



GroundBreak
Coalition

HOMEOWNERSHIP

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WORKING GROUP CO-CHAIRS: Dondi Edwards, Wells Fargo; Commissioner Chris LaTondresse, Hennepin County

WORKING GROUP MEMBERS: See appendix

What are the
problems
that these
prototypes
are trying to
solve?

The Homeownership Working Group recognizes that existing efforts towards addressing the racial homeownership gap have shown us that a path forward is possible; yet they have been unable to demonstrate scalability and the closing of existing gaps. The Working Group found these persistent barriers have yet to be overcome in any meaningful way:

- » Lack of affordability due to income disparities, home prices and interest rates
- » Rate of mortgage denials due to credit score, debt-to-income ratio and insufficient cash
- » Disproportionate cost burden to Black borrowers due to risk-based pricing, mortgage insurance and closing costs
- » Mistrust and confusion due to differing underwriting standards and practices
- » Failed solutions that have furthered the disinvestment of Black homebuyers and communities
- » Limited access to capital to preserve homeownership

BACKGROUND & METHODS

The following written reports served as the foundation for the work and the initial defining of the problem:

- » **Report of The Governor’s Task Force on Housing**, *August 2018*;
- » **Barriers to Accessing Homeownership Down Payment, Credit, and Affordability**, *September 2018, Urban Institute*
- » **Itasca Housing Affordability Task Force Report**, *September 2020*
- » **Met Council, Affordable Homeownership Report**, *May 2019*

With that foundation, a broad array of data was collected through five months of intensive Working Group meetings (June-October) and associated research and support by subject matter experts. The Working Group was comprised of 30+ participants, recommended by Steering Committee members, reflecting financial institutions, government, philanthropy, corporations, nonprofits and community members long working in this field. Data included, but was not limited to, a comprehensive assessment of the current conditions, barriers to achieving desired outcomes, existing solutions, and interviews with current actors across sectors. Useful summaries of data raised and considered especially as to obstacles to be overcome through solutions can be found in the [Working Groups meeting summaries](#).

At Working Group “design sessions” in October, members engaged in a user-centered process to rapidly develop proposed prototypes that addressed the Working Group problem statement. Following that session, subject matter experts synthesized Working Group members’ ideas into a comprehensive suite of proposed prototypes.

In November, detailed feedback on the proposed prototypes was provided by Working Group members from all participating sectors (Stephen Spears, Bremer Bank; David McGee, Build Wealth Minnesota; Trent Bowman, MidWest One Bank; Robyn Bipes-Timm, Twin Cities Habitat for Humanity; Roxanne Kimball, City of Minneapolis) as well as Working Group co-chairs. This version of the prototypes reflects their comments and feedback.

Finally, all Working Group members provided a final round of feedback in December 2022, and subject matter experts incorporated that feedback into final recommendations.

CAPITAL PROTOTYPES: HOMEOWNERSHIP

Context

The proposed capital prototypes build on a rich history of work in the homeownership field and seek to address the above identified persistent barriers to Black homeownership. They are an integrated set of solutions and founded on the following key elements:

- » 7-county, race-based approach to programming and products to create no wrong door and address lack of trust in marketplace;
- » Singular, universal product without originator-imposed overlays;
- » Special purpose credit program for first mortgages targeted to Black households earning $\geq 50\%$ of AMI;
- » Homebuyer financial assistance loan that addresses both affordability and wealth building;
- » Upfront commitment by secondary market or institutional seasoning of portfolio; and
- » Regional Homeownership Preservation Fund to sustain long term assets.

First Mortgage Product (Special Purpose Credit Program)

- » Homebuyers must meet credit requirements, and debt ratios to access the first mortgage
- » Flexible underwriting will assess their rental history, alternative income, job tenure and student loans
- » Fannie/Freddie conventional loan limits
- » Income: no maximum. No minimum, eligibility based on affordability
- » Debt to income ratio: less than 40%
- » Interest rate: addresses affordability and scarcity of grant resources for Homebuyer Financial Assistance
- » No Private Mortgage Insurance (PMI)
- » Property must be owner-occupied homestead
- » Upfront commitment by secondary market or institutional seasoning of portfolio

Homebuyer Financial Assistance Forgivable Loan

- » Should support affordability, wealth building and community impact
- » Up to 100% of area median income
- » 20% of purchase price not to exceed \$50K
- » Half forgivable over 5 years; half repayable at low-cost rate; patient term.
- » Allow layering with other programs
- » Allow resubordination for refinancing when in the best financial interest of the borrower
- » Must be part of special purpose credit program first mortgage
- » Use for shared equity and manufactured homes to the extent possible.

Regional Homeownership Preservation Forgivable Loan

- » Post-closing resource for all special purpose credit program/homebuyer financial assistance users to maintain and preserve their asset
- » \$10,000 maximum forgivable loan