POLICY WHITE PAPER · HOMEOWNERSHIP SERIES

Harnessing Down Payment Assistance to Meet Colorado's Housing Needs

How one flexible tool can stretch state dollars to build more homes and help more buyers.

At a Glance

- **The problem is a gap.** Buyers can't afford what homes cost, and Colorado's patchwork of single-use programs adds cost and complexity to closing it.
- **DPA closes the gap directly.** Larger down payment assistance can lower the cost of new homes for buyers and make existing homes affordable.
- **DPA brings more builders to the table.** To a for-profit builder, a DPA sale looks like any other transaction.
- **Our ask:** Consolidate homeownership funding, drop mandatory deed restrictions, increase the revolving loan fund, and build statewide DPA capacity.

The Multi-Tool of Homeownership

The affordable homeownership toolbox is full of single-use gadgets, but the most effective tool in that box is **down payment assistance (DPA)**. Unfortunately, it is underutilized in Colorado.

DPA is the multi-tool of homeownership. It's **versatile**, addressing several of the most common barriers to buying a home. It's **adaptable** to different markets, from a dense metro area to a remote small town. And it's **portable**, allowing providers to serve large territories remotely. That versatility makes DPA effective as both a supply-side and a demand-side solution in the effort to expand access to homeownership.

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The Homeownership Math Problem: Filling the Affordability Gap

It's easy to get bogged down in the complexities of homeownership, but the core challenge is simple: **there is a gap between what buyers can afford and what homes cost.** Every gadget in the homeownership toolbox is just a different way of directing money into that gap.

Do we really need so many different, complex programs to do the same thing?

Each of these niche, single-use tools imposes administrative, oversight, and compliance costs on both the State and affordable homeownership providers. Weaving programs together means navigating differing application criteria, additional building requirements, mismatched grant cycles, and ongoing or conflicting compliance obligations. This approach:

- **Increases** the cost of building the home,
- **Diverts** scarce funding to administrative oversight,
- **Limits** the system's capacity to produce homes, and
- **Shuts out** for-profit builders who lack the specialized knowledge to navigate such a complicated system.

In our effort to bring so many different tools to bear, we are actually widening the affordability gap we are trying so desperately to close.

DPA as a Supply-Side Solution

One reason we may overlook DPA in favor of more specialized gadgets is that we see it as a limited, demand-side tool that covers only the bare minimum needed to close. The fix is simple: **offer DPA in larger amounts.**

The typical project-based grant provides funding to the developer so they can sell the home below its cost. Alternatively, we can flip that equation and direct funding to the homebuyer through DPA, enabling them to pay the developer the full cost of the home. Compared with the current approach, this strategy is simpler, more flexible, and carries less administrative burden.

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	Project-Based Grant	Down Payment Assistance
Who receives the funds	The developer, so the home can sell below its cost	The homebuyer, so the developer is paid the full cost of the home
Who can participate	Mostly nonprofit and public builders	Any builder, nonprofit or for-profit, plus existing homes
Administration	Separate applications, cycles, and compliance rules	Simple and flexible, with standard mortgage documents
What happens to the money	Spent once on a specific project	Repaid and redeployed to the next buyer

Another major benefit of DPA is that **it doesn't matter who builds the housing.** The capacity of the traditional for-profit homebuilding sector is many times greater than that of the nonprofit and public sectors, but those builders typically don't participate in complicated project-based grant programs. A DPA approach is accessible to them because it looks no different from a traditional transaction. By teaming up with a qualified DPA agency, any for-profit builder can easily become part of the homeownership solution.

DPA as a Demand-Side Solution

The versatility and simplicity that make DPA an effective catalyst for new supply also make it a powerful demand-side solution. DPA directly addresses two of the largest barriers to buying a home: **the upfront cash needed to close** and **the affordability of the monthly payment.**

Adding DPA to a purchase lowers the amount of savings a buyer needs and, at the same time, lowers the monthly payment by reducing the size of the first mortgage. A smaller first mortgage can also eliminate the need for costly mortgage insurance and may qualify the buyer for a lower interest rate, making the financing more efficient overall.

DPA is flexible enough to be used on almost any type of home, so it can meet each buyer's individual needs. The home could come from the existing inventory, be newly constructed, or be an acquisition/rehabilitation project. It could be a single-family detached home, a townhome, a condo, a duplex, or a manufactured home. And when a DPA loan is repaid, the funds can be redeployed to the next buyer in line, who then chooses the home that is right for them instead of being limited to a few restricted units.

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The Many Benefits of DPA

There is so much to love about DPA as a central homeownership strategy:

Rural-ready
Can be administered remotely, making it especially useful in rural areas.

Any project size
Works on projects too small to be worth underwriting for most grant or loan programs.

Any housing type
Gives buyers and sellers the flexibility to meet local needs.

Familiar to the industry
Uses standard mortgage documents that lenders, real estate agents, and title companies already understand.

Revolving
Recaptured funds are redeployed to the next buyer, in perpetuity.

Customizable
Can include local provisions such as a right of first refusal, shared appreciation, or forgiveness terms.

Layerable
Compatible with other forms of assistance for providers able to combine multiple sources.

Simpler to manage
Requires less long-term oversight than options such as deed restrictions.

Protected
Gives the DPA lender legal redemption and cure rights in any foreclosure, further protecting public funds.

Transparent
Appears on the settlement statement, assuring that assistance reaches the intended buyer.

Leveraging the Power of DPA in Colorado

DPA's potential as both a supply-side and a demand-side solution is largely untapped because the State's homeownership rules prevent its full use.

- **Funding is fragmented.** Proposition 123 homeownership funds are divided into separate buckets, each with its own rules and application cycle.
- **DPA gets a sliver.** DPA programs are funded through the Division of Housing's (DOH) Revolving Loan Fund program, which receives only a small share of the available funds.
- **CHFA's main product is narrow.** The Colorado Housing and Finance Authority (CHFA) offers DPA, but its primary program covers only cash to close, which limits its effectiveness.
- **New products can't target supply.** Newer products, such as the Schools to Home shared appreciation mortgage (a form of DPA), are a great step forward. But because they flow through

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traditional lenders directly to the buyer, they can't be set aside for specific units. This limits their usefulness as a supply-side tool.

Our Recommendations

Housing Resources recommends the following changes to harness the full power of DPA as an affordable homeownership tool:

1

Consolidate homeownership funding

Make more funds available for DPA by combining the State's homeownership programs into a single opportunity with multiple eligible uses. This would allow DOH to target its awards to the applicants' needs, rather than asking applicants to target their projects to the available grants.

2

Remove mandatory deed restrictions

Lift the requirement that grantees place a rigid deed restriction on homes when they receive funding for a specific project. These deed restrictions are incompatible with the DPA approach and inappropriate in many markets.

3

Grow the revolving loan fund

Explore opportunities to pair the State's Proposition 123 funds with other investment sources to create a larger revolving loan fund.

4

Build statewide DPA capacity

Support peer-learning efforts that teach Colorado's nonprofit and for-profit builders how to use DPA funds effectively.

READ MORE → *Recommendations to Improve Colorado's Affordable Homeownership Strategy*

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About Housing Resources of Western Colorado

Housing Resources of Western Colorado is a nonprofit organization headquartered in Grand Junction, Colorado, with 50 years of service to Colorado residents. We serve renters, homebuyers, and homeowners across a 16-county region. Our award-winning Path to Homeownership program, launched in 2023, has helped **more than 120 first-time homebuyers** purchase a home that was right for them.

Housing Resources is a HUD-approved housing counseling agency, a Community Housing Development Organization (CHDO), a chartered member of the NeighborWorks America network, and an emerging Community Development Financial Institution (CDFI).

Our lines of business

Weatherization · Housing Counseling & Education · Home Purchase Lending · Home Improvement Lending · Affordable Rental Property Management · Real Estate Development

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