

Using Down Payment Assistance to Advance Equity in Middle Neighborhoods

Champlain Housing Trust
Burlington, VT

For many years, Champlain Housing Trust (CHT) has embraced community-driven initiatives that foster equitable homeownership in the northwest region of Vermont, particularly in Chittenden County, which contains both Burlington and Winooski and is one of the most urban and diverse areas in the state. In the 1980s, CHT pioneered the use of a “community land trust” model for sharing both the risks and rewards of homeownership with buyers of modest means. CHT is now leveraging the impact of the community land trust approach for BIPOC homebuyers by pairing it with a forgivable down payment loan targeted directly to those BIPOC buyers.

Champlain Housing Trust (CHT) is a community land trust and NeighborWorks chartered member serving urban and rural counties in Northwest Vermont.

In this case study, the term “equity” will be used in two ways: one to describe efforts to close the racial homeownership and wealth gaps, and the second to describe the financial stake a homeowner has in their home, i.e., their home equity. Because CHT’s community land trust is an example of a “shared equity” model for homeownership, the home equity a homeowner has in their property is shared with CHT, as will be described later.

This down payment assistance model provides nearly instant home equity for buyers. Terms of (loan) forgiveness discourage flipping and allow for housing stability and community building, while helping families

CHT’s Homeownership Equity Program

In 2021, CHT received a \$3 million grant from the New England Federal Credit Union (NEFCU), which was familiar with and supportive of shared equity models for creating permanently affordable homeownership opportunities. This collaboration began a broad effort to support home, health and equity and was the motivation behind a concerted effort to address disparities in homeownership rates among BIPOC communities in their service area. The initiative was designed using national best practices and

was built as a multi-faceted approach to include education and counseling, marketing and outreach, down payment assistance, and housing production, sustainability and advocacy. Various partners are involved to provide resources and support in multiple languages and ensure connection with diverse populations.

Recognizing the systemic barriers facing BIPOC communities in accessing homeownership, CHT developed a down payment assistance loan product to specifically target this demographic and help bridge the affordability gap. This approach, while targeting race, adheres to the legal frameworks of the Equal Credit Opportunity Act (ECOA) and Regulation B as a ‘special purpose credit program,’ which allows for targeted programs that resolve specific demonstrated need and provide support to economically disadvantaged populations.

The Special Purpose Credit Program regulation has been in place since the 1970s but with limited use because of perceived conflicts with fair housing law. HUD issued a memo in 2021 stating that the program does not violate fair housing law, which was the impetus for many new special purpose credit programs around the country.

The ultimate goal of the program is to increase the number of BIPOC homeowners in the state. The Down Payment Assistance (DPA) loan product is for households purchasing shared equity homes.

CHT's Down Payment Assistance Model

The CHT DPA loan offers up to \$25,000 for down payment or closing costs with no interest and no payments due for BIPOC households earning up to 120% of the area median income. The loan is secured by a mortgage on the property and is forgiven after three years as long as the buyer stays in the home for that time. If the buyer sells the home prior to the end of that three-year term, the total amount due is prorated.

CHT and its board created this structure to maximize the benefits to participating households. The design allows buyers to establish roots and secure stable and affordable housing but deters flipping while allowing for mobility and wealth building. Since its start in June of 2022, the program has already demonstrated significant impact with 12% of buyers using the product in the first year (19 loans) and 42% of CHT buyers utilizing the product during the 2022-2023 fiscal year. Buyers must have \$3,000 in savings to be eligible and most earn around 70% of the AMI. Some Section 8 to Homeownership buyers are also making use of the program.

CHT's Shared Equity Program

All of CHT's financial assistance to homebuyers – including this special down payment assistance program – is specifically for those purchasing a home in its Community Land Trust portfolio. In the Land Trust, homebuyers only purchase the home, not the land under it. This significantly reduces the purchase price. When a homeowner sells their Land Trust home, 25% of any profit or appreciation goes to the seller and 75% goes back to CHT's program to support the next homebuyer. In this way, there is a built-in cap on the extent to which soaring property values can adversely affect affordable homeownership opportunities, but homeowners can still receive all the benefits of homeownership and a share in the wealth-building.

The program allows every buyer to gain equity quickly and build wealth faster through lower housing costs, which allows them to increase savings, make improvements on the home, or build wealth and support their family in other ways. The benefit for every buyer is a lower housing cost and therefore lower monthly payment with less interest paid over time and lower annual taxes, as Vermont state law provides that land trust homes are taxed at a rate that reflects the resale restrictions. Also, homeowners pay taxes on the home and improvements only, not the land.

The \$25,000 DPA forgivable loan, once it is forgiven, is not part of the 25%-75% sharing formula. Rather, after three years, 100% of that forgivable loan is retained by the homeowner when they sell.





Tips for Success

Navigating the regulatory landscape and ensuring legal compliance has been a cornerstone of CHT’s approach. Staff and board members worked with legal counsel to design the program and ensure documents and program guidelines follow all regulatory requirements. It is critical to develop program guidelines that meet both federal and state requirements. It is also important to build relationships with community partners to make sure education and counseling is accessible in various languages and to all populations.

“The program can be legally complex so proper documentation is key,” says Julie Curtin, Director of Homeownership at CHT. “It’s important to get legal counsel, and our partnerships with local stakeholders and community-based organizations have been instrumental in expanding outreach and building trust with marginalized communities.”

Other Tips for Success:

Identify local needs	Know your population and provide support, education, and resources specific to their unique challenges.
Include money management	Offer classes and coaching on money management. This is key to long term success and an important component of any homeownership initiative that strives to help households build wealth.
Build partnerships	Building partnerships with various programs that serve traditionally underserved populations is essential. Strong relationships with other programs helps to establish trust and understanding.
Educate on shared equity topics	Provide clear details on the community land trust or other shared equity model that not only explains the purchase process and long-term benefits, but the sales process and impacts of shared equity programs when it comes time to sell or transfer ownership. CHT offers a one-hour training on shared equity models twice each month which are open to any interested individual.
Communicate compliance with fair housing laws	Do full research and clearly identify and notate the current and historical needs in your community. Document the data that demonstrates need to ensure compliance with special purpose credit program guidelines. Not only is compliance important, but staff need to be able to talk about the program with clients, policy advocates and the public.

A special purpose credit product targeted to BIPOC homebuyers, combined with a shared equity model such as a community land trust not only helps lower income households build wealth and housing stability but can be a great tool for advancing racial equity and economic justice. “While we can’t control prices,” says Curtin, “we can still have impact through our shared equity approach and leverage that impact even more by providing DPA programs for BIPOC homebuyers that provide equity and wealth building opportunities.”

Resources

CFPB: Special Purpose Credit Program Guidelines

<https://www.consumerfinance.gov/rules-policy/regulations/1002/8/>

FDIC: Interagency Statement on Special Purpose Credit Programs Under the Equal Credit Opportunity Act and Regulation B

<https://www.fdic.gov/news/financial-institution-letters/2022/fil22008.html>

Advancing the Promise of Shared Equity Housing Models

<https://www.neighborworks.org/research/advancing-the-promise-of-shared-equity-housing-models>

More information on Shared Equity Housing

<https://www.neighborworks.org/Community/Shared-Equity-Housing>

Questions

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