



Best Practices for Down Payment Assistance Administrators

Minnesota Homeownership Center convened a working advisory group of city and county officials, lenders, Realtors® and nonprofits to create a slate of down payment assistance program administration best practices.

The goal is to **increase consumer access and improve outcomes** by facilitating standardization and transparency. Streamlining the down payment assistance delivery system will ensure that funding is accessible, increase investment, improve targeting and enable a more successful purchase transactions. Further we seek to advance homeownership for Black, Indigenous and communities of color, helping to reduce the state’s racial homeownership gap – one of the worst in the nation.

Standards

The table includes a column for Standards and when applicable Advancing Racial Equity.

Standards are the “must haves” or “requirements” for the program to be recognized as a meeting Best Practices. While Advancing Racial Equity is optional, it is strongly encouraged for Administrators committed to reducing the racial homeownership gap.

BEST PRACTICES FOR DPA ADMINISTRATORS		
TERM	STANDARDS	ADVANCING RACIAL EQUITY
Eligible Homebuyers	<ul style="list-style-type: none"> ❑ First-time homebuyer. ❑ Maximum borrower income ≤ 100% of the Area Median Income. ❑ Occupy the home as their primary residence. ❑ ITINs (Individual Taxpayer Identification Numbers) are accepted regardless of immigration status. 	<ul style="list-style-type: none"> ❑ Limit eligibility with Targeted Programs: <ul style="list-style-type: none"> ▪ First-Generation homebuyers¹. Allowing self-attestation. ▪ Offer a Special Purpose Credit Program which allows eligibility to be limited to an economically disadvantaged class of persons.
Amount of Assistance	<ul style="list-style-type: none"> ❑ Amount is at least 3% of the county median home price. NOTE: The frequency of adjustments correlates to market fluctuation. 	<ul style="list-style-type: none"> ❑ Targeted programs offer a higher amount of assistance to increase access and affordability.

	<ul style="list-style-type: none"> □ Funds can be used for down payment and closing costs, including prepaids and principal reduction. 	
Repayment	<ul style="list-style-type: none"> □ The following options are allowable: <ul style="list-style-type: none"> ▪ Non-amortizing second lien repayable at sale, refi, or maturity of first position mortgage. ▪ Forgiven on a pro rata basis or in full, after continuous owner-occupancy that is less than or equal to the term of the first mortgage. ▪ Amortizing second lien with an interest rate equal to or less than the first mortgage rate, and a repayable term equal to or less than the term of the first mortgage. □ For all options, if the combined Unpaid Principal Balance (UPB) is below the sales price or appraised value at repayment or in the event of a financial or personal hardship, the balance is forgiven. 	<ul style="list-style-type: none"> □ Targeted Programs extend forgivable repayment terms for all or a portion of the assistance to support wealth creation.
Administrative Fees Paid by Homebuyer	<ul style="list-style-type: none"> □ Borrower fees are not included unless there are unpaid administration costs. □ To support the cost of administration a flat fee, not to exceed 3%, can be charged to the borrower and if allowable, paid from DPA proceeds. 	
Re-Subordination	<ul style="list-style-type: none"> □ Is allowable if in the best interest of the borrower and results in a lower interest rate and/or payment or prompted by a life event, such as death or divorce of one of the borrowers. Cash out is restricted to home improvement or repairs. 	
Homeownership Education and Counseling	<ul style="list-style-type: none"> □ HUD approved Homeownership Education is required and completed before the borrower executes a purchase agreement. □ Borrower purchasing a 2 to 4-unit property must also complete landlord education. 	
Homebuyer Contribution	<ul style="list-style-type: none"> □ Borrowers are not required to contribute more funds than required by the first mortgage. 	
Eligible Properties	<ul style="list-style-type: none"> □ 1-4 unit detached and townhomes, condominiums, co-ops, and manufactured homes titled as real property. □ Shared equity, community land trusts, and other resale restrictions. 	

First Mortgage	<ul style="list-style-type: none"> ❑ Fixed rate, fully amortizing, first mortgage loan that meets CFPB “Qualified Mortgage” definition or is originated in compliance with the nonprofit exemption to the Ability to Pay rule, including: <ul style="list-style-type: none"> ▪ GSE fixed rate products including high balance loans and government loans from FHA including 203k; USDA, VA, and HUD 184. ▪ HFA fixed rate products and fixed rate portfolio products offered by CRA depositories or credit unions. ▪ Sharia compliant products that meet above standards. ❑ Contract for Deed is only allowable if administered by an established nonprofit housing organization, providing ongoing support and housing counseling.
Layering	<ul style="list-style-type: none"> ❑ Funds can be stacked and layered with other down payment assistance programs. ❑ Allow for any lien position and is subordinated to the first mortgage.
Fund Reservation	<ul style="list-style-type: none"> ❑ Fund reservation is available to borrowers who are preapproved for a first mortgage and have completed homebuyer education. Fund reservation is not contingent on the borrower executing a purchase agreement. ❑ Funds can be reserved for a minimum of 60 days and allows at least one extension equal to original the reservation period. Once a purchase agreement has been executed a minimum of 60 days is allowed for closing. ❑ New construction allows a reservation period of at least 180 days.
Underwriting & Closing	<ul style="list-style-type: none"> ❑ Same as first mortgage.

ⁱ First-Generation Homebuyer: never owned a home or owned a home but lost it due to foreclosure AND whose parent or prior legal guardian either never owned a home or owned a home but lost it due to foreclosure.