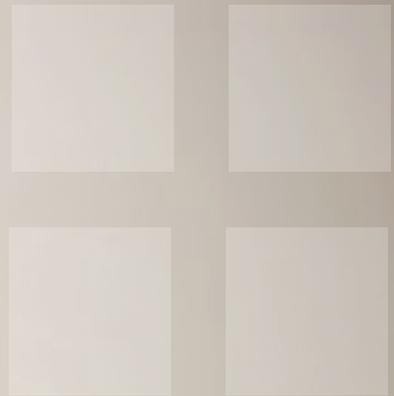


# 2013 { Affordable Housing Plan

*Executive Summary*



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# 2013 Affordable Housing Plan

## Executive Summary

The 2013 Affordable Housing Plan (AHP) is Minnesota Housing's annual business plan for carrying out the Agency's core work for the upcoming year and implementing the 2013-15 Strategic Plan. The AHP outlines key programmatic and policy initiatives for the year, specifies program-by-program funding, and establishes production targets. In total, the plan allocates more than \$874 million of federal, state, and agency housing resources, which will assist approximately 67,900 households or housing units.

The housing and financial markets and economy have seen dramatic changes since 2008. Rather than waiting for conditions to become "normal" again, the Agency is embracing a "new normal" and has updated many of the Agency's products and tools to meet evolving housing needs and market conditions. Overall, the work in the plan reflects three driving approaches that are critical for operating in the current environment:

- **Being nimble**
- **Being proactive**
- **Being responsive**

To help accomplish this, Minnesota Housing has decided to switch from a two-year to a one-year AHP.

Being strategic and proactive is more critical than ever. The need for affordable housing is growing, while the resources to meet that need are shrinking. The percentage of Minnesotans who are cost burdened by their housing payments (spending more than 30% of their income on housing) increased from 22 percent in 2000 to 33 percent in 2010.<sup>1</sup> In 2010, more than half of lower-income households (58 percent) were cost-burdened.<sup>2</sup> At the same time, resources are shrinking to meet the growing need. Not only is the market for selling housing bonds very challenging, but the federal government and state have cut funding for housing. Between 2011 and 2012, the federal government cut HOME funding to Minnesota from \$9.2 million in 2011 to \$6.2 million in 2012, and the state reduced its biennial appropriation to the Agency from \$82.0 million for 2010/11 to \$76.1 million for 2012/13. Minnesota Housing needs an effective plan for moving forward in this environment.

The Agency developed the 2013-15 Strategic Plan and 2013 AHP through a thorough process that included an assessment of the housing environment, a statewide survey of housing partners and stakeholders, seven regional housing dialogues in six locations around the state, discussions with staff and the Agency's Board, and a public comment period for initial drafts.

## Key Initiatives

Key initiatives for 2013 will include:

- **Implementing the Agency's new Strategic Plan.** To move forward proactively and strategically in the current environment, Minnesota Housing has established five priorities for 2013 through 2015:

- Promote and support successful homeownership,
- Preserve federally subsidized rental housing,
- Address specific and critical needs in rental housing markets,
- Prevent and end homelessness, and
- Prevent foreclosures and support community recovery.

The other key initiatives listed below are directly aligned with these priorities.

- **Adding financing tools to overcome challenges presented by the housing bond market.** The changes include:
  - Selling tax-exempt bonds with a different payment structure to attract investors who purchase mortgage-backed securities, rather than relying solely on investors who purchase municipal tax-exempt bonds,
  - Selling the Agency's mortgage-backed securities on the secondary market to access attractively-priced private capital, and
  - Potentially issuing mortgage credit certificates (which provide income tax credits for eligible homeowners for a portion of the mortgage interest they pay), which is an alternative use of the Agency's bonding authority.
- **Implementing a revised and enhanced set of homeownership and home improvement loan products.** With these changes, the Agency will serve a full range of low- and moderate-income homebuyers and homeowners across the state in the new housing market. The primary focus will continue to be on "start up" products for first-time homebuyers and "fix up" products for home improvement and rehabilitation, but the Agency will also have, for the first time, "step up" products for existing homeowners to refinance or move into a new home.
- **Using tax-exempt bonds for multifamily lending to enable developments to become eligible for 4% housing tax credits.** To be eligible for the 4% credits, at least 50% of a development's costs must be financed with tax-exempt bonds. This initiative will make it easier for Minnesota to more fully utilize an existing financing source.
- **Enhancing and refining the state's strategies and tools for preserving and stabilizing affordable rental housing, particularly federally-subsidized units.** This includes: (1) collaboration with the Agency's funding partners through the Minnesota Preservation Plus Initiative (MPPI), and (2) an internal initiative (PINES – Preservation: Identifying Needs and Establishing Strategies) to enhance existing data, tools, and processes and be proactive and preventative in preserving and stabilizing the Agency's rental portfolio.
- **Working with partners and stakeholders around the state to understand and meet their specific affordable housing and community development needs.** Minnesota is not monolithic, and needs vary. Minnesota Housing realizes that a strict one-size-fits-all approach does not work and that its programs need to be flexible enough to address not only statewide needs but also community specific needs.

- **Refocusing the state’s efforts to prevent and end homelessness.** With the anticipated achievement of 4,000 additional housing opportunities - the primary goal under the state’s Business Plan to End Long-Term Homelessness - the state needs to develop a new plan for the next phase of its efforts to prevent and end homelessness.
- **Continuing current foreclosure prevention efforts but also focusing resources on recovery as communities move beyond the crisis.** Community recovery from the foreclosure crisis is more than a housing recovery. For a community that was destabilized to once again become a desirable place to live, it needs job opportunities, good schools, safe neighborhoods, access to public transportation, and places to shop and participate in community activities. The Agency’s housing investments will be integrated with these other recovery efforts.
- **Developing a better understanding of how the Agency can effectively support its delivery partners across the state.** Minnesota Housing relies on partners to deliver the products and services that it finances. The Agency needs effective partners to achieve its mission.
- **Securing state funding for 2014-15 during the 2013 legislative session and advocating nationally for effective use of federal resources for affordable housing.** Minnesota Housing receives a large share of its resources from federal and state appropriations and federal tax law (exemptions and credits). Effectively securing and using these resources is critical to the Agency successfully fulfilling its mission.

## Program Budget Overview

As shown in Table 1, the Agency’s 2013 program budget is \$874 million, which is a 33 percent increase from the previous year. In a period of a challenging bond market and reduced appropriations, the Agency is able to increase its budget by identifying additional funding options and aggressively pursuing those that will further the Agency’s mission of financing affordable housing for low- and moderate-income Minnesotans.

**Table 1: Funding by Program Category**

Program Category	Original 2012 AHP	Proposed 2013 AHP
Homebuyer and Home Refinance	\$271,204,957	\$419,306,959
Home Improvement	\$26,215,000	\$26,215,000
Rental Production - New Construction and Rehabilitation	\$113,621,769	\$146,947,057
Rental Assistance Contract Administration	\$181,625,000	\$179,840,000
Resources to Prevent and End Homelessness (Non-Capital)	\$22,005,304	\$25,074,443
Rental Portfolio Management	\$4,375,015	\$6,460,090
Multiple Use Resources	\$36,458,538	\$55,005,198
Other	\$3,101,697	\$15,592,951
<b>Total</b>	<b>\$658,607,280</b>	<b>\$874,441,698</b>

The primary changes in funding are:

- The Agency will increase its Homebuyer and Home Refinance activity by roughly \$100 million by adding financing tools (primarily selling mortgage-backed securities on the secondary market) and by expanding the Agency's mortgage products from only serving first-time homebuyers to also serving certain existing homeowners. This will be supplemented with an additional \$50 million of mortgage enhancements through mortgage credit certificates.
- The Agency will expand its amortizing lending for rental housing under the Low and Moderate Income Rental (LMIR) program by \$22 million (from a proposed level of \$68 million in 2012 to \$90 million in 2013). Of the \$90 million budget for LMIR, \$70 million will be financed with tax-exempt bonds to enable developments to be eligible for 4% housing tax credits. This increase is shown in the Rental Production line in Table 1.
- The Agency will receive \$5.5 million of general obligation bond proceeds and \$30 million of housing infrastructure bond proceeds from the 2012 state bonding bill. Bonding proceeds from the state were not available in 2012. In Table 1, the bond proceeds are split between Rental Production and Multiple Use Resources.
- The Agency recently created two new revolving loan funds to support the lending activities of the Twin Cities Community Land Bank (TCCLB) by restructuring \$13 million of existing debt and adding \$7 million of new funds. Of the \$20 million in the two funds, Minnesota Housing estimates that it will commit \$12 million during the 2013 AHP. In Table 1, this funding is included in Multiple Use Resources.
- With the floods in Northeast Minnesota, the Legislature appropriated \$12.7 million for disaster recovery. The Other category in Table 1 shows this funding.
- There were some slight funding reductions. For example, in 2012, the Agency launched a new pilot program for rental property rehabilitation in rural Minnesota (Rental Rehabilitation Deferred Loan program), largely with a \$7 million balance of uncommitted funds from previous years' appropriations. The Agency carried out a successful launch of the program, which will continue in 2013 at a lower level of funding because a relatively large balance of uncommitted funds is no longer available. In addition, the Rental Rehabilitation Deferred Loan (RRDL) contracts are for two years, and local administrators will still be deploying 2012 funds in 2013.

Overall, the Agency developed the funding decisions in the 2013 AHP based on several factors, which include:

- Fulfilling the Agency's mission,
- Following the strategic priorities outlined in the 2013-15 Strategic Plan,
- Accessing all funding sources that the Agency can effectively use to further its mission,
- Matching funding sources with the activities that they can legally and effectively support (state and federal appropriations and federal tax law restrict how funds can be used),
- Serving the full spectrum of low- and moderate-income Minnesota households, which range from extremely-low to moderate income, homeowners to renters, urban to rural, etc.,
- Meeting the varying needs of these Minnesota households,

- Funding a full spectrum of affordable housing activities, which include homeownership, home improvement, new rental construction, rental preservation, rental assistance, supportive housing, homeless prevention, foreclosure prevention, community recovery, etc.,
- Directing “gap/affordability” funds (grants and deferred loans) to the Minnesota households needing the most help to obtain stable housing,
- Examining the long-term sustainability of the funding, and
- Maintaining the Agency’s long-term financial strength.

In addition, the Agency is continually investigating ways to provide additional support. For example, the Agency is currently considering becoming a MAP (Multifamily Accelerated Process) lender, which would improve access to low-cost mortgages for multifamily developers and reduce the need for deferred loan financing.

The program categories in Table 1 summarized the 36 programs carried out by the Agency. Table 2 lists each of the programs and their 2013 budget, along with basic program information. For more detailed information about each program, see Appendix C of the full 2013 Affordable Housing Plan.

**Table 2: 2013 Budget and Program Summary**

		2013 Funding	Activity	Median Income Served	Percentage Served from Communities of Color
<b>Homebuyer and Home Refinance</b>		<b>\$419,306,959</b>			
1	Home Mortgage Loans	\$350,000,000	First Mortgage	\$43,660	23%
2	Mortgage Credit Certificates (MCC)	\$50,000,000	Tax Credit on Interest	N/A	N/A
3	Homeownership Assistance Fund (HAF)	\$5,841,209	DP and CC Assistance*	\$43,536	27%
4	HOME HELP	\$4,000,000	DP and CC Assistance*	\$37,607	43%
5	Amortizing Down-payment and Closing Cost Loans	\$5,000,000	DP and CC Assistance*	N/A	N/A
6	Single Family Interim Lending	\$910,000	Revolving Deferred Loan	\$35,220	40%
7	Habitat for Humanity Initiative	\$2,000,000	Homebuyer Financing	\$33,900	86%
8	Homebuyer Education, Counseling, & Training (HECAT)	\$1,555,750	Education & Counseling	\$34,944	26%
<b>Home Improvement</b>		<b>\$26,215,000</b>			
9	Home Improvement Loan Program	\$20,465,000	Home Improvement Loan	\$62,750	8%
10	Rehabilitation Loan Program (RLP)	\$5,750,000	Home Improvement Loan	\$13,211	11%
<b>Rental Production- New Construction and Rehabilitation</b>		<b>\$146,947,057</b>			
11	Low and Moderate Income Rental (LMIR)	\$90,000,000	Amortizing Loan	\$21,840	38%
12	Flexible Financing for Capital Costs (FFCC)	\$4,000,000	Deferred Loan	N/A	N/A
13	Low-Income Housing Tax Credits (LIHTC)	\$8,043,053	Investment Tax Credit	\$18,532	49%
14	Affordable Rental Preservation (PARIF and HOME HARP)	\$25,315,849	Deferred Loan	\$13,845	43%
15	Housing Trust Fund (Capital)	\$12,000,000	Deferred Loan	\$9,060	52%
16	Publicly Owned Housing Program (POHP)	\$5,567,979	Deferred Loan	\$11,172	41%
17	Rental Rehabilitation Deferred Loan Pilot Program (RRDL)	\$1,520,176	Deferred Loan	N/A	N/A
18	Rental Rehabilitation Loan Program	\$500,000	Amortizing Loan	\$27,600	89%

		2013 Funding	Activity	Median Income Served	Percentage Served from Communities of Color
<b>Rental Assistance Contract Administration</b>		<b>\$179,840,000</b>			
19	Section 8 - Performance Based Contract Administration (PBCA)	\$107,100,000	Rent Assistance	\$10,534	37%
20	Section 8 - Traditional Contract Administration (TCA)	\$71,115,000	Rent Assistance	\$11,752	24%
21	Section 236	\$1,625,000	Interest Rate Reduction	N/A	N/A
<b>Resources to Prevent and End Homelessness (Non-Capital)</b>		<b>\$25,074,443</b>			
22	Housing Trust Fund (HTF)	\$10,588,219	RA and OS**	\$7,680	64%
23	Ending Long-Term Homelessness Initiative Fund (ELHIF)	\$3,364,781	RA and OS**	\$8,328	63%
24	Bridges	\$3,513,771	Rent Assistance	\$9,234	28%
25	Family Homeless Prevention and Assistance Program (FHPAP)	\$7,465,000	Grants	\$9,360	52%
26	Housing Opportunities for Persons with AIDS (HOPWA)	\$142,672	Grants	\$15,807	49%
<b>Rental Portfolio Management</b>		<b>\$6,460,090</b>			
27	Asset Management	\$3,100,000	Loans	N/A	N/A
28	Financing Adjustment Factor (FAF) / Financing Adjustment (FA)	\$3,360,090	Loans & Grants	N/A	N/A
<b>Multiple Use Resources</b>		<b>\$55,005,198</b>			
29	Economic Development and Housing/ Challenge (EDHC)	\$49,489,227	Loans & Grants	\$27,756	50%
30	Technical Assistance and Operating Support	\$2,515,971	Grants	N/A	N/A
31	Non-Profit Capacity Building Loan Program	\$1,000,000	Revolving Deferred Loan	N/A	N/A
32	Strategic Priority Contingency Fund	\$2,000,000	Loans & Grants	N/A	N/A
<b>Other</b>		<b>\$15,592,951</b>			
33	Administrative Expenses HOME	\$615,415	Admin.	N/A	N/A
34	Manufactured Home Relocation Trust Fund	\$1,279,536	Grants	N/A	N/A
35	Flood Disaster	\$12,720,000	Loans & Grants	N/A	N/A
36	Disaster Relief Contingency Fund	\$978,000	Loans & Grants	N/A	N/A
<b>Total</b>		<b>\$874,441,698</b>			
* "DP and CC Assistance" is Down-payment and Closing Cost Assistance					
** "RA and OS" is Rental Assistance and Operating Support					

As shown in Table 2, the two biggest program areas for the Agency are mortgages for homebuyers and home refinancing (line 1) and the administration of Section 8 contracts for project-based rent assistance (lines 19 and 20). Both of these areas are critical for the Agency to fulfill its mission. The mortgage activity allows low- and moderate-income households to pursue the dream of homeownership, which they would have otherwise struggled to achieve. In light of the foreclosure crisis, Minnesota Housing expands its commitment to promote and support successful homeownership. The mortgage program is also the Agency's primary business engine that generates revenues to cover agency-wide operating expenses and fund the Agency's Pool 3/Foundation, which finances grant and deferred-loan activity throughout the Agency. To complement the single family mortgage activity, the Section 8 program (project-based) makes it possible for about 30,000 of the state's lowest income households to spend only 30 percent of their income on rent and utilities. Another large program is the Low Income Housing

Tax Credit (LIHTC) program (line 13). While the agency will allocate \$8.0 million of tax credits in 2013 to developments for lower income renters, these credits will likely generate between \$64 million and \$75 million in private capital to finance the developments, depending on the pricing of the tax credits.<sup>3</sup>

Table 2 also includes a new line item for the budget – “Strategic Priority Contingency Fund” (line 32). During the year, a few programs are likely to need additional funds. To be nimble and responsive, the Agency has set aside \$2 million of contingency funds to meet those needs.

Table 2 also shows the full spectrum of low and moderate income households that the Agency serves, based on historical data. Rent assistance programs (lines 19-24) typically serve households with incomes around \$10,000, while the Home Improvement Loan Program (line 9) serves households in the \$60,000 range. The rental property development programs and the homebuyer programs serve households with incomes in between. For comparison, the statewide area median income is \$73,900 in 2012.<sup>4</sup>

Minnesota Housing also serves each region of the state in relative proportion to each region’s share of households and jobs. This includes the Twin Cities metropolitan area, Greater Minnesota job centers, and rural areas. While the Agency does not use a rigid regional allocation formula, the Agency is committed to monitoring the distribution to determine if it is distributing resources in a manner that is reasonably proportional. This Agency’s historical track record of proportional allocations can be found in the Agency’s report [Regional Distribution of Minnesota Housing Assistance](#).<sup>5</sup>

Finally, Table 2 shows the percentage of households served that are from communities of color or Hispanic ethnicity, based on historical data. Minnesota Housing wants to make sure that households that have traditionally faced barriers to affordable housing have access to its programs. As shown in Table 2, households from communities of color or Hispanic ethnicity represent a relatively large share of the households served by the Agency.

For a more detailed discussion of the plan, see the full 2013 AP.

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<sup>1</sup> Minnesota Housing analysis of data from the U.S. Census Bureau, 2000 Decennial Census and 2010 American Community Survey.

<sup>2</sup> In this context, lower-income households have annual incomes less than \$50,000. In 2010, the statewide area median income (AMI) was \$73,000. A household income of \$50,000 was 68 percent of the statewide AMI.

<sup>3</sup> A credit is be used to offset 10 years of tax liability. Thus, a \$100,000 tax credit will generate \$1 million of tax breaks over the 10 years. In today’s syndication market, credits can sell for 80 to 90 cents on the dollar, or higher.

<sup>4</sup> U.S. Department of Housing and Urban Development, Notice on Median Family Incomes for FY 2012 (December 1, 2011); <http://www.huduser.org/portal/datasets/il/il12/Medians2012.pdf>.

<sup>5</sup> Minnesota Housing, *Regional Distribution of Minnesota Housing Assistance* (August 2012); [http://www.mnhousing.gov/idc/groups/administration/documents/webcontent/mhfa\\_011777.pdf](http://www.mnhousing.gov/idc/groups/administration/documents/webcontent/mhfa_011777.pdf).