



Best Practices for Down Payment Assistance - Product Terms

The Minnesota Homeownership Center convened an advisory group of city and county officials, lenders, Realtors®, and nonprofit organizations to develop best practices for down payment assistance (DPA) product terms.

The goal is to ensure that DPA programs are designed to maximize consumer benefit by promoting consistency and accessibility. By aligning key product terms, these best practices help create stronger, more effective programs that provide homebuyers with meaningful financial support, improve affordability, and lead to more successful home purchases.

Additionally, these efforts aim to expand homeownership opportunities for Black, Indigenous, and communities of color, addressing Minnesota's racial homeownership gap—one of the largest in the nation.

Standards

The table includes columns for Standards and, where applicable, Advancing Racial Equity.

- **Standards** focus on ensuring that DPA programs offer effective terms that support homebuyers in achieving sustainable homeownership.
- **Advancing Racial Equity** highlights additional strategies that program administrators can implement to address racial disparities in homeownership.

BEST PRACTICES FOR DPA - PRODUCT TERMS		
TERM	STANDARD	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.	<ul style="list-style-type: none">❑ Utilize a targeted approach:<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.▪ Allow maximum borrower income ≤ 115% of the Area Median Income.

Amount of Assistance	<ul style="list-style-type: none"> ❑ Amount is \geq 3-5% of the county median home price. NOTE: The frequency of adjustments correlates to market fluctuation. ❑ Funds can be used for down payment and closing costs, including prepaids, permanent interest rate buydown, and principal reduction. 	<ul style="list-style-type: none"> ❑ Targeted programs offer 10% - 20% of county median home price in assistance to improve affordability and access.
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.
Qualifying Income	<ul style="list-style-type: none"> ❑ Lender-qualified income is used when the funding source allows. Lenders are required to disclose any excluded income and the reason. 	
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"> ❑ Borrower must complete an approved homebuyer education course before signing a purchase agreement. <ul style="list-style-type: none"> ▪ Recommended format is instructor-led education, offered in person or virtually. Approved courses are Home Stretch and Realizing the American Dream. ▪ If self-guided courses are allowed, Framework Homeownership or Freddie Mac CreditSmart are the approved options and there is the additional requirement of one-on-one homebuyer counseling. ❑ Borrower purchasing a 2 to 4-unit property must also complete landlord education.
Homebuyer Contribution	<ul style="list-style-type: none"> ❑ Borrower is 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. ❑ Establish maximum purchase price limits using a standard index such as: FHA Mortgage Limits, MN Housing Start Up, HOME Homeownership Value Limits
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. ▪ ITINs (Individual Taxpayer Identification Numbers) products that meet the above standards. ❑ Contract for Deed is only allowable if administered by an established nonprofit housing organization, providing ongoing support and housing counseling.
Qualifying Ratio	<ul style="list-style-type: none"> ❑ Minimum housing ratio is not less than 25% as calculated by the first mortgage lender. ❑ Maximum debt-to-income ratio is not greater than 50% as calculated by the first mortgage lender.

Asset Limits	<input type="checkbox"/> Borrower liquid assets do not exceed \$50,000 after closing and exclude: retirement accounts, life insurance, and college savings accounts.
Gift Contributions	<input type="checkbox"/> Total gift funds do not exceed 10% of the purchase price.
Layering	<input type="checkbox"/> Funds can be stacked and layered with other down payment assistance programs. <input type="checkbox"/> Allow for any lien position and is subordinated to the first mortgage.
Fund Reservation	<input type="checkbox"/> 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. <input type="checkbox"/> 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. <input type="checkbox"/> New construction allows a reservation period of at least 180 days.
Underwriting & Closing	<input type="checkbox"/> 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.