SUMMARY OF RECOMMENDATIONS · HOMEOWNERSHIP SERIES

Recommendations to Improve Colorado's Affordable Homeownership Strategy

Proposition 123 gave Colorado new capacity to make homeownership affordable. Four practical changes would let that capacity reach more families.

At a Glance: Our Four Recommendations

- → **1. Allow more flexibility** in long-term affordability tools to fit different missions, markets, and strategies.
- → **2. Simplify funding** into a single, multi-use funding opportunity instead of many single-use programs.
- → **3. Make better use of down payment assistance** and other subordinate financing strategies.
- → **4. Change contracting procedures** to unlock trapped program income and let projects benefit from improved guidelines.

The Opportunity

With the passage of **Proposition 123**, the State of Colorado has new capacity to help make homeownership affordable for the low- and moderate-income households who are currently locked out by high home prices and building costs. Unfortunately, that capacity is hamstrung by complexity and rigidity in the State's homeownership programs.

Challenges in Our Current System

The affordable homeownership challenge seems complex, but ultimately it comes down to one gap.

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At its core, affordable homeownership is a simple math problem: there is a gap between what homes cost and what households can pay.

The Colorado Division of Housing (DOH) and the Office of Economic Development and International Trade (OEDIT), through the Colorado Housing and Finance Authority (CHFA), offer funding through a variety of programs, and they all aim to do the same thing: channel funding into this gap. But the complexity and rigidity of these programs undermine their effectiveness and tie the hands of the partners who use that funding to create successful homeowners.

Too many programs, each with its own funding cycle and rules

DOH and OEDIT (through CHFA) offer multiple programs, each with a specific use or niche. Because no single program is sufficient, affordable homeownership developers typically weave several together. That means conflicting funding cycles and layers of compliance. It also adds administrative cost and burden, diverting funding to overhead instead of impact.

Too much focus on development grants, too little on financing strategies

Most programs provide project-specific funding, with a particular emphasis on new construction. A new-construction grant is just one of many effective homeownership tools. Because each program is funded and operated separately, partner agencies end up chasing funding that isn't right for them simply because it is the only funding available.

A rigid mandated deed restriction

Colorado's communities vary widely, so it stands to reason that their needs vary as well. According to the U.S. Census Bureau, the most recent median home values in two Colorado counties are worlds apart:

$1,139,100
Median home value, Pitkin County

$116,200
Median home value, Crowley County

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Despite this, DOH imposes the same resale restriction strategy on every project it funds, and CHFA imposes a resale restriction of its own, though a less detailed one. Even more worrisome, in many markets the deed restriction approach can actually hurt the very homeowners we are working so hard to support. Their asset-building potential is limited by the deed restriction, but their ownership risk is not. And the obscure inputs into the DOH deed restriction resale formula can result in owners having to sell at a loss, even if market demand stays strong.

Our Recommendations

Housing Resources recommends changes to the State's funding approach that would **improve flexibility, increase efficiency, and better leverage the existing capacity** of the traditional mortgage and homebuilding sectors.

1 Allow more flexibility to meet different missions, markets, and strategies

Allow a wider range of long-term affordability options, including recapture provisions and other forms of resale restriction, within an established set of parameters. The federal HOME program already provides an excellent framework for this approach, offering a menu of options with protective guidance.

Guidelines can ensure that programs meet key criteria: **maximize the impact of State subsidy, treat homeowners fairly at resale, and preserve affordability for future buyers.**

READ MORE → *A Better Approach to Long-Term Affordability in Proposition 123 Homeownership*

2 Simplify funding opportunities to better align with changing needs

Rather than separating each possible use of funds into its own program with its own rules and funding cycle, the State could deploy homeownership funding through a **single Notice of Funding Opportunity (NOFO) that allows multiple uses.** This approach maximizes the effectiveness of every available dollar and lets the State match funding to the most promising applicants, rather than asking applicants to design projects around the next funding scorecard.

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Federal programs such as HOME and the Capital Magnet Fund already take this flexible approach and offer a workable framework to follow. Combining funds into a single opportunity would also reduce the number of individual programs the State administers and allow applicants to fill their affordability gap with one contract instead of juggling several.

3 Make better use of down payment assistance and other subordinate financing

Down payment assistance (DPA) is an extremely efficient and effective way to support both the supply side and the demand side of affordable homeownership, but its funding is narrowly earmarked and insufficient. The single-NOFO recommendation above would help: by pooling homeownership funding into one opportunity, DPA providers would have access to the full supply of funding rather than the small sliver currently dedicated to the Revolving Loan Fund program. There is no need to keep development and financing strategies in separate silos.

Beyond a single NOFO, the State could explore other sources, such as investments through the State Treasurer, to make more funding available for subordinate financing.

Subordinate financing is especially powerful because it **leverages the capital of the traditional mortgage market,** which is vastly larger than any public source. A traditional first mortgage typically covers 75–90% of the purchase, with specialized subordinate financing filling the rest. Financing tools can also be used in partnership with traditional for-profit builders, thereby leveraging the significant capacity of the for-profit sector to add affordable inventory.

READ MORE → *Harnessing Down Payment Assistance to Meet Colorado's Housing Needs*

4 Change contracting procedures to unlock trapped program income and improve flexibility

A revolving loan fund is meant to perpetually recirculate funds repaid by one buyer to help the next. But much of this money gets "stuck" when loans are repaid after the original contracts have ended. These contracts are often narrowly written and don't allow the agency to charge project delivery fees, so agencies must re-lend funds at no cost, which is not sustainable. Changes to contracting rules would make it easier to put this program income to work in both DPA and home improvement loan programs.

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For example, Housing Resources currently holds almost $850,000 in program income. While we are willing to re-lend it to our clients, even without a fee, we can't match it to the clients in our queue because each expired contract restricts the funds to a specific, unchangeable use.

Contract changes for development projects would also improve flexibility. Today's contracts are so specific that they lock projects into the rules in place when they were signed. As the State learns and improves its programs, existing projects should benefit from that evolution, but doing so now requires DOH to process contract amendments, each with its own fiscal impact. **Contracts should instead reference the guidelines in effect at any given time,** so they can evolve as the programs improve.

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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