minnesota Housing's down payment assistance programs. (p. 18)

- Minnesota Housing has generally succeeded at achieving its own goals for its down payment assistance programs, although those goals are not well-documented. (pp. 19-20)
- We surveyed loan officers who work for participating lenders. Most respondents indicated that Minnesota Housing's mortgage lending programs have worked well, and the agency has effectively administered them. (pp. 27-28)
- Available evidence suggests Minnesota Housing's down payment assistance programs reach a relatively small percentage of Minnesotans with low and moderate incomes who borrow money to purchase homes. (pp. 25-26)
- Minnesota Housing rigorously audits a sample of completed loans for program compliance. However, its auditors do not have clear standards for assessing whether lenders charge borrowers inappropriate fees. (p. 32)

Recommendation ► Minnesota Housing should establish policies to better protect home buyers participating in its programs from unreasonable fees and closing costs. (p. 33)

Background

In recent years, Minnesota Housing has offered two types of down payment assistance for home buyers: Deferred Payment Loans (DPLs) and Monthly Payment Loans (MPLs). In both programs, home buyers borrow funds—in addition to their “first mortgage” home loans—to defray down payment and closing costs.

DPLs are zero-interest loans where all payments are deferred until after borrowers have repaid their first mortgage home loan. They are available only to first-time home buyers with lower incomes.

MPLs are loans that carry the same interest rate as the first mortgage home loan. Borrowers repay them monthly over a ten-year period. They are available to a wider range of home buyers, and can also be used for refinancing.

To access either program, home buyers must meet various eligibility criteria, work with a lender who participates in Minnesota Housing's mortgage lending programs, and get their first mortgage home loan through a Minnesota Housing program.

- Minnesota Housing’s contract with its loan servicer, a bank that administers the loans after they have been made, contains minimal accountability mechanisms. Minnesota Housing’s audits have frequently identified problems that the servicer should have found and addressed. (p. 34)

Recommendation ► In its loan servicing contract, Minnesota Housing should include penalties for inadequate performance. (p. 34)

Financing

Minnesota Housing has primarily used its own resources to fund down payment assistance. Legislative appropriations have paid for only a small fraction of the total cost of the programs.

- Minnesota Housing needs the income it earns from its first mortgage programs to fund future programs and overall agency operations. The agency ties down payment assistance to its first mortgage programs to ensure they continue to generate revenue. (pp. 38-39)
- The agency’s methods for funding its first mortgage programs affect which home buyers can receive down payment assistance. (p. 37)
- Due to its funding methods, Minnesota Housing has allowed a private bank to impose additional requirements on home buyers receiving down payment assistance. (p. 42)
- Also due to the agency’s funding methods, some home buyers are required to meet federal criteria that do not apply to their mortgage loans. (pp. 44-45)

Recommendation ► Minnesota Housing should explore changes in how it finances a small portion of its lending activities to obtain greater flexibility to assist home buyers it does not currently reach. (pp. 45-46)

Other States

Minnesota Housing has provided more down payment assistance and served more households than housing finance agencies in most other states, relative to the size of each state’s housing market.

- Almost all state housing finance agencies offer down payment assistance but specific programs vary from state to state. (pp. 47-48)
- Unlike Minnesota, a majority of state housing finance agencies offer down payment assistance in the form of a grant or forgivable loan that does not have to be repaid. (pp. 49-50)

Summary of Agency Response

In a letter dated March 25, 2024, Commissioner Ho wrote that Minnesota Housing appreciated OLA’s detailed evaluation. She said the agency would “consider further as part of our ongoing continuous improvement” the report’s recommendations related to lender fees and the agency’s contract with its loan servicer. She provided further comments in response to three other recommendations, noting specifically that “Minnesota Housing will assess the potential for piloting small-scale alternative funding models while maintaining the Agency’s credit ratings and financial stability.” She concluded, “We are pleased that you share our view as to the effective management of the Agency’s down payment assistance programs.”