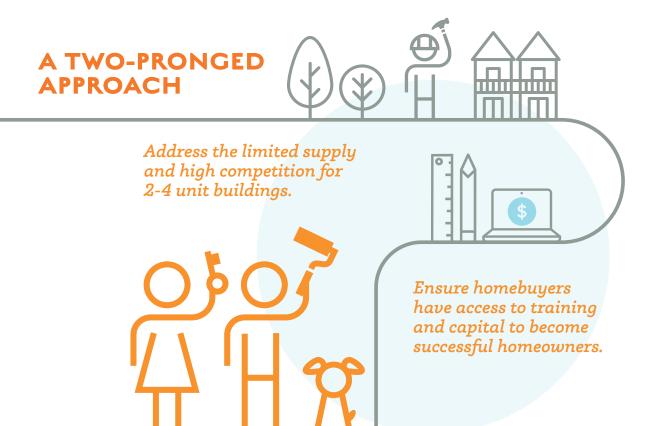




## INTRODUCTION

2021 marked the first full year of the Building Equity in Small Multifamily Ownership initiative, a set of strategies helping Black, Indigenous, and People of Color (BIPOC) households build wealth as owner-occupants of small multifamily (2-4 unit) buildings. The Building Equity initiative is led by a collaborative of partner organizations: the Family Housing Fund, Hope Community, Inc., Build Wealth Minnesota, Inc., Model Cities, the Land Bank-Twin Cities, the Minnesota Home Ownership Center, and the Greater Minnesota Housing Fund. Together, we aspire to reduce racial disparities in homeownership and wealth by building a system that supports access to small multifamily ownership. The first year of the Building Equity initiative focused on program development and implementation. We are pleased to share our early successes in this report.





After living in Minneapolis and Saint Paul for thirty years, Pamela now owns her first home, a duplex in Minneapolis' Windom neighborhood. "When I walk into the house every day, I know it's mine, and it's still unbelievable," she says.

More than four years ago, Pamela noticed her adult daughter working on an assignment from Build Wealth Minnesota's financial coaching/ homeownership preparation course. "It looked hard!" she says, but it captured her interest. Her daughter encouraged her to join Build Wealth's program and learn about what it would take to become a homeowner. At first, Pamela was hesitant to pursue homeownership, concerned that she did not have the resources for home maintenance and repairs. But rent for her apartment was rising, and Pamela knew that she didn't want to spend more on housing without earning the benefits of equity or ownership. She enrolled in Build Wealth's financial coaching program and began saving for a home.

Build Wealth's program helped Pamela think about her savings and her future. "I was looking at retirement down the line and realizing I don't have enough savings to support retirement. As I went through the program, I began to think more outside the box of what it means to be a homeowner." She started thinking about purchasing a duplex so that extra income from the second unit could support her retirement. But she was initially discouraged by the higher purchase price: "It's almost like buying two houses in one," she said. "That's where Build Wealth and the counselors came in."

After completing a homeownership education course through Build Wealth, Pamela spent two years building her credit score up and saving for a down payment with help from Build Wealth financial coaches. "It was stressful for me—it took a lot of discipline, determination, budgeting. I made mistakes and had to learn from my mistakes," she says, as one spontaneous decision could set back her progress in her credit score by months.

Last summer, in a regular meeting with Build Wealth, Pamela was told that she qualified for a mortgage and should begin shopping for a duplex. She was surprised; she had thought that she needed to save more for a down payment, worried that assistance opportunities did not offer enough support for purchasing a duplex. With limited time to find a home after her loan approval, she began searching for a duplex along transit routes with help from a realtor who was a friend of a friend.

After nearly three months of searching, Pamela walked into a side-by-side duplex in south Minneapolis and knew it was the one for her. "It was a diamond in the rough," she says. She had found a duplex that felt like home. "When I walked into this one, it just fit me. I just loved everything about it." It was well-maintained, insulated from air traffic noise, and had the potential for adding a second bedroom and bathroom to her unit in the future. Build Wealth informed her that she qualified for a Building Equity down payment assistance (DPA) loan. The next business day, she made an offer on the home.

"It was a blessing on all counts," Pamela says. When the seller reviewed her offer and found out how much work she had done with Build Wealth to be able to purchase the home, he decided not to take any more bids and sell to her. "When my realtor told me that, I cried." Her hard work had paid off, and she was becoming an owner-occupant of a duplex.

Pamela was able to finance her home with an FHA mortgage from a bank, a loan from Build Wealth, and the Building Equity DPA loan. Because the DPA loan is designed to be compatible with other sources of financing, Pamela was able to purchase the duplex she fell in love with. She was thrilled to learn that the Building Equity DPA loan can be forgiven after five years of sustained ownership. "I was over the moon!" she says. "Now I can work on my student loans."

The lease expired and renters moved out of one of the units at the time of Pamela's first bid. When she closed on the home, she moved into the vacant unit and the long-term renters on the other side became her neighbors. Now, Pamela aspires to make improvements to the home over time so that it continues working for her and her neighboring tenants. "I just want to live there, grow old, and be happy. It's my retirement place," she says. Currently, she plans to keep the property in her family by passing it on to her daughters, building generational wealth.

When she talks about her homebuying process, Pamela emphasizes how grateful she is for the duplex-specific support she received from Build Wealth and the Building Equity DPA program.



"If I went the conventional route, would I be a homeowner now? Probably not."

#### **PROGRAMS IMPLEMENTED**

#### UNDER THE INITIATIVE

Late in 2020, the Building Equity initiative received a three-year, \$4 million grant from the national JPMorgan Chase AdvancingCities Challenge to pilot capital interventions in Minneapolis, with a particular focus on the seven City-designated cultural districts. In 2021, the Bush Foundation generously matched this grant with another \$4 million investment to expand the initiative's resources to serve Saint Paul and the broader Twin Cities region. These two grants allowed the initiative to develop several new resources for prospective homebuyers of 2-4 unit buildings.

## CONSTRUCTION LOAN POOL FOR BIPOC DEVELOPERS

To increase the availability and quality of small multifamily buildings for owner-occupants, the Building Equity collaborative established a construction loan pool for the acquisition, development, or rehab of 2-4 unit homes.

**The Land Bank-Twin Cities** operates the loan pool, prioritizing loans to emerging BIPOC developers to help them grow their businesses and further expand wealth building opportunities. While no construction loans were deployed in 2021, the Land Bank cultivated a pipeline of potential deals with BIPOC developers and is preparing to deploy construction capital in 2022.

Rising construction costs and extreme market volatility have presented significant challenges to new development. As a result, the Building Equity collaborative has focused on strategies to acquire and rehab existing homes, particularly bulk investor-owned portfolios. We have also developed a resource to help reduce construction costs for emerging developers; after hearing from local developers that architectural fees contributed to the high costs of small multifamily development, Family Housing Fund worked with architects from MSR

Design to develop free-to-access construction plans for three energy-efficient duplexes that would fit on a typical Minneapolis or Saint Paul lot. We are encouraging local, BIPOC developers to utilize these construction plans for their own projects, and we continue exploring additional opportunities to facilitate small multifamily development.

#### **OWNER-OCCUPANT LANDLORD TRAINING**

To ensure that prospective homebuyers are prepared for the unique experiences and challenges of being both a homeowner and a landlord of a small multifamily building, the Building Equity collaborative developed and delivered multiple options for owner-occupant training in the first year of the initiative.

Hope Community conducted three owner-occupant training cohorts for current tenants interested in someday purchasing a duplex, with a special focus on current residents in the Phillips community along Franklin Avenue in Minneapolis. The six-week-long cohorts covered a number of topics, ranging from credit building to affordability options, such as the Community Land Trust model, and business planning from the perspective of a rental owner, including maintenance upkeep and regulations for managing

rental units. 25 renters participated, and 22 completed the training. While many of these participants will require more time building up their credit or savings before entering homeownership, several graduates of the course are prepared and currently shopping for homes.

**Model Cities** partnered with Hope to recruit potential homebuyers from Saint Paul to join the most recent cohorts and provided additional homeownership advising and education services to cohort participants. Throughout 2021, Model Cities worked to build their staff capacity for promoting 2-4 unit ownership and supporting a pipeline of potential buyers in Saint Paul.

To complement these efforts, the Minnesota Home Ownership Center (HOC) developed an online training module for prospective homebuyers interested in becoming owner-occupants of small multifamily buildings. This online module is intended to be paired with pre-existing homeownership education courses, and HOC is working with its network of homeownership advisors to refer clients to the training. From November 2021 to March 2022, 21 potential homebuyers completed the module, as well as 12 homeownership advisors who will refer their clients to the course in the future. Ultimately, with multiple training options that meet the needs of different homebuyers, the Building Equity initiative aims to build the capacity of the homeownership advising system to better support prospective buyers of 2-4 unit homes.

## DOWN PAYMENT ASSISTANCE LOAN PROGRAM

In 2021, Family Housing Fund led the development of a new down payment assistance (DPA) loan program with capital from the JPMorgan Chase and Bush Foundation grants.

Family Housing Fund worked with partners and stakeholders to develop program requirements and guidelines, and we partnered with **Build Wealth**Minnesota to engage interested homebuyers and deploy the DPA loans. The **Greater Minnesota**Housing Fund provided technical assistance for the design of the program and the creation of loan

documents. The collaborative established eligibility and priority factors for the program's pilot phase with the intention of evaluating and making adjustments to the program after the first 5-10 homebuyers receive assistance.

In the pilot phase, borrowers must have low or moderate incomes (at or below 115% of the Area Median Income) to be eligible for DPA loans. Priority is given to borrowers earning 60-80% of the AMI and first-generation and/or first-time homebuyers. Borrowers must have completed Hope Community's owner-occupant training cohort or a combination of HUD-approved homebuyer education and HOC's online owner-occupant training. Borrowers must purchase properties with 2-4 units, and the property must become the borrower's primary residence. Down payment assistance loans have a 0% interest rate, can be forgiven by 20% per year over five years, and can be layered with other types of assistance. The average amount is intended to be \$20,000 per borrower, with a maximum award of \$40,000 based on need and priority factors.

By March 2022, six households had purchased small multifamily homes through the DPA program. Four of these households purchased homes in Minneapolis, and two purchased in Saint Paul. All six purchased duplexes and were purchasing a home for the first time. Five of the six are first-generation homeowners. Five identified as Black or African American. The sixth new homeowner identified as white and purchased the duplex where they were a long-term renter. Four households earned incomes at or below 60% of the Area Median Income (AMI) (which is equivalent to \$62,940 for a household of four), and two earned incomes at or below 80% of the AMI (which is equivalent to \$79,900 for a household of four).

# INNOVATIVE MORTGAGE PRODUCT: 9000 EQUITIES

In order to advance mortgage innovations that better meet the specific needs of BIPOC buyers and buyers of 2-4 unit homes, the Building Equity collaborative provided capital as early-stage equity to launch a new mortgage fund (named 9000 Equities), developed by Build Wealth Minnesota.

The goal of this fund is to provide a new mortgage option that is unique in the Twin Cities market, using customized underwriting process to address barriers to credit that disproportionately lock BIPOC homebuyers out of the mortgage market. The borrower profiles that this mortgage product aims to serve include but are not limited to:

- Borrowers with income from self-employment or multiple jobs
- Borrowers with credit scores that show a consistent upward trend after financial counseling, but which have not quite yet risen to the standard industry threshold
- Buyers of small multifamily properties that do not have documented rental history (no formal lease, no receipts) or properties with no rental history.

Capital funds from the Building Equity initiative serve as a catalytic early investment in the launch of this mortgage pool. Build Wealth continues to raise equity and plans to begin originating mortgages through this program in 2022.

# POST-PURCHASE SUPPORT: MATCHED SAVINGS PAYMENTS

To ensure that new homeowners are equipped to sustain long-term success, the Building Equity initiative developed a post-purchase matched savings pilot program in partnership with Prepare + Prosper.

In this pilot program, recipients of Building Equity DPA loans are eligible to enroll in the matched savings program and open a savings account through Prepare + Prosper's FAIR banking initiative. When homeowners make monthly payments of \$50-\$100, Prepare + Prosper will authorize transfers of one-to-one match payments to their savings account. The program is designed to last three years. Homeowners who make monthly payments of \$100 over three years will have saved a total of \$7,200, which includes \$3,600 of their own funds and \$3,600 from the match pool. New homeowners in the Building Equity initiative will begin joining the program in 2022.

The matched savings pilot is designed to help homeowners replenish their savings after making a home purchase, ensuring they have access to resources if financial emergencies or home repair needs arise. The ultimate goal of the pilot is to demonstrate the effect of regular savings behavior on home mortgage performance and contribute to a growing body of evidence that supports the practice of integrating savings payments into mortgage products. We intend to use evidence and learnings from this pilot program to inform the development of a mortgage product with a built-in savings escrow in the private market, which could broadly increase access to capital and create a shift in the private mortgage lending market. Further exploration and the development of this mortgage concept are priorities for the initiative in 2022.

## POST PURCHASE SUPPORT: REPAIR AND REPLACEMENT LOANS

To further ensure that new homeowners are successful in sustaining ownership and building wealth over time, the Building Equity initiative developed a revolving post-purchase fund that will provide 0% interest loans of up to \$10,000 to address urgent property repair or replacement costs for new small multifamily homeowners, with priority for those who are already participating in the initiative.

In 2021, we developed the program parameters and partnered with the Center for Energy and the Environment to operate this repair loan program. The loans will support new homeowners in preserving the livability and rentability of the property and can be used for repairs or improvements such as new appliances, a new roof or remedies to potential code violations. This program is intended to meet immediate repair needs for owner-occupant landlords as an alternative to high-cost financing, such as credit cards. The program will begin offering loans in 2022.

# PROGRAM PARTICIPANTS

### IN YEAR I







purchased homes in Minneapolis

purchased homes in Saint Paul





homeowners

were first-generation homeowners





earned moderate incomes at or less than 80% AMI













prospective homebuyers received training



#### **LOOKING AHEAD**

Over the first year of the Building Equity in Small Multifamily Ownership initiative, we have made significant progress toward our goal of expanding access to wealth building opportunities in the Twin Cities region. With several new resources now available, we have built up infrastructure for a system that supports access to small multifamily ownership. With this critical groundwork laid, and with funding secured to operate capital programs at least through the end of 2023, the Building Equity initiative is positioned to achieve greater impact in the coming years and drive systemic changes that reduce racial wealth disparities over time.

#### **THANK YOU**

We would like to thank our core partners in the Building Equity initiative, who are instrumental in developing and implementing this strategy: Hope Community Inc., Build Wealth Minnesota, Inc., Model Cities, the Land Bank-Twin Cities, the Minnesota Home Ownership Center, and the Greater Minnesota Housing Fund.

We also want to thank Prepare + Prosper, Center for Energy and the Environment, MSR Design and the many private, nonprofit, and public sector stakeholders who have informed and participated in the project.

Finally, this work would not be possible without the generous, early support from JPMorgan Chase, the Bush Foundation, the F.R. Bigelow Foundation, the Minneapolis Foundation, and the Saint Paul and Minnesota Foundation. Thank you for your partnership.



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