Evaluating Affordable Housing Efforts

Homeownership Capacity Evaluation

2018

MINNESOTA HOUSING

Enhanced Financial Capacity Homeownership Initiative
(AKA Homeownership Capacity)

Evaluation

Executive Summary

Minnesota Housing launched the Enhanced Financial Capacity Homeownership Initiative (Homeownership Capacity) program in August 2014 as a pilot with a $650,000 annual commitment to prepare low-income households for sustainable homeownership by funding intensive financial education and coaching. The Agency increased the commitment to $750,000 in 2016 with funding remaining at that level since 2016. Given Minnesota's large disparities in homeownership rates between white/non-Hispanic households and households of color in the nation, the program focuses on reaching households of color.

We evaluated the program on four objectives:

- Reaching and engaging low-income renters and households of color who face barriers to homeownership
- Increasing the credit scores and savings of program clients
- Increasing clients' knowledge and positive financial behavior
- Achieving sustainable homeownership

Key Findings:

- **The program is successfully reaching and engaging low-income renters and households of color with barriers to homeownership.**
    - As of December 31, 2017, 2,193 clients had entered the program, with 87% of them identifying as a household of color.
    - The most reported barrier to homeownership is a low credit score, followed by inadequate savings.
    - Nearly three-fourths of clients entering the program had a credit score below 640, which is the typical cut-off for most mortgage products.
    - Clients remained engaged in the program even though it does not offer direct financial incentives, such as down payment assistance, gift cards, etc. The client engagement rate is similar to programs with incentives, demonstrating the strength of the relationship between the grantees and their clients.

- **More than 80% of clients experienced an increase in their credit score**
    - The median credit score of clients with a reported outcome increased from 611 at program entry to 658 at the time of program completion.

- **Program participants increased savings or paid off debt**
    - Of people who completed the program, 73% increased their savings.
    - Many of those who did not see an increase in savings chose to use funds to pay off debt collections and/or purchase their first home.
    - On average, clients experienced a $3,600 improvement in their financial picture (increased savings and/or reduced debt collections), while those that purchased a home had a $5,000 improvement.

- **Clients who completed the program increased their knowledge and are taking positive financial actions.**
    - More than 79% of clients reported an increase or significant increase in their understanding of the banking system, the importance of a spending plan, and how credit and savings affect their ability to obtain a loan.
    - At least, 76% of clients reported an increase or significant increase in the frequency that they track their spending, make good financial decisions, and take steps towards improving their credit and saving money.
    - Seventy-nine percent reported an increase in their ability to handle financial obstacles.

- **Increased homeownership:**
    - Nearly 60% of those with a reported outcome bought a home within a year of completing the program, and another 19% were still pursuing homeownership after one year.
    - The remaining 22% decided not to pursue homeownership at this time.

- Due to a limited sample size, we have limited data on the mortgage delinquency rates of those clients who bought a home with a Minnesota Housing mortgage. Staff will continue to monitor loan performance over time to gauge homeownership sustainability.

Overall, the Homeownership Capacity program is successfully serving the priority clients and improving their housing situation, typically allowing them to buy a home. This mission-rich program aligns with the Agency strategic priority of reducing Minnesota's racial and ethnicity disparity. The organizations receiving funds under this program have a demonstrated history of providing financial empowerment education and coaching services and reaching low-income renters and households of color. Minnesota Housing is committed to closing the homeownership gap and building upon the lessons learned in this pilot program. Therefore, staff recommends the removal of the pilot statusto build upon the success demonstrated in this evaluation and that we pursue additional resources to grow the capacity to offer these services to more clients throughout the state.

Introduction and Background Information

Minnesota Housing launched the Homeownership Capacity program in August 2014 as a pilot with a $650,000 annual commitment to prepare low-income households for sustainable homeownership by funding intensive financial empowerment education and coaching. The Agency increased the commitment to $750,000 in 2016 with funding remaining at that level since 2016.

Households of color are an increasing share of the state's population. The foreclosure crisis disproportionately impacted them, their homeownership rate declined from 46.5% in 2008 to 41.0% in 2016, and they have struggled to access the mortgage market. Minnesota's homeownership disparity (the homeownership rate differential between white/non-Hispanic households and households of color) is the fifth largest in the nation.

The goal of the Homeownership Capacity program is to serve low-income renters and households of color and increase their access to successful homeownership in Minnesota. This work supplements traditional homebuyer training provided by the Homeownership Advisors Network and coordinated by the Minnesota Homeownership Center.

Grantees

In 2014, the program funded seven non-profit organizations to provide Homeownership Capacity services and has since grown to 16 non-profit organizations. These organizations have a demonstrated history of providing financial empowerment education and coaching services and reaching low-income renters and households of color. The following organizations were funded for at least one program year, and their client data is included in the evaluation. These organizations will be referred throughout the remainder of the report as grantees.

- African Development Center
- Bii Gii Wiin
- Build Wealth*
- Community Action Duluth
- Community Action Partnership of Hennepin County
- Comunidades Latinas Unidas En Servicio (CLUES)
- Hmong American Partnership
- Lutheran Social Service of Minnesota (LSS Financial Counseling)
- Mankato Economic Development Authority
- Minneapolis Urban League
- Neighborhood Development Alliance (NeDA)
- NeighborWorks Home Partners (NWHP)
- PRG, Inc.
- Project for Pride in Living, Inc. (PPL)
- Southwest Minnesota Housing Partnership (SWMHP)
- Three Rivers Community Action, Inc.

* Build Wealth received Homeownership Capacity funds through Minnesota Housing's competitive process for program years 2014/2015 and 2015/2016. Beginning in the 2016/2017 program year, Build Wealth started receiving a direct appropriation, which it received again in the 2017/2018 year. The data in this evaluation includes Build

Wealth's information for all four program years, including when it received competitive Homeownership Capacity funds (August 1, 2014 – September 30, 2016) and direct appropriations (October 1, 2016 – December 31, 2017).

Program Design

Recognizing that each population served may prefer to receive services using one method over another, grantees are allowed to design their own program. This includes providing education in a classroom setting or one-on-one. Grantees must provide the coaching (which focuses on client behavioral change) one-on-one, either in person and/or by phone.

Topics included in financial education and coaching must include:

- **Asset building:**
  - Savings, including emergency savings
  - Retirement plans
  - Homeownership
  - Higher education

- **Credit report education:**
  - How to read a credit report
  - How to repair items on a credit report
  - How to re-build credit

- **Development of spending plans, including discussion of financial best practices and pitfalls:**
  - Importance of filing taxes
  - Overdrafts
  - Payday loans
  - Auto loans
  - Prepaid cards
  - Mobile payments
  - Credit cards
  - Insurance (car, life, health, etc.)

- **Consumer protection training and education:**
  - Services offered by banks and credit unions
  - Predatory financial scams
  - How to address identity theft
  - Ways to protect identity

- **Other financial empowerment services:**
  - Workforce development
  - Technology training
  - Entrepreneurship opportunities
  - Career development
  - Educational opportunities
  - Community responsibility of homeowners

The program also requires grantees to make post purchase services available to clients, including a budget review and education around topics such as home maintenance and insurance coverage.

Eligible Clients

Households are eligible to receive Homeownership Capacity services if they:

- Express an interest in becoming a homeowner or improving their homeownership situation as a primary household goal, have demonstrable barriers to achieving homeownership, and have a viable path to addressing their barriers. Generally, the program anticipates that clients will address barriers within three years.
- Have adequate income to support homeownership or will achieve adequate income through the support of Homeownership Capacity services.
- Are willing to commit to working with a Homeownership Capacity provider to increase their financial empowerment and the probability of successful homeownership.
- Agree to participate in homebuyer education services (i.e., Home Stretch, Framework, Realizing the American Dream).

Program Process

Since many of the grantees also provide traditional homebuyer counseling and education, clients are assessed to determine which service is the best fit based on the client's barrier(s) to homeownership, including income stability, credit scores, and savings. Those with more challenging barriers receive the more extensive Homeownership Capacity services.

Once a client commits to receiving Homeownership Capacity services, they complete an intake, which includes providing basic information (i.e. address, banking status, self-identified barrier to homeownership, race/ethnicity, number of adults and children in household, age, etc.). The coach also completes a financial assessment of the client, which includes pulling a credit report (soft pull), and a review of the client's budget, which includes, income, rent, savings balance, and debt balance. While grantees engage clients on an ongoing basis, they also report on the latest credit score and budget details on an annual basis.

Once the client completes the financial education and coaching, the coach completes one final assessment on the client, which includes all items collected annually and asking if the client will pursue homeownership. The program completion data provides a useful comparison of changes in credit score, debt, and savings from program entry to completion. Clients are also asked to complete a survey where they compare their knowledge and behavior.

The client file must remain open for up to one year after program completion to allow grantees to collect outcome data, which includes: home purchase, client decided to not purchase a home, and client is still pursuing homeownership.

The Evaluation

The analysis uses data from August 1, 2014 through December 31, 2017 but does not include clients that purchased a home under Minnesota Housing's Targeted Mortgage Opportunity Program (TMOP). These clients are not representative of clients entering the current housing market, and this mortgage product is no longer available.

Objective: Reach and engage low-income renters and households of color who face barriers to homeownership

Tables 1 through 3 show the clients' self-reported income, race/ethnicity, and barrier to homeownership at the time of program intake.

Low-income Renters

While there is no minimum or maximum income to participate in the program, clients must be able to demonstrate that they have adequate income to support homeownership at the time of intake or can achieve adequate income to support homeownership by the time they reach program completion. For the latter, clients may receive employment services through the grantee or through a referral to another organization. Grantees report that some clients are in school while receiving Homeownership Capacity services and anticipate an increase in their income upon graduation.

TABLE 1: Income and Household Size

	≤$20,000	$20,001-$40,000	$40,001-$60,000	>$60,000
Share of Clients	15%	52%	24%	9%
Median household size	3	3	4	4

Number: 2,193

With over 60% of the program participants having an income less than $40,000, grantees are reaching the targeted low-income renters. The households with higher incomes are larger, typically requiring larger more expensive homes.

Households of Color

Table 2 shows the race and ethnicity of the program clients.

TABLE 2: Race/Ethnicity

	Percentage	Percentage that Identify as Hispanic
African American or Black	54%	5%
American Indian or Alaskan Native	6%	3%
Asian	8%	0%
Multi-Racial	6%	23%
White	26%	68%
TOTAL that identify as a household of color or Hispanic ethnicity: 87%		

Number: 2,193

With 87% of clients identifying as being a household of color, grantees are reaching a key group facing barrier to homeownership.

Barriers to Homeownership

At intake, clients are asked to report their primary barrier to homeownership.

TABLE 3: Barriers to Homeownership

	Budgeting	Credit	Debt	Emotional	Savings	Unknown
Percentage of clients	7%	64%	9%	2%	16%	2%

Number: 2,192

Credit is the primary barrier for 64% of clients. Table 4 shows the breakout of client credit scores at intake. Seventy-four percent have a credit score below 640 at the time of intake, which is the typical cut-off for many mortgage products.

TABLE 4: Credit Score at Intake

	0	001-579	580-619	620-639	640-679	680+
Percentage of clients	14%	34%	17%	9%	11%	14%

Number: 2,186

Current Client Status

Since the program began in August 2014, 2,193 households have received Homeownership Capacity services. Table 5 shows the distribution of households that are active, stopped communicating before program completion, active after program completion (within one year of completion date), completed program with reported outcome, and stopped communicating after program completion. On average, more than 670 new households are annually added to the program, and typical clients receive services for two or three years.

TABLE 5: Client Status

	Active	Stopped Communicating before Program Completion	Active after Program Completion	Completed Program with Reported Outcome	Stopped Communicating after Program Completion
Percentage of clients	44%	32%	6%	15%	3%

Number: 2,193

We have learned from programs that offer client incentives that a disengagement rate of 20% is common, and 32% of the Homeownership Capacity clients did not complete the program and stopped communicating, which is a reasonable rate when this program does not provide a direct incentive, such as down payment assistance, gift cards, etc.

Conclusion

The Homeownership Capacity program is successfully reaching the intended clients, including low-income renters and households of color with barriers to homeownership. The program has strong client engagement.

Objective: Increase the credit scores and savings of program clients

Eighty percent of all clients identified credit or savings as their primary barrier to homeownership, and 74% had a credit score below 640 at the time of intake. This section assesses changes in credit scores and savings balance from intake to program completion. Program completion occurs when the client has completed Homeownership Capacity services and is ready for referral to traditional homebuyer education and counseling services. The client's file remains open for one year beyond program completion to allow time for the grantee to obtain a client outcome.

Of the 2,193 clients that entered the Homeownership Capacity program, 521 (24%) reached program completion. In the first two years of the Homeownership Capacity program, there were issues of data completeness and accuracy as the pilot was launched. Therefore, the following data only reflect clients with complete and accurate data.

Credit Score

Sixty-four percent of clients reported credit as their primary barrier to homeownership. Overall, 81% of program completers experienced an increase in their credits scores from intake to program completion, while 19% experienced a decline.

Grantees report a number of reasons why credit scores may decrease, including:

- The credit score at program completion may have been pulled after the client purchased a home when the addition of a new trade line reduced the score.
- Bills that were past due at the time of intake soon went into collections resulting in a negative impact to the credit score even if the item was eventually paid off.
- Increased use of credit as a result of life circumstances (i.e. unexpected move, separation/divorce, unemployment, hours reduced at work, etc.).
- An increase in the number of hard credit report pulls for larger purchases (i.e. vehicle purchase) that resulted in a reduction to the credit score.
- Credit scores are ever changing as balances on credit cards change. For example, a client may build up higher balances on their credit cards but pay them in full monthly. If the credit score at intake is pulled early in the monthly cycle when the balances are a low, and the credit score at program completion is pulled late in the cycle when the balances are high, there would be a decline in the credit score.

Table 6 shows the overall improvement in credit scores while clients participated in the program.

TABLE 6: Credit Score Medians for Participants who Completed the Program with a Reported Outcome

	Intake	Program Completion
All Participants who Completed Program with a Reported Outcome	611	658
Home Purchasers	625	670
Continuing to Pursue Homeownership	618	666
Deciding Not to Purchase	571	590

Savings

Sixteen percent of all clients that enter the Homeownership Capacity program reported savings as their primary barrier to homeownership. From intake to program completion, 73% of clients reported an increase in their savings balance while 12% reported a decrease, and another 15% reported that their savings balance stayed the same.

Grantees report several reasons why their savings stayed the same or decreased from intake to program completion, including:

- Clients put money down on a house, which was more than the reported savings at the time of intake. These additional funds were not included in the reported savings at program completion since these funds were saved for down payment and therefore committed in the client's budget,
- Clients used some of the funds in their savings to pay-off or pay-down debt (collections and consumer debt).

Table 7 shows that paying off debt collections was a key factor.

TABLE 7: Savings and Collection Outcomes for Program Completers

	Average Increase in Savings	Average Reduction in Debt Collections	Average Combined Improvement
All Program Completers (N = 518)	$2,420	$1,196	$3,617
Home Purchasers	$3,307	$1,736	$5,043
Continuing to Pursue Ownership	$3,496	$977	$4,473
Deciding Not to Purchase	$609	$552	$1,161
Unknown Purchase Outcome	$1,890	$979	$2,869
NOTE: The table reports average changes rather than median changes to more clearly see the combined effect of increases in savings and decreases in debt collections.			

On average, clients improved their financial picture (increased savings and/or reduced debt collections) by more than $3,600. Those that purchased a home had a $5,000 improvement.

Conclusion

Clients are exiting the Homeownership Capacity program with increased credit scores positioning them for better mortgage products. In addition, clients are taking positive financial actions by improving their overall financial picture through increased savings and/or decreased debt, whether they purchase a home or not.

Objective: Increase clients' knowledge and positive financial actions

Clients take a survey at program completion about improvements they have seen in their financial behavior and knowledge. While 521 clients have reached program completion, the sample below represents the 189 clients that completed the current version of the survey, which was recently changed and improved.

Knowledge Change

Table 8 shows the level of self-reported knowledge improvement by participants who completed the program.

TABLE 8: Percentage of Participants who Completed the Program Reporting Knowledge Change Since Program Intake

My knowledge of:	Significantly Increased	Increased	Stayed the Same	Decreased	Significantly Decreased
The banking system	40%	39%	21%	0%	0%
The importance of a spending plan	49%	35%	15%	0%	0%
How my credit affects my ability to get a loan	58%	24%	17%	1%	0%
The importance that savings money plays in my ability to purchase a home	57%	27%	16%	0%	0%

Number: 189

Over 79% of clients reported an increase or significant increase in their understanding of the banking system, the importance of a spending plan, and how credit and savings affect their ability to obtain a loan, with 50% or more of the clients indicating a significant increase in response to two of the four questions.

Positive Financial Actions

In Table 9, we show changes in the frequency that clients are taking positive financial actions.

TABLE 9: Percentage of Participants who Completed the Program Reporting Positive Financial Actions

How has the frequency of the following changed since intake:	Significantly Increased	Increased	Stayed the Same	Decreased	Significantly Decreased
I track my spending	43%	33%	23%	0%	0%
The goal of improving my credit plays a role in my financial decisions	57%	28%	16%	0%	0%
The goal of saving money plays in my ability to purchase a home	48%	34%	17%	0%	0%
I make good financial decisions	40%	39%	20%	1%	0%

Number: 189

At least 76% of clients reported an increase or significant increase in the frequency that they track their spending, make good financial decisions, and take steps to improve their credit and saving money, with close to 50% indicating a significant increase for two of the four questions.

The survey also measured clients’ confidence in their ability to handle financial obstacles.

TABLE 10: Percentage of Participants who Completed the Program Reporting Ability to Handle Financial Obstacles

	Significantly Increased	Increased	Stayed the Same	Decreased	Significantly Decreased
My ability to handle financial obstacles	40%	39%	20%	0%	0%

Number: 189

Seventy-nine percent of clients expressed an increase or significant increase in their ability to handle financial obstacles as a result of receiving Homeownership Capacity services.

Conclusion

With roughly 78% of clients indicating an increase or significant increase in response to all nine survey questions, it’s clear that the Homeownership Capacity program has had a positive impact on client’s knowledge and behavior around key financial topics such as spending plans, credit improvement, savings, making good financial decisions, and handling future financial obstacles.

Objective: Achieve sustainable homeownership

The goal of the Homeownership Capacity program is to reach low-income renters and households of color to increase successful homeownership in Minnesota. Collecting client outcomes is a requirement of grantees. Once a client reaches program completion, their file remains open for up to one year to allow time for the grantee to continue to work with the client through the home buying process and collect a final outcome. Grantees report one of three outcome options:

- Purchased a home
- Decided not to purchase a home
- Are continuing to pursue homeownership.

Additional information is gathered depending on the outcome selected. The option of "continuing to pursue homeownership" is used only when the client is still engaged in the home buying process but has not yet purchased one year after completing the program.

For households that entered the program through December 31, 2017, 521 clients had reached program completion. Of those, 323 had reported an outcome, and another 198 clients were less than one year from their program completion date and had not yet reported an outcome (138 clients) or had stopped communication and no outcome was collected (60 clients). Having clients decide to not purchase a home is not considered a negative outcome because they are making an informed decision based on their learnings from the program.

TABLE 11: Purchase Outcomes for Participants who Completed the Program

	Result
Number of Participants who Completed Program	521
Number without a Reported Outcome	198
Number with a Reported Outcome	323
Share of Participant Completions with a Reported Outcome that:	
Purchased a Home	59%
Are Continuing to Pursue Homeownership	19%
Decided to Not Purchase a Home	22%

Nearly 60% of those with a reported outcome bought a home within a year of program completion and another 19% were still pursuing homeownership.

Of the clients that were still pursuing homeownership, the following reasons were identified:

- Had not found a home – 33%
- Need to increase savings – 12%
- Need to increase credit score – 12%
- Financial difficulties - 14%
- Other reasons that were not specified – 29%

Of the clients that decided not to pursue homeownership, 69% indicated that they remained renters, 6% were living with family/friends, and the remaining 25% reported their housing outcome as "other". When asked to identify their reasons for not purchasing, clients reported:

- Too expensive to buy – 20%
- Not enough savings – 9%
- Credit too low – 3%

- Not ready emotionally – 14%
- Financial difficulties – 20%
- Other (i.e. job loss, launching a business, moving to another state, personal issues) – 34%

Table 12 shows program outcomes by client income.

TABLE 12: Purchase Outcomes by Client Income

Annual Income at Program Completion	Outcome
<$20,000 (N=30)	
Purchased a Home	13%
Are Continuing to Pursue Homeownership	27%
Decided Not to Purchase a Home	60%
Total	100%
$20,001-$40,000 (N=140)	
Purchased a Home	54%
Are Continuing to Pursue Homeownership	22%
Decided Not to Purchase a Home	24%
Total	100%
$40,001-$60,000 (N=101)	
Purchased a Home	70%
Are Continuing to Pursue Homeownership	14%
Decided Not to Purchase a Home	16%
Total	100%
>$60,000 (N=49)	
Purchased a Home	78%
Are Continuing to Pursue Homeownership	16%
Decided Not to Purchase a Home	6%
Total	100%

Table 13 shows program outcomes by race/ethnicity.

TABLE 13: Purchase Outcomes by Race/Ethnicity, for Clients with a Reported Outcome

Race/Ethnicity	Purchased a Home	Are Continuing to Pursue Homeownership	Decided Not to Purchase a Home
African American or Black (N = 147)	58%	22%	20%
American Indian or Alaskan Native (N = 1)	*	*	*
Asian (N = 59)	61%	10%	29%
Multi-Racial (N = 21)	67%	29%	5%
White/Non-Hispanic (N = 29)	52%	17%	31%
White/Hispanic (N = 66)	59%	20%	21%

*Not reporting due to data privacy.

The results are encouraging because African American or Black/East or West African households typically have lower homeownership rates among other households of color.

Of the 190 clients that purchased a home, at least 30 did so with a mortgage from Minnesota Housing. Since grantees would have a difficult time tracking loan performance for all clients that purchased a home on an ongoing basis, we are using mortgage-payment and delinquency data for those clients that purchased a home and used a Minnesota Housing mortgage as a proxy measure to assess homeownership sustainability for all program clients that purchased a home. For this evaluation, we compared the mortgage payment history of program completers with other mortgages that Minnesota Housing has financed and found no significant concerns. Given the small sample size of borrowers, at this point, it too early to draw any conclusion. Thus, we will continue to monitor loan performance and homeownership sustainability as more program completers use our mortgage products. Our goal is to have mortgages for the Homeownership Capacity clients performing at least as well as mortgages for our other borrowers with similar characteristics.

Conclusion

The Homeownership Capacity program is successfully preparing low-income renters and households of color for homeownership. Of the clients that reported an outcome, 78% either purchased a home or are still pursuing homeownership.

Client Success Stories Submitted by Grantees

Clients of the Homeownership Capacity program have had many successes since August 2014. Below are a few:

- A couple sought Homeownership Capacity services for guidance in paying off $13,000 in collection debt and to better understand the options available to address a summons for a potential judgment. The credit score of the primary client at program entry was 500. Over the next two years, they set up settlements and payment plans on the debt, which resulted in an increase in the credit score to 700. Two Individual Development Accounts (IDAs) were set up and the couple was able to save with their tax returns. By the fall of 2016, the FICO scores for the couple were 750 and 640 and they were ready to take Home Stretch, a homebuyer education program. After meeting with three lenders, they decided to proceed with a conventional loan that required 3% down. They used their matched savings funds of nearly $8,000 plus a family gift to cover their down payment and closing costs. The family of five moved into their new home in August 2017.

- A single mother was motivated to participate in the program because she wished to purchase a home before her current rental lease expired. She valued providing a safe environment for her children and a place they could call home. She received a variety of services, including free tax preparation services which resulted in an increase to her savings as a result of receiving a tax refund. With additional budget education and coaching, she was able to maintain the funds in her savings. A review of her credit report revealed that she only had one secured credit card. She joined the Lending Circle available through the grantee, which also helped improve her savings and added a trade line to assist with building her credit. She received homebuyer education and counseling and closed on her first home in July 2017.

- A couple with three children entered the Homeownership Capacity program looking for guidance with credit and budgeting. They also wanted to be accountable to an outside person. Their goal was to move from renting to participating in the lease-to-own of a rehabilitated home available through the grantee. In the two years of program participation, they paid off $10,000 in debt collection and built their credit with the help of a small credit builder loan available through a local non-profit and community bank. At the time of making a mortgage application, the couple had credit scores of 620 and 632. Their lease payment was $1,100 and their mortgage payment only increased slightly to $1,167.

ThreeRivers
COMMUNITY ACTION
People-focused, community-driven

Success Story: Jose Luis Luna Perez

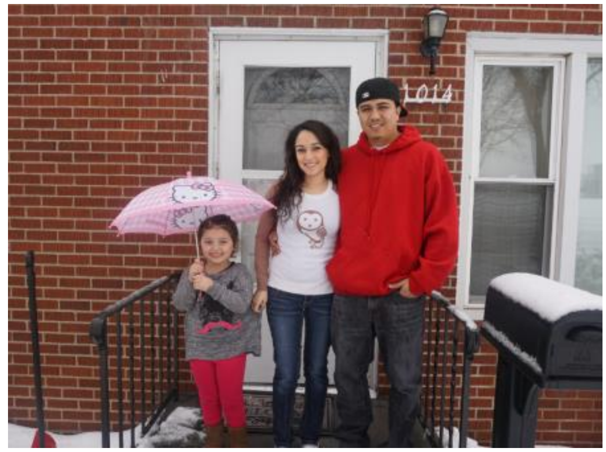
Jose Luna Perez is a father of four who dreamed of purchasing a home for his family. He came to Three Rivers in March 2015 after a referral from a local real estate agent. He met with Achieve Homeownership counselor Joseph Eslait, who enrolled Jose in homeownership counseling, funded by Minnesota Housing through the Homeownership Capacity Program. At their initial appointment, Joseph pulled Jose's credit and found that his identity had been stolen and there were multiple accounts and collections that were not his. His credit report was 11 pages long and his score was 594. While this information was overwhelming at first, Joseph walked Jose through his entire credit report, helped him to prepare a household budget and created a detailed action plan to help Jose achieve his dream of homeownership.

Six months later, Jose had followed through on many steps of his plan. He called all three credit bureaus to report identity theft on his accounts, corrected all of his personal information and paid some of the smaller collections. Jose was able to improve his credit score to 631 and reduce his debt from $18,000 to $6,000. Jose also established a budget to maximize his savings every month and increased his 401k contribution at work. Jose also began to open and check all of his mail. Jose stated that he was overwhelmed with all the mail he would get from the bureaus and other bills but saw the benefit of checking all his mail. The last part of the action plan was to pay off $3,409 in collections, and Jose was able to negotiate some of the collections and reduce his liability.

By November 2015, Jose had improved his credit score to 648. He was ready for homeownership. He met with Sanela Dzamalija, a lender at PHH Home Loans who works with many first time buyers, and was able to obtain an FHA loan to buy his new home. He also qualified for and received downpayment assistance from Three Rivers through the Emerging Markets Gap Financing Program to help make his home more affordable. Jose admits that it was a long and tough process, but he did not give up and it was all worth it when he closed on his new home on January 5, 2016.

Joseph Eslait (Three Rivers), Sanela Dzamalija (PHH Home Loans), Jose and his family, and Abbe Swenson (Burnet Title) celebrated at the closing on January 5.

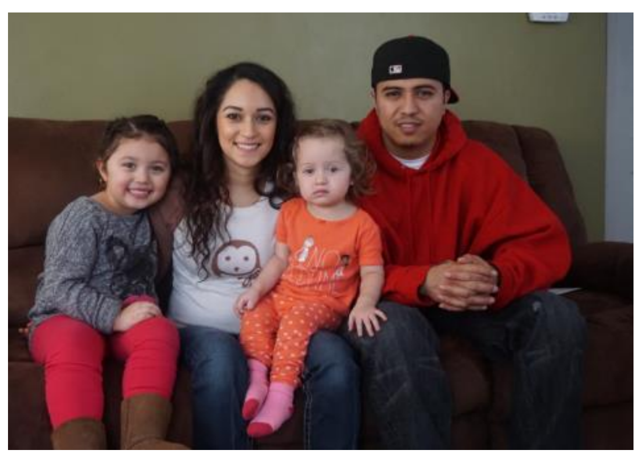
Success Story: Juan and Melanie



Juan and Melanie are new to Rochester and were looking for a home to buy. After meeting with a lender they learned that they would need at least one year before they could qualify for a loan. They contacted Three Rivers and enrolled in the Achieve Homeownership Program, which provides individual homebuyer counseling and education to prepare families for homeownership. Committed to working toward qualifying for a mortgage but anxious to move their growing family into a home, they decided to apply for the Bridge Program at Three Rivers. The Bridge Program is a pilot initiative where Three Rivers purchases and renovates older homes, selling them on a short-term contract for deed to families who are on a path toward qualifying for conventional lender financing. Households participating in the program agree to meet quarterly with homeownership counselors, setting a plan toward mortgage qualification that might include stabilizing income, establishing or repairing credit, and increasing savings. Juan and Melanie qualified for the program and purchased a newly renovated home.

Juan, Melanie and their daughter Alyson recently welcomed us to their new home. They all had big smiles on their faces and were happy to see us. When asked what made them buy a house, they said they wanted a good investment for their future. They were commuting a long distance for work and wanted to be closer to Rochester. Buying a home for the Murillo family meant stability. The house is located in a safe and quiet area. The house is next to a school and grocery store. They have met their neighbors and feel a great sense of community.

The Murillos said they were so thankful to Three Rivers and appreciate all of the help they received. Buying a house was a big decision for them, but that having had a checklist with the things you need to do, getting advice on paying off your debt, checking your credit and attending a home buying class were all suggestions they would give to first-time homebuyers. The family will continue to work with homeownership counselors at Three Rivers who will assist them in meeting their financial goals, including qualifying for a conventional mortgage.



The Murillos are looking forward to getting more settled into their house and make it feel like home.

Next Steps

Overall, the Homeownership Capacity program is successfully serving the priority clients and improving their housing situation, typically allowing them to buy a home. This mission-rich program aligns with the Agency strategic priority of reducing Minnesota's racial and ethnicity disparity. By supporting culturally competent organizations that have a demonstrated history of providing financial empowerment education and coaching services, we are successfully reaching the targeted low-income renters and households of color with the goal of sustainable homeownership.

Prior to the launch of the program, these organizations identified funding constraints as the primary barrier to serving clients who had the goal of homeownership and were in need of intensive long-term financial education and coaching. A limited number of clients were being served or, in some cases, turned away entirely. The Homeownership Capacity program has made this valuable service more widely available. Minnesota Housing is committed to closing the homeownership gap and building upon the lessons learned in this pilot program. Therefore, staff recommends the removal of the pilot status to build upon the success demonstrated in this evaluation and that we pursue additional resources to grow the capacity to offer these services to more clients throughout the state.

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